coote INDUSTRIAL

# Annual Report year ended 30 June 2008

# FINANCIAL RESULTS

**Directors' Report**

The Directors of Coote Industrial present their report on the consolidated entity which includes its controlled entities (Group) for the financial year ended 30 June 2008

The names of directors in office at anytime during or since the end of the year are:

Name of Directors

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

Non-Executive Director (Chairman)
Appointed: 02/11/06 Age: 58

Donald has 15 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 director of SEMF Pty Ltd, a multidisciplinary engineering consulting firm, and a Non-executive Director of Quantum Technology Pty Ltd, a manufacturer of products for the blind and vision-impaired. 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.

Summary of current equity holdings

| | |
|---|---|
| Shares | 51,368 |
| Options | 300,000 |

Michael Coote BE (Mech), MAICD

Managing Director
Appointed: 28/06/06 Age: 45

In the early years Mike worked in the family transport business, delivering houses around the state and assisting with administration. After completing his Mechanical Engineering Degree in 1985 he was involved in heavy mining equipment, waste crushing, conveying projects and locomotive maintenance for Mt. Newman Mining (BHP). In mid 1989 he founded Globe Turbocharger Specialties Australia, providing large diesel engine operators with quality aftermarket spares. Utilising his experience in heavy vehicle design, diesel engines and projects management, Mike developed the business across a broad platform, re-badging it as GTSA Engineering to better represent the company's activities. Over the ensuing years the company has continued to evolve as Coote Industrial Limited

Summary of current equity holdings

| | |
|---|---|
| Shares | 42,089,075 |
| Options | - |

Don Patterson BBus, MAICD

Director and Chief Executive Officer
Appointed: 28/06/2006 Age: 50

Don held a senior accounting role with Wesfarmers for five years before taking up senior management positions in the finance, retailing and hospitality industries and most recently five years in commercial property development, before joining Coote Engineering in 2002. Don initially assumed the role of Financial Controller and then included the role of General Manager GTSA Engineering. Over the past five years Don has implemented considerable structural reform, planning and other improvements supporting Coote Industrial Limited's historical growth and fulfilling future expectations.

**Directors' Report**

Summary of current equity holdings

| | |
|---|---|
| Shares | 1,757,787 |
| Options | 2,000,000 |

**Glenn Parrett** BCom (Finance & Economics), MAICD

Executive Director
Appointed: 28/06/2006 Age: 43

Glenn has more than 15 years experience delivering against total business plan responsibility, including as General Manager and Managing Director of 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 FY09 is the integration, performance and development of the group's power and propulsion businesses.

Summary of current equity holdings

| | |
|---|---|
| Shares | 247,507 |
| Options | 250,000 |

**Peter Wilson** GAICD

Executive Director
Appointed: 02/11/06 Age: 61

Peter is a qualified Master Mariner and has extensive management experience in the shipping, stevedoring and logistics fields both in the United Kingdom and Australia. Prior to joining Coote Industrial Peter worked for Patrick Corporation's Auto and General Division in a business development role. Prior to his time at Patrick, Peter was adviser to the Federal Minister for Workplace Relations and Small Business based in Canberra. Peter is experienced in the areas of materials handling, shipping and in the major logistics and transport processes of mining and resources.

Summary of current equity holdings

| | |
|---|---|
| Shares | 224,737 |
| Options | 250,000 |

**Mustapha Darwish** BCom (Accounting & Finance) ASA

Company Secretary
Appointed: 02/11/2006

Mustapha Darwish worked for 2 year in public practice before joining Coote Industrial in 2004. He has worked for the past four years in various management roles in corporate accounting before being appointed the Group Chief Financial Officer in early 2007.

Summary of current equity holdings

| | |
|---|---|
| Shares | 13,500 |
| Options | 100,000 |

**Directors' Report**

## Principal Activities

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

Technically Based Sales & Service

- Project Management
- Engineering Services
- Manufacturing & Fabrication
- Repair & Maintenance Services
- Plant, Equipment and Component Sales
- Rail Infrastructure Services
- Rail Operations
- Freight Logistics
- Personnel Services

## Significant Events

There were a number of significant changes to the Group during this year of operations including:

- Acquisition of FCD Container Logistics
- Acquisition of Gemco Rail and its controlled entity
- Acquisition of Industrial Powertrain
- Acquisition of Drivetrain Australia and its controlled entities, located in Philippines, New Zealand and Singapore
- Completed a capital raising of $70m at $2.40 per share on the 30 November 2007
- Acquired a significant volume of locomotive and wagons inventory for refurbishment and future sale, a number of which were refurbished and sold in this financial year to Greentrains Pty Ltd.

Additional details on these transactions can be found in Notes 3, 10, 22 and 26 of the accounts

## Operating Results

The consolidated profit for the Group after providing for income tax amounted to $22.012m

## Dividends Paid or Recommended

Dividends paid or declared for payment are as follows

- Ordinary Interim Dividend paid of 3.50 cents per share fully franked paid on the 31 March 2008
- Final ordinary Dividend of 5.0 cents per share recommended by the Directors and payable on the 31 October 2008

**Directors' Report**

## Result Overview

The Directors are pleased to announce a full year Net Profit after Tax (NPAT) of $22.012m. The result is up 169% on the FY07 NPAT of $8.174m.

This strong FY08 profit result was derived from revenue for the year of $347.893m (FY07 $69.416m).

Earnings per share (EPS) increased by 20% from 17.22 cents per share to 20.58 cents per share on a fully diluted basis.

The Directors of Coote Industrial have declared a final, fully-franked dividend of 5 cents per share, payable on 31 October to shareholders on the register at 15 October 2008. This takes total dividends for the year to 8.5 cents, an increase of 44% on FY07.

## Result Summary

| | | FY 08 | | FY 07 | | Inc. % |
|---|---|---|---|---|---|---|
| Revenue/Other Income | | $ 347.893 | m | $ 69.416 | m | 401 ↑ |
| EBITDA | | $ 47.501 | m | $ 15.543 | m | 206 ↑ |
| EBIT | | $ 40.795 | m | $ 13.592 | m | 200 ↑ |
| NPAT | | $ 22.012 | m | $ 8.174 | m | 169 ↑ |
| EPS | - Basic Earnings | 21.68 | ¢ | 18.12 | ¢ | 20 ↑ |
| | - Fully Diluted | 20.58 | ¢ | 17.22 | ¢ | 20 ↑ |
| Dividend | | 8.50 | ¢ | 5.90 | ¢ | 44 ↑ |

## Year in Review

### 1H FY08

During the first half of FY08 Coote Industrial completed four significant acquisitions: Industrial Powertrain, FCD Logistics, Gemco Rail, and Drivetrain.

These key strategic acquisitions followed the Group's first post-listing acquisition; rail group South Spur Rail Services, which included track maintenance and rail labour hire business Momentum, and specialist rail training business CERT.

In December 2007 Coote Industrial subsidiary Gemco Rail purchased a significant quantity of locomotives and wagons for capital asset inventory to support their rail services expansion plans.

### 2H FY08

The second half of the year focused on integrating the businesses. This included the progressive roll out of a single Business Management System, divesting non-core businesses, restructuring underperforming business units and simplifying the Group's market presence. The company also began consolidating its core technical service offerings, corporate identity and brands. The divisional structure was replaced with emphasis on key businesses, building upon key brand recognition to deliver growth. The number of business units has condensed to 8 from 22.

Coote Industrial also entered into a Put and Call Option over Rail Technical Support Group, an established rolling stock maintenance services business. This performance-based acquisition agreement will expand Gemco Rail's locomotive and wagon maintenance, rebuild and refurbishment, and rail technical services to five locations operating in WA, SA, NSW and VIC.

Gemco Rail completed the refurbishment and sale of a number of locomotives during the year. This was a significant event for the Group and signaled progress toward its objective of becoming a significant participant in the rolling stock services market.

Hedemora, Coote Industrial's diesel engine business, expanded its large diesel engine capacity by moving to a significantly larger workshop in Sydney and restructuring the Maddington, WA engine overhaul facilities. New diesel engine power and propulsion capability is being established in Hedemora Henderson, WA facility with focus on defence and maritime service capabilities.

**Directors' Report**

### Operational Performance

Of particular note is the continued strong growth of our rail services business. Demand for locomotive, wagon and track maintenance equipment and services has been very buoyant, with revenue at Gemco Rail more than doubling last year.

Momentum's rail welding, labour hire, training and rail services business made a significant contribution to the Group's FY08 result and continues to expand.

South Spur Rail Services has been restructured and refocused as a short haul operator with emphasis on port shuttles, infrastructure projects, hook & pull, short haul and sub-contract services to the major rail operators.

Convair, Industrial Powertrain and Drivetrain all delivered record results.

The Swedish Hedemora business again performed very well.

Further consolidation of key businesses is planned for FY09 increasing concentration of core capabilities and technical service offerings within our target markets – Defence, Rail, Resources, Maritime and Power Generation.

### Cash Flow

The full year operating cash outflows amounted to $73.4m, due largely to strategic capital investment in substantial locomotive and wagon inventories. This key investment will underpin the company's capacity to lever off strong demand for refurbished and remanufactured locomotives in the continually expanding rail haulage market. Importantly, a core of the inventory will become the platform for delivery of Progress Rail, Caterpillar engine driven locomotives.

A large locomotive refurbishment and maintenance project was delivered in the FY08 second half and strongly influenced cash outflows during that period.

By the end of Q2 FY09, the company has planned to reduce debts by $68m from receipts of more than $100m due from business completed to 30 June 2008.

Total debt is expected to reduce to $70m, and is anticipated that the Debt/Equity ratio will revert to 48%, in line with the Board's objectives. The reset debt position supports expectations that FY09 EBITDA Interest Cover will exceed the 7x achieved in FY08.

Coote Industrial is well positioned for growth in its target market sectors with further expansion opportunities emerging in South East Asia and Europe. In FY09 greater concentration on delivering synergetic engineering technical services offerings through Drivetrain, Hedemora and Energy is expected to capitalize on those opportunities and drive continued growth from the Australian based business.

Major rail and resources infrastructure projects continue to provide service opportunities across the country and continued high demand for labour, recruitment and training services is expected to underpin a strong growth contribution from Momentum in FY09.

### 2009 Outlook

Notwithstanding the uncertain economic backdrop in FY09 Coote Industrial still anticipates delivering a solid increase in Net Profit after Tax

Forecast revenue for FY09 is $358m, with forecast NPAT of $25m.

### Future Developments, Prospects and Business Strategies :

Key to delivering the expected result in FY09 will be completing a number of key objectives

- Ongoing integration of all businesses; extracting synergy benefits in both costs and sales
- Continued rollout of a single Business Management System platform
- Simplification of the business and market positioning with further brand consolidation and likely further divestment unlocking opportunities for debt reduction
- Achievement of targeted revenue of $358m
- Double digit growth underpinned by existing orders of over $200m

**Directors' Report**

During the year Coote Industrial Limited will continue to restructure the Group, evolving from a divisional structure concentrating on a number of nominated key brands, simplifying understanding of the Group key capabilities and delivery path.

### After Balance Date Events

There have been no significant events subsequent to balance date

### Environmental Issues

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

The Group is focused on being environmentally proactive, adopting practices that minimize adverse environmental impacts and providing appropriate feedback on the Group's environmental performance to ensure compliance.

Based upon results of inquiries made, 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.

**Remuneration report**

## Overview

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 company and group executives) who have strategic commercial impact upon Coote Industrial Limited's activities.

## Remuneration Policy

The remuneration policy of Coote Industrial Limited has been designed 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, as well as create goal congruence between directors, executives and shareholders.

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 (which is based on factors such as length of service and experience), including a base salary, superannuation, fringe benefits and performance bonuses. In future, it is intended that packages will also include options in accordance with the company's Employee Share and Option Plan.
- 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 will be 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 given 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 Bi-nomial 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 will review 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 and are able to participate in the employee option plan.

## Performance-based Remuneration

Part of each executive director and executive's remuneration package is a performance-based component, consisting of key performance indicators (KPI's). The intention of this program is to facilitate goal congruence between directors and executives with that of the business and shareholders. The KPIs are set annually, with a certain level of consultation with directors and executives. The measures are specifically tailored to the areas each director and executive is involved in and has a level of control over. The KPI's target areas the board believes hold greater potential for group expansion and profit, currently the KPI's are essentially financial related but are intended to include non-financial as well as short- and long-term goals.

### Company Performance, Shareholder Wealth and Director and Executive Remuneration

The company will utilise the Employee Share and Options Plan as an additional tool to remunerate directors and executives in a manner to increase goal congruence between shareholders, directors and executives.

The following table shows the gross revenue, profits and dividends for the last 2 years since listing for Coote Industrial, as well as the share price at the end of the respective financial years. Analysis of the actual figures shows an increase in profits as well as an increase or maintenance of dividends paid to shareholders. The improvement in the company's performance over the last two years has not been reflected in the company's share price. The Board is of the opinion that these results can be attributed in part to the previously described remuneration policy and is satisfied that this continued improvement has lead to increased shareholder wealth over the past two years.

| | 2007 | 2008 |
|---|---|---|
| | $000 | $000 |
| Revenue | 69,416 | 347,893 |
| Net Profit | 8,174 | 22,012 |
| Share Price at Year-end | $2.05 | $1.22 |
| Dividends Paid | 5.9c | 8.5c |
| Earnings Per Share (diluted) | 17.22c | 20.58c |

The directors felt the share price has moved with market sentiment reaching a high of $3.13 early in FY08 to a low of $1. The board has decided to increase and maintain promotional activity amongst analysts so as to increase investor awareness of the company and to stabilise the company's share price in line with a consistent and stable financial position. The company has also commenced a corporate re-branding including the recent update of its corporate website, simplifying understanding of the Groups core capabilities and technical services delivery.

### *Key Management Personnel Remuneration Structure*

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. In future any options not exercised before or on the date of termination will lapse.

Some of the business units emphasise payment for results by providing various cash bonus reward schemes based on internal KPI's both financial and non-financial targets. The objective of the reward scheme is to both reinforce the short- and long-term goals of the business unit 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 the company's employee share and option plan.

The employment conditions of the Managing Director, Michael C Coote and other key management personnel are formalised in contracts of employment. The employment contract does not stipulate a term of employment period but does stipulate 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. Any options not exercised before or on the date of termination will lapse.

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

**Remuneration report**

| Key Management Person | | Cash, Salary & Commissions | Non-Monetary Benefits | Short-Term Benefits<br>Other | Post Employment Benefits<br>Super-annuation |
|---|---|---|---|---|---|
| *Executive Directors* | | | | | |
| M Coote | 2008 | 400,365 | - | - | 48,134 |
| Managing Director | 2007 | 286,000 | - | - | 25,740 |
| D Patterson | 2008 | 315,614 | 6,703 | 327,500[2] | 30,220 |
| Chief Executive Officer | 2007 | 258,586 | - | - | 23,400 |
| G Parrett | 2008 | 229,192 | 17,198 | 48,400[2] | 20,977 |
| | 2007 | 166,651 | - | 11,492 | 15,317 |
| P Wilson | 2008 | 252,456 | - | 48,500[2] | 22,203 |
| | 2007 | 99,400 | - | - | 8,483 |
| Sub – total | 2008 | 1,197,627 | 23,901 | 424,400 | 121,534 |
| | 2007 | 810,637 | - | 11,492 | 72,940 |
| *Non Executive Directors* | | | | | |
| D Hector | 2008 | 100,000 | - | - | - |
| Chairman | 2007 | 62,333 | - | - | - |
| Sub – total | 2008 | 100,000 | - | - | - |
| | 2007 | 62,333 | - | - | - |
| *Other Key Management* | | | | | |
| K Pallas | 2008 | 167,467 | - | - | 14,019 |
| Chief Operating Officer | 2007 | - | - | - | - |
| M Darwish | 2008 | 138,837 | - | - | 10,662 |
| Chief Financial Officer/Company Secretary | 2007 | 73,301 | - | - | 6,525 |
| N Brown | 2008 | 232,345 | 13,312 | - | 55,026 |
| CEO – Drivetrain | 2007 | - | - | - | - |
| J Wilson (1) | 2008 | 286,867 | 6,111 | - | 22,604 |
| CEO – South Spur Rail Services | 2007 | - | - | - | - |
| S Bassan | 2008 | 181,097 | - | - | 18,336 |
| CEO – Gemco Rail | 2007 | - | - | - | - |
| A Marsh | 2008 | 185,701 | - | - | 13,050 |
| CEO – Momentum Rail | 2007 | - | - | - | - |
| Sub – total | 2008 | 1,192,314 | 19,423 | - | 133,697 |
| | 2007 | 73,301 | - | - | 6,525 |
| Total | 2008 | 2,489,941 | 43,324 | 424,400 | 255,231 |
| | 2007 | 946,271 | - | 11,492 | 79,465 |

**Remuneration report**

| | | | Share – based Payment | | | | |
|---|---|---|---|---|---|---|---|
| Key Management Person | | Other Long-term Benefits $ | Equity $ | Options $ | Total $ | Perfor-mance Related % | Repres-ented by options % |
| *Executive Directors* | | | | | | | |
| M Coote | 2008 | - | - | - | 448,499 | - | - |
| Managing Director | 2007 | - | - | - | 311,740 | - | - |
| D Patterson | 2008 | - | - | - | 680,037 | - | - |
| Chief Executive Officer | 2007 | - | - | 320,000 | 601,986 | - | 53.16 |
| G Parrett | 2008 | - | - | - | 315,767 | - | |
| | 2007 | - | - | 40,000 | 233,460 | - | 17.13 |
| P Wilson | 2008 | - | - | - | 323,159 | - | |
| | 2007 | - | - | 40,000 | 147,883 | - | 27.05 |
| Sub – total | 2008 | - | - | - | 1,767,462 | - | - |
| | 2007 | - | - | 400,000 | 1,295,069 | - | 30.89 |
| Non Executive Directors | | | | | | | |
| D Hector | 2008 | - | - | - | 100,000 | - | - |
| Chairman | 2007 | - | - | 48,000 | 110,333 | - | 43.50 |
| *Sub – total* | *2008* | - | - | - | 100,000 | - | - |
| | *2007* | - | - | 48,000 | 110,333 | - | 43.50 |
| *Other Key Management* | | | | | | | |
| K Pallas | 2008 | - | - | - | 181,486 | - | - |
| Chief Operating Officer | 2007 | - | - | - | - | - | - |
| M Darwish | 2008 | | | | 149,499 | | - |
| Chief Financial Officer/Company Secretary | 2007 | - | - | 16,000 | 95,826 | - | 16.70 |
| N Brown | 2008 | - | - | - | 300,683 | - | - |
| CEO – Drivetrain | 2007 | - | - | - | - | - | - |
| J Wilson | 2008 | - | - | - | 315,582 | - | - |
| CEO – South Spur Rail Services | 2007 | - | - | - | - | - | - |
| S Bassan | 2008 | - | - | - | 199,433 | - | - |
| CEO – Gemco Rail | 2007 | - | - | - | - | - | - |
| A Marsh | 2008 | - | - | - | 198,751 | - | - |
| CEO – Momentum Rail | 2007 | - | - | - | - | - | - |
| *Sub – total* | *2008* | - | - | - | 1,345,434 | - | - |
| | *2007* | - | - | 16,000 | 95,826 | - | 16.70 |
| Total | 2008 | - | - | - | 3,212,896 | | - |
| | 2007 | - | - | 464,000 | 1,501,228 | - | 30.91 |

1. James Wilson employment ceased 1 August 2008
2. The amounts in Other relate to bonuses paid to directors in lieu of share options to be issued during the year. Total amount was paid in cash

**Remuneration report**

*Options issued as part of remuneration for the year ended 30 June 2008*

Options are issued to directors and executives of Coote Industrial Ltd and its subsidiaries to increase goal congruence between executives, directors and shareholders. There were no options issued to any personnel in this financial year and subsequent to the date of issue of this report.

2007

| Directors | Balance 1 July 2006 | Options granted as part of remuneration | Options exercised | Options lapsed | Balance 30 June 2007 | Total Vested 30 June 2007 | Total Exercisable 30 June 2007 |
|---|---|---|---|---|---|---|---|
| *Non Executive Directors* | | | | | | | |
| D Hector | - | 300,000 | - | - | 300,000 | - | - |
| *Executive Directors* | | | | | | | |
| M Coote | - | - | - | - | | - | - |
| D Patterson | - | 2,000,000 | - | - | 2,000,000 | - | - |
| G Parrett | - | 250,000 | - | - | 250,000 | - | - |
| P Wilson | - | 250,000 | - | - | 250,000 | - | - |
| *Other Key Management* | | | | | | | |
| M Darwish | - | 100,000 | - | - | 100,000 | - | - |
| **Totals** | **-** | **2,900,000** | **-** | **-** | **2,900,000** | **-** | **-** |

2008

| Directors | Balance 1 July 2007 | Options granted as part of remuneration | Options exercised | Options lapsed | Balance 30 June 2008 | Total Vested 30 June 2008 | Total Exercisable 30 June 2008 |
|---|---|---|---|---|---|---|---|
| *Non Executive Directors* | | | | | | | |
| D Hector | 300,000 | - | - | - | 300,000 | 300,000 | 300,000 |
| *Executive Directors* | | | | | | | |
| M Coote | - | - | - | - | | - | - |
| 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 | 250,000 | 250,000 |
| *Other Key Management* | | | | | | | |
| M Darwish | 100,000 | | - | - | 100,000 | 100,000 | 100,000 |
| **Totals** | **2,900,000** | **-** | **-** | **-** | **2,900,000** | **2,900,000** | **2,900,000** |

No options were exercised during the financial year and subsequent to the issue of this report.

**Remuneration report**

### Meetings of Directors

During the financial year, 13 meetings of directors (including committees of directors) were held. Attendances by each director during the year were as follows:

| | Directors' Meetings | | Audit Committee | |
|---|---|---|---|---|
| | Number Eligible to attend | Number Attended | Number Eligible to attend | Number Attended |
| D Hector | 8 | 8 | 5 | 5 |
| M Coote | 8 | 7 | 0 | 0 |
| D Patterson | 8 | 8 | 0 | 0 |
| G Parrett | 8 | 8 | 5 | 5 |
| P Wilson | 8 | 8 | 5 | 4 |

### Indemnifying Officers or Auditor

The company has 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 Hector | D Patterson | G Parrett |
| M Coote | P Wilson | |

### Options

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

| Grant Date | Date of Expiry | Exercise Price $ | No. Under Option |
|---|---|---|---|
| 27/11/06 | 14/12/09 | 1.00 | 2,900,000 |
| 14/12/06 | 14/12/09 | 1.00 | 1,500,000 |
| 29/08/08 | 29/08/11 | 3.00 | 1,000,000 |
| 29/02/09 | 29/02/12 | 3.50 | 1,000,000 |
| 29/08/09 | 29/08/12 | 4.00 | 1,000,000 |
| | | | 7,400,000 |

During the year ended 30 June 2008, 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.

### 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 2008 has been received and can be found on page 16 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.

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

Michael Charles Coote
Managing Director
Dated this 30th Day of September 2008

## Directors' declaration

In the directors' opinion:

(a) The financial statements and notes are set out in pages 23 to 78 are in accordance with the Corporations Act 2001, including:

I. Complying with Accounting Standards, the Corporations Regulations and other mandatory professional reporting requirements, and

II. Give a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of its performance, as represented by the results of their operations, changes in equity and their cash flows, for the financial year ended on that date.

(b) There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable, and

(c) The audited remuneration disclosures set out in the directors' report comply with Accounting Standards AASB 124 Related Party Disclosures and the Corporations Regulations 2001, and

The directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of directors.

Michael Charles Coote
Managing Director
Dated this 30th Day of September 2008

To The Board of Directors

RLF Bentleys
Audit & Corporate Pty Ltd
ABN 33 121 222 802

Level 1
12 Kings Park Road
West Perth WA 6005

PO Box 44
West Perth WA 6872

T +61 8 9226 4500
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www.bentleys.com.au

## 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 2008 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

**BENTLEYS**

**Chartered Accountants**

**RANKO MATIC**

**Director**

DATED at PERTH this 30th day of September 2008

Bentleys
Thinking ahead

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# Independent Audit Report

**To the Members of Coote Industrial Limited**

We have audited the accompanying financial report of Coote Industrial Limited (the company) and Coote Industrial Limited and Controlled Entities (the consolidated entity), which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration 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.

As permitted by the Corporations Regulations 2001, the company has disclosed information about the remuneration of directors and executives (remuneration disclosures), required by Accounting Standard AASB 124: Related Party Disclosures, under the heading 'Remuneration Report' in pages 8 to 13 of the directors' report and not in the financial report.

**Directors Responsibility for the Financial Report**

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal 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.

The directors also are responsible for preparation and presentation of the remuneration disclosures contained in the directors' report in accordance with the Corporations Regulations 2001.

**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 and the remuneration disclosures in the directors' 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.

**Auditor's Opinion**

In our opinion:

a. The financial report of Coote Industrial Limited and Coote Industrial Limited and its Controlled Entities is in accordance with the Corporations Act 2001, including:

   i. giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and

   ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

b. The financial report also complies with International Financial Reporting Standards as disclosed in Note 1

c. the remuneration disclosures that are contained in pages 8 to 13 of the directors' report comply with Accounting Standard AASB 124.

Bentleys

**BENTLEYS** | **RANKO MATIC**

**Chartered Accountants** | **Director**

DATED at PERTH this 30th day of September 2008

## Corporate governance statement

The Company and the Board are committed to achieving compliance with all the best practice recommendations released by the Australian Stock Exchange Corporate Governance Council and ensuring that the highest level of corporate governance is achieved. 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. Further details are available on the company's website www.coote.com.au. This statement does not address the revised Corporate Governance Principles and Recommendations, 2nd Edition published in August 2007. The company intends to report against the revised guidelines for the financial period ending 30 June 2009.

### Role of the Board

The role of Coote Industrial's Board 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, review the performance of the Managing Director and CEO;
- 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 and CEO;
- approve the remuneration of executive management;
- 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 and CEO all authority to achieve the company's objectives consistent with this Governance Charter, the company constitution, statute or other regulation.

The Managing Director and CEO, prepare a one year operational and financial plan for approval by the Board. It is considered more appropriate to prepare a one year plan in detail as the company currently continues to grow and evolve rapidly with increasing focus on delivering more than one year's strategic plan, in future.

### 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 earlier in this Annual 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 5% of company shares are held by the director and any other entity or individual directly of indirectly associated with the director;
- has within the last 3 years been employed in an executive capacity by the company or another group member
- has within the last 3 years been a principal of a material professional advisor or material consultant to the company or group member.
- is not a material supplier or customer of the company or other group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer
- has no material contractual relationship with the company or another group member other than as a director of the company
- has not served on the board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the company
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the directors ability to act in the best interests of the company

## Corporate governance statement

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

### Meetings of the Board

The board meets formally at least 4 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. These meetings are held in differing group entity sites in order to give directors an opportunity to meet and communicate with members of the group. In addition to the formal meetings the Board frequently meets to consider the strategic direction of the company.

The number of meetings held and attended by each of the directors for the financial year ended 30 June 2008 is set out in the Directors' Report.

### 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 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 however the Board considers this structure appropriate at this stage of the company's development.

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 criticise 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.

### 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 note taken place. Given this is the company's second full year of trading it is envisaged that a performance assessment will be completed in the coming period. This will then occur on an annual basis with management invited to participate in the process. Once completed action plans will be documented and any areas requiring improvement identified will be addressed.

### Reward and Remuneration

Reward and remuneration of directors and executives will be objectively linked to obtaining the company objectives and consistent with the financial performance of the company.

There will be complete transparency to shareholders regarding reward and remuneration of board members

## Corporate governance statement

and senior executive management.

There are currently no schemes for retirement benefits other than statutory superannuation for non-executive directors.

### 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 9.2.

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;
- 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:

Mr D Hector (Chairman)

Mr P Wilson

Mr G Parrett

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 current composition of the audit committee does not meet ASX Best Practice Recommendation 4.3. The Board believes that this is the most effective structure for the Audit Committee given the structure of the Board itself.

### 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 2008, involved both the Chief Executive Officer 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 (formerly Rix Levy Fowler) 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 2007. It is currently company's policy 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 Audit Committee for the financial year ended 30 June 2008.

## Corporate governance statement

### 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 chairman and receiving written approval from him to do so. The chairman must seek written approval from the Chief Executive Officer. Managers and other employees are also required to seek written approval of the Chief Executive Officer 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 Stock 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. The Board welcomes shareholder participation at the company's annual general meeting.

**Income statement**
**for the year ended 30 June 2008**

| | | Consolidated Group | | Parent | |
|---|---|---|---|---|---|
| | Note | 2008 $000 | 2007 $000 | 2008 $000 | 2007 $000 |
| Revenue | 2 | 346,311 | 68,959 | 30,622 | 4,437 |
| Other income | 2 | 1,582 | 457 | - | - |
| Changes in inventories of finished goods and work in progress | | 43,015 | 2,647 | - | - |
| Raw materials and consumables used | | (237,316) | (30,243) | (51) | - |
| Employee benefits expense | | (82,071) | (17,109) | (4,870) | (546) |
| Depreciation and amortisation expense | | (8,525) | (1,951) | (669) | - |
| Finance costs | | (8,943) | (2,969) | (7,246) | (181) |
| Subcontract Freight | | (1,637) | (1,433) | | - |
| Insurance | | (2,161) | (1,412) | (52) | - |
| Rent and Outgoings | | (5,453) | (870) | (115) | - |
| Vehicle expenses | | (1,791) | (406) | (32) | (1) |
| Other expenses | | (10,836) | (4,608) | (2,062) | (628) |
| Profit before income tax | 3 | 32,175 | 11,062 | 15,525 | 3,081 |
| Income tax expense | 4 | (10,163) | (2,888) | (393) | (877) |
| Profit attributable to members of the parent entity | | 22,012 | 8,174 | 15,132 | 2,204 |

**Overall Operations**

| | | | |
|---|---|---|---|
| Basic earnings per share (cents per share) | 8 | 21.68 | 18.12 |
| Diluted earnings per share (cents per share) | 8 | 20.58 | 17.22 |

## Balance sheet
## as at 30 June 2008

| | Note | Consolidated Group 2008 $000 | Consolidated Group 2007 $000 | Parent 2008 $000 | Parent 2007 $000 |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| CURRENT ASSETS | | | | | |
| Cash and cash equivalents | 9 | - | - | - | 452 |
| Trade and other receivables | 10 | 130,994 | 19,666 | 2,728 | 2,005 |
| Inventories | 11 | 65,124 | 14,909 | - | - |
| Other current assets | 17 | 2,087 | 1,789 | 57 | 76 |
| TOTAL CURRENT ASSETS | | 198,205 | 36,364 | 2,785 | 2,533 |
| NON-CURRENT ASSETS | | | | | |
| Trade and other receivables | 10 | 2,255 | - | 138,865 | 29,204 |
| Inventories | 11 | 7,200 | - | - | - |
| Financial assets | 13 | 5,004 | - | 63,984 | 25,174 |
| Property, plant and equipment | 14 | 34,672 | 35,074 | 2,319 | - |
| Deferred tax assets | 20 | 3,192 | 2,337 | 1,277 | 539 |
| Intangible assets | 15,16 | 93,515 | 34,812 | - | - |
| TOTAL NON-CURRENT ASSSETS | | 145,838 | 72,223 | 206,445 | 54,917 |
| TOTAL ASSETS | | 344,043 | 108,587 | 209,230 | 57,450 |
| CURRENT LIABILITIES | | | | | |
| Trade and other payables | 18 | 41,756 | 16,368 | 1,271 | 1,952 |
| Financial liabilities | 19 | 43,501 | 5,556 | 5,318 | - |
| Current tax liabilities | 20 | 10,117 | 2,082 | 10,108 | 988 |
| Short-term provisions | 21 | 4,286 | 2,097 | 444 | - |
| TOTAL CURRENT LIABILITIES | | 99,660 | 26,103 | 17,141 | 2,940 |
| NON-CURRENT LIABILITIES | | | | | |
| Financial liabilities | 19 | 98,314 | 31,597 | 73,482 | 14,000 |
| Long-term provisions | 21 | 1,766 | 450 | 262 | - |
| Deferred tax liabilities | 20 | 288 | 273 | 47 | 47 |
| TOTAL NON-CURRENT LIABILITIES | | 100,368 | 32,320 | 73,791 | 14,047 |
| TOTAL LIABILITIES | | 200,028 | 58,423 | 90,932 | 16,987 |
| NET ASSETS | | 144,015 | 50,164 | 118,298 | 40,463 |
| EQUITY | | | | | |
| Issued capital | 22,16 | 117,632 | 39,870 | 117,632 | 39,870 |
| Reserves | 23 | 1,329 | 1,192 | 828 | 546 |
| Retained earnings/(accumulated losses) | | 25,054 | 9,102 | (162) | 47 |
| TOTAL EQUITY | | 144,015 | 50,164 | 118,298 | 40,463 |

## Statement of changes in equity
## for the year ended 30 June 2008

Consolidated Group

| | Note | Issued Capital Ordinary $000 | Retained Earnings $000 | Foreign Currency Translation Reserve $000 | Option Reserves $000 | Total $000 |
|---|---|---|---|---|---|---|
| **Balance at 1 July 2006** | | - | 3,084 | - | - | 3,084 |
| Shares issued during the year | | 40,925 | - | - | - | 40,925 |
| Transaction costs | | (1,055) | - | - | - | (1,055) |
| Profit attributable to members of parent entity | | - | 8,174 | - | - | 8,174 |
| Adjustments from translation of foreign controlled entities | | - | - | 646 | - | 646 |
| Option reserve on recognition of options issued | | - | - | - | 546 | 546 |
| Sub-total | | 39,870 | 11.258 | 646 | 546 | 52,320 |
| Dividends paid or provided for | 7 | - | (2,156) | - | - | (2,156) |
| **Balance at 30 June 2007** | | **39,870** | **9,102** | **646** | **546** | **50,164** |
| **Balance at 1 July 2007** | | 39,870 | 9,102 | 646 | 546 | 50,164 |
| Shares issued during the year | | 79,198 | - | - | - | 79,198 |
| Transaction costs | | (1,436) | - | - | - | (1,436) |
| Prior year adjustment | | - | 445 | - | - | 445 |
| Profit attributable to members of parent entity | | - | 22,012 | - | - | 22,012 |
| Adjustments from translation of foreign controlled entities | | - | | (145) | - | (145) |
| Option reserve on recognition of options issued | | - | | - | 282 | 282 |
| Sub-total | | 117,632 | 31,559 | 501 | 828 | 150,520 |
| Dividends paid or provided for | 7 | - | (6,505) | - | - | (6,505) |
| **Balance at 30 June 2008** | | **117,632** | **25,054** | **501** | **828** | **144,015** |

## Statement of changes in equity
## for the year ended 30 June 2008

| Parent | Note | Issued Capital Ordinary $000 | Retained Earnings/ (accumulated losses) $000 | Option Reserves $000 | Total $000 |
|---|---|---|---|---|---|
| **Balance at 1 July 2006** | | - | (1) | - | (1) |
| Shares issued during the year | | 40,925 | - | - | 40,925 |
| Transaction costs | | (1,055) | - | - | (1,055) |
| Profit attributable to members of parent entity | | - | 2,204 | - | 2,204 |
| Option reserve on recognition of options issued | | - | - | 546 | 546 |
| Sub-total | | 39,870 | 2,203 | 546 | 42,619 |
| Dividends paid or provided for | 7 | | (2,156) | - | (2,156) |
| **Balance at 30 June 2007** | | **39,870** | **47** | **546** | **40,463** |
| | | | | | |
| **Balance at 1 July 2007** | | 39,870 | 47 | 546 | 40,463 |
| Shares issued during the year | | 79,198 | - | - | 79,198 |
| Transaction costs | | (1,436) | - | - | (1,436) |
| Profit attributable to members of parent entity | | - | 15,132 | - | 15,132 |
| Option reserve on recognition of options issued | | - | - | 282 | 282 |
| Tax contribution account movement | | - | (8,835) | - | (8,844) |
| Sub-total | | 117,632 | 6,344 | 828 | 124,795 |
| Dividends paid or provided for | 7 | - | (6,506) | - | (6,506) |
| **Balance at 30 June 2008** | | **117,632** | **(162)** | **828** | **118,289** |

## Cash flow statement

**for the year ended 30 June 2008**

| | | Consolidated Group | | Parent | |
|---|---|---|---|---|---|
| | | 2008 | 2007 | 2008 | 2007 |
| | Note | $000 | $000 | $000 | $000 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Receipts from customers | | 287,523 | 66,820 | 1,565 | 6 |
| Payments to suppliers and employees | | (351,362) | (70,507) | (6,362) | (637) |
| Interest received | | 251 | 171 | 11,529 | 52 |
| Finance costs | | (6,801) | (2,530) | (6,349) | (154) |
| Income tax paid | | (3,095) | (4,246) | - | - |
| Net cash provided by (used in) operating activities | 26 | (73,484) | (10,292) | 383 | (733) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Proceeds from sale of non-current assets | | 329 | 395 | 60 | - |
| Purchase of investments | | (1,200) | - | - | - |
| Purchase of non-current assets | 14 | (19,174) | (3,277) | (1,782) | (5) |
| Loans to unrelated parties | | (4,405) | (2,000) | (4,405) | - |
| Payment for subsidiary, net of cash acquired | 26 | (64,709) | (23,291) | (30,275) | (14,174) |
| Net cash provided by (used in) investing activities | | (89,159) | (28,173) | (36,402) | (14,179) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | |
| Proceeds from issue of shares | | 67,899 | 23,564 | 67,899 | 23,572 |
| Proceeds from borrowings | | 91,288 | 28,999 | 59,000 | 14,000 |
| Repayment of borrowings | | (298) | (14,447) | - | - |
| Dividends paid by parent entity | | (5,916) | (2,037) | (5,917) | (2,037) |
| Provision of funds to subsidiaries | | - | - | (129,311) | (25,322) |
| Repayment of funds lent to subsidiaries | | - | - | 39,474 | 5,151 |
| Net cash provided by (used in) financing activities | | 152,973 | 36,079 | 31,145 | 15,364 |
| Net increase/ (decrease) in cash held | | (9,670) | (2,386) | (4,874) | 452 |
| Cash at beginning of period | 9 | (2,045) | 341 | 452 | - |
| Cash at end of period | 9 | (11,715) | (2,045) | (4,422) | 452 |

## Notes to the accounts

### For the year ended 30 June 2008

#### Note 1 — Statement of Significant Accounting Policies

The financial report covers the consolidated group of Coote Industrial Ltd and controlled entities, and Coote Industrial Ltd as an individual parent entity. Coote Industrial Ltd is a listed public company, incorporated and domiciled in Australia.

Basis of Preparation

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, including 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 to which they apply. 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. They 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.

The following is a summary of the material accounting policies adopted by the consolidated group in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

Accounting Policies

*(a)* Principles of Consolidation

A controlled entity is any entity Coote Industrial Ltd has the power to control the financial and operating policies so as to obtain benefits from its activities.

A list of controlled entities is contained in Note 12 to the financial statements. All controlled entities have a June financial year-end.

As at reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year then ended. Where controlled entities have entered (left) the consolidated group during the year, their operating results have been included (excluded) from the date control was obtained (ceased).

All inter-company balances and transactions between entities in the consolidated group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

*(b)* Business Combinations

Business combinations occur where control over another business is obtained and results in the consolidation of its assets and liabilities. All business combinations, including those involving entities under common control, are accounted for by applying the purchase method. The purchase method requires an acquirer of the business to be identified and for the cost of the acquisition and fair values of identifiable assets, liabilities and contingent liabilities to be determined as at acquisition date, being the date that control is obtained. Cost is determined as the aggregate of fair values of assets given, equity issued and liabilities assumed in exchange for control together with costs directly attributable to the business combination. Any deferred consideration payable is discounted to present value using the entity's incremental borrowing rate.

Goodwill is recognised initially at the excess of cost over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If the fair value of the acquirer's interest is greater than cost, the surplus is immediately recognised in profit or loss.

*(c)* 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 reporting date. 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 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.

## Notes to the accounts (continued)
**for the year ended 30 June 2008**

### Note 1 — Statement of Significant Accounting Policies (continued)

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 tax rates enacted or substantively enacted at reporting date. 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.

*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 intends to enter 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.

#### *(d)* 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.

Inventory is classed as non-current when the group has identified stock items that will take longer to realise within the individual business units' normal operating cycle.

#### *(e)* Work in Progress

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

#### *(f)* Property, Plant and Equipment

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

**Plant and equipment**

Plant and equipment are measured on the cost basis less depreciation and 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.

## Notes to the accounts (continued)
### for the year ended 30 June 2008

Note 1 — Statement of Significant Accounting Policies (continued)

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 all 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:

| Class of Fixed Asset | Depreciation Rate |
|---|---|
| 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.

*(g)* Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, 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.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

*(h)* Financial Instruments

Recognition

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

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 is 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 either discharged, cancelled or expire. 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.

Classification and subsequent measurement

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, where they are derivatives not held for hedging purposes, or 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.

## Notes to the accounts (continued)
**for the year ended 30 June 2008**

### Note 1 — Statement of Significant Accounting Policies (continued)

**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 using the effective interest rate method.

**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 designated as such or that are not classified in any of the other categories. 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 using the effective interest rate method.

**Derivative instruments**

Derivative instruments are measured at fair value. Gains and losses arising from changes in fair value are taken to the income statement unless they are designated as hedges.

**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 income statement.

*(i)* **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 income statement.

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.

*(j)* **Intangibles**

**Goodwill**

Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price for a business combination exceeds the fair value attributed to the interest in the net fair value of identifiable assets, liabilities and contingent liabilities at date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

**Customer Related Intangibles**

Customer related intangibles are stated at cost less accumulated amortisation and impairment losses (see policy i)

**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 any impairment losses. Patents and trademarks are amortised over their useful life.

**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.

**Notes to the accounts (continued)**
**for the year ended 30 June 2008**

Note 1 — Statement of Significant Accounting Policies (continued)

*(k)* 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.

Transaction 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 income statement.

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 balance sheet. These differences are recognised in the income statement in the period in which the operation is disposed.

*(l)* 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. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Equity-settled compensation

The group has available equity-settled share-based payment employee share and option schemes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using a Bi-nomial pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

*(m)* 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.

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 provision is measured as the present value of future cash flows estimated to be required to settle the warranty obligation. 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 balance sheet.

*(o)* Revenue and Other Income

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 from the rendering of a service is recognised upon the delivery of the service to the customers.

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).

## Notes to the accounts (continued)
**for the year ended 30 June 2008**

### Note 1 — Statement of Significant Accounting Policies (continued)

*(p)* 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.

*(q)* 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 Australian 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.

*(r)* 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.

*(s)* New Accounting Standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those that may impact the entity in the period of initial application. They are available for early adoption at 30 June 2008, but have not been applied in preparing this financial report:

| AASB Amendment | Standards Affected | Outline of Amendment | Application Date of Standard | Application Date for Group |
|---|---|---|---|---|
| AASB 2007-3 Amendment to Australian Accounting Standards | AASB 5 Non-current Assets Held for Sale and Discontinued Operations<br>AASB 6 Exploration for and Evaluation of Mineral<br>AASB 102 Inventories<br>AASB 107 Cash Flow Statements<br>AASB 119 Employee Benfits<br>AASB 127 Consolidates and Separate Financial Statements<br>AASB 107 Cash Flow Statements<br>AASB 127 Consolidates and Separate Financial Statements<br>AASB 134 Interim Financial Reporting<br>AASB 136 Impairment of Assets<br>AASB 1023 General Insurance Contracts | The disclosure requirements of AASB 114: Segment Reporting has been replaced due to the issuing of AASB 8: Segment Reporting in February 2007. These amendments will involve changes to segment reporting disclosures within the financial report. However, it is anticipated there will be no direct impact on recognition and measurement criteria amounts included in the financial report. | 1.1.2009 | 1.7.2009 |

**Notes to the accounts (continued)**
**for the year ended 30 June 2008**

| Note 1 — Statement of Significant Accounting Policies (continued) | | | | |
|---|---|---|---|---|
| | AASB1038 Life Insurance Contracts | | | |
| AASB 8 Operating Segments | AASB 114 Segment Reporting | As above | 1.1.2009 | 1.7.2009 |
| AASB 2007-6 Amendments to Australian Accounting Standards | AASB 1 First time adoption of AIFRS<br>AASB 101 Presentation of Financial Statements<br>AASB 107 Cash Flow Statements<br>AASB 111 Construction Contracts<br>AASB 116 Property, Plant and Equipment<br>AASB 138 Intangible Assets | The revised AASB 123: Borrowing costs issued in June 2007 has removed the option to expense all borrowing costs. The amendment will require the capitalisation of all borrowing costs directly attributable to the acquistion, construction or production of a qualifying asset. However, there will be no direct impact to the amounts included in the financial group as they already capitalise borrowing costs related to qualifying assets. | 1.1.2009 | 1.7.2009 |
| AASB 123 Borrowing Costs | AASB 123 Borrowing Costs | As above | 1.1.2009 | 1.7.2009 |
| AASB 2007-8 Amendments to the Australian Accounting Standards | AASB 101 Presentation of Financial Statements | The revised AASB 101: Presentation of Financial Statements issued in September 2007 requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity. | 1.1.2009 | 1.7.2009 |
| AASB 101 | AASB 101 Presentation of Financial Statements | As above | 1.1.2009 | 1.7.2009 |

## *(t)* Critical accounting estimates and judgements

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

*Goodwill and intangibles*

Significant judgements 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.

*Income Tax*

The Consolidated Group is subject to income taxes in Australia and other jurisdictions in which it operates. Due to this significant judgement is required in determining the provision for income tax. Judgement is also required in determining whether or not to recognise a deferred tax asset/liability on the balance sheet.

*Share-based payments*

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by management using a binomial option-pricing model. The assumptions used in this model can be found in Note 26 Share based payments. These accounting estimates and assumptions would have no impact on the carrying amounts of assets and liabilities within the next reporting period by may impact expenses and equity.

## Notes to the accounts (continued)
**for the year ended 30 June 2008**

### Note 1 — Statement of Significant Accounting Policies (continued)

*Impairment*
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. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

*Provision for impairment of receivables and investments in subsidiaries*
Included in the assets of the parent entity are amounts relating to inter-company receivables, loans and investments in wholly owned subsidiaries. As these strategic acquisitions are expected to make positive contributions to group profits in future years the directors believe that the full amounts of the debts are recoverable from each of its subsidiaries and as such no provision from impairment has been made at 30 June 2008.

The financial report was authorised for issue on 30 September 2008 by the board of directors.

### Note 2 Revenue

| | Note | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|---|
| | | 2008 | 2007 | 2008 | 2007 |
| | | $000 | $000 | $000 | $000 |
| Sales Revenue | | | | | |
| — Sales of goods and services | | 343,440 | 68,233 | 1,423 | - |
| Total Sales Revenue | | 343,440 | 68,233 | 1,423 | - |
| Other Revenue | | | | | |
| — Dividends Received | 2a | - | - | 17,290 | 3,895 |
| — interest received | 2b | 631 | 171 | 11,909 | 542 |
| — Fuel Rebates | | 2,240 | 555 | - | - |
| — Other revenue | | - | | | |
| Total Other Revenue | | 2,871 | 726 | 29,199 | 4,437 |
| Total Sales Revenue and Other Revenue | | 346,311 | 68,959 | 30,622 | 4,437 |
| Other Income | | | | | |
| — gain on disposal of property, plant and equipment | | 86 | 257 | - | - |
| — Gains on foreign exchange | | 1,496 | 200 | - | - |
| Total Other Income | | 1,582 | 457 | - | - |
| a. Dividend revenue from: | | | | | |
| Wholly-owned subsidiaries | | - | - | 17,290 | 3,895 |
| Total dividend revenue | | | - | 17,290 | 3,895 |
| b. Interest revenue from: | | | | | |
| Wholly-owned controlled entities | | - | - | 11,448 | 467 |
| Other persons | | 631 | 171 | 461 | 75 |
| Total interest revenue | | 631 | 171 | 11,909 | 542 |

**Notes to the accounts (continued)**
**for the year ended 30 June 2008**

## Note 3 - Profit for the Year

| | Note | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|---|
| | | 2008 | 2007 | 2008 | 2007 |
| | | $000 | $000 | $000 | $000 |
| **a. Expenses** | | | | | |
| Cost of sales | | 262,301 | 42,115 | - | - |
| Finance costs: | | | | | |
| Interest - external | | 6,802 | 2,530 | 5,803 | 77 |
| Interest – related parties | | - | - | 546 | - |
| Other Finance Costs | | 2,141 | 439 | 897 | 104 |
| Total finance costs | | 8,943 | 2,969 | 7,246 | 181 |
| Employee superannuation expense | | | | | |
| Defined contribution plan | | 5,542 | 1,003 | 320 | 109 |
| Total Employee Superannuation Expense | | 5,542 | 1,003 | 320 | 109 |
| Bad and doubtful debts: | | | | | |
| Trade receivables | | 53 | 50 | - | - |
| Total bad and doubtful debts | | 53 | 50 | - | - |
| Rental expense on operating leases | | | | | |
| Minimum lease payments | | 5,560 | 1,784 | 124 | - |
| Rental expense for sublease | | - | - | - | - |
| Total rental expense on operating leases | | 5,560 | 1,784 | 124 | - |
| **b. Significant Revenue and Expenses** | | | | | |
| The following significant revenue and expense items are relevant in explaining the financial performance: | | | | | |
| Coote Locomotive Project revenues | | 82,713 | - | - | - |
| Coote Locomotive cost of goods sold (excludes Gemco Rail overheads, corporate overheads, interest and income tax allocations) | | 57,605 | - | - | - |

Additional details on this transaction can be found in Note 10 (c) of the accounts

**Notes to the accounts (continued)**
**for the year ended 30 June 2008**

## Note 4 - Income Tax Expense

| | | Note | Consolidated Group 2008 $000 | Consolidated Group 2007 $000 | Parent Entity 2008 $000 | Parent Entity 2007 $000 |
|---|---|---|---|---|---|---|
| a. | The components of tax expense comprise: | | | | | |
| | Current tax | | 10,060 | 3,665 | 294 | 988 |
| | Deferred tax | 20 | 103 | (1,222) | 89 | (111) |
| | Recoupment of prior year tax losses | | - | - | - | - |
| | Under provision in respect of prior years | | - | 445 | - | - |
| | | | 10,163 | 2,888 | 393 | 877 |
| b. | The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax as follows: | | | | | |
| | Prima facie tax payable on profit from ordinary activities before income tax at 30% (2007: 30%) | | | | | |
| | - consolidated group | | 9,668 | 3,074 | - | - |
| | - parent entity | | - | - | (19) | 925 |
| | Add: | | | | | |
| | Tax effect of: | | | | | |
| | - non-deductible depreciation and amortisation | | - | - | - | - |
| | - other non-allowable items | | 495 | 40 | 412 | - |
| | - write-downs to recoverable amounts | | - | - | - | - |
| | - share options expensed during year | | - | - | - | - |
| | - under provision for income tax in prior year | | - | 446 | - | - |
| | | | 10,163 | 3,560 | 393 | 925 |
| | Less: | | | | | |
| | Tax effect of: | | | | | |
| | - rebateable fully franked dividends | | - | - | - | - |
| | - changed estimate regarding inventory obolescence write down | | - | 432 | - | - |
| | - other non-allowable items | | - | - | - | 48 |
| | - tax losses transferred from controlled entities | | - | - | - | - |
| | - Recoupment of prior year tax losses not previously brought to account | | - | 240 | - | - |
| | - Income tax attributable to entity | | 10,163 | 2,888 | 393 | 877 |
| | The applicable weighted average effective tax rates are as follows: | | 32% | 26% | 3% | 28% |

## Notes to the accounts (continued)
**for the year ended 30 June 2008**

### Note 5 - Key Management Personnel

(a) Directors

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

| Name | Position |
|---|---|
| M Coote | Managing Director |
| D Patterson | Chief Executive Officer/Executive Director |
| P Wilson | Executive Director |
| G Parrett | Executive Director |
| 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:

| Name | Position |
|---|---|
| K Pallas | Chief Operating Officer |
| M Darwish | Company Secretary/Chief Financial Officer |
| S Bassan | CEO - Gemco Rail |
| J Wilson | CEO - South Spur Rail Services |
| A Marsh | CEO - Momentum |
| N Brown | CEO - Drivetrain |

(c) Key management personnel compensation

The company has taken advantage of the relief provided by Corporations Regulation2M.6.04. As such detailed remuneration disclosures can be found in the directors report.

**Notes to the accounts (continued)**
**for the year ended 30 June 2008**

## Note 5 - Key Management Personnel (continued)

(d) Equity instrument disclosures relating to key management personnel

*(i) 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.

| 2007 | Balance 1 July 2006 $ | Granted as Compensation $ | Options Exercised $ | Balance 30 June 2007 | Total Vested 30 June 2007 | Total Exercisable 30 June 2007 | Total Unexercisable 30 June 2007 |
|---|---|---|---|---|---|---|---|
| M Coote | - | - | - | - | - | - | - |
| D Patterson | - | 2,000,000 | - | 2,000,000 | - | - | 2,000,000 |
| P Wilson | - | 250,000 | - | 250,000 | - | - | 250,000 |
| G Parrett | - | 250,000 | - | 250,000 | - | - | 250,000 |
| D Hector | - | 300,000 | - | 300,000 | - | - | 300,000 |
| M Darwish | - | 100,000 | - | 100,000 | - | - | 100,000 |
| K Pallas | | - | - | - | - | - | - |
| S Bassan | - | - | - | - | - | - | - |
| J Wilson | | - | - | - | - | - | - |
| A Marsh | | - | - | - | - | - | - |
| N Brown | | - | - | - | - | - | - |

| 2008 | Balance 1 July 2007 $ | Granted as Compensation $ | Options Exercised $ | Balance 30 June 2008 | Total Vested 30 June 2008 | Total Exercisable 30 June 2008 | Total Unexercisable 30 June 2008 |
|---|---|---|---|---|---|---|---|
| M Coote | - | - | - | - | - | - | - |
| D Patterson | 2,000,000 | - | - | 2,000,000 | 2,000,000 | 2,000,000 | - |
| P Wilson | 250,000 | - | - | 250,000 | 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 | - |
| K Pallas | - | - | - | - | - | - | - |
| S Bassan | - | - | - | - | - | - | - |
| J Wilson | - | - | - | - | - | - | - |
| A Marsh | - | - | - | - | - | - | - |
| N Brown | - | - | - | - | - | - | - |

## Notes to the accounts (continued)
**for the year ended 30 June 2008**

### Note 5 - Key Management Personnel (continued)

(e) Shareholdings

Number of shares held by Key Management Personnel

| 2008 | Balance 1 July 2007 $ | Received as compensation $ | Options exercised $ | Net change other* $ | Balance 30 June 2008 |
|---|---|---|---|---|---|
| M Coote | 41,982,313 | - | - | 92,762 | 42,075,075 |
| D Patterson | 1,005,287 | - | - | 752,500 | 1,757,787 |
| P Wilson | 122,000 | - | - | 102,737 | 224,737 |
| G Parrett | 147,507 | - | - | 100,000 | 247,507 |
| D Hector | 36,000 | - | - | 15,368 | 51,368 |
| M Darwish | 13,500 | - | - | - | 13,500 |
| K Pallas | - | - | - | 50,000 | 50,000 |
| S Bassan | - | - | - | - | - |
| J Wilson | - | - | - | 2,227,273 | 2,227,273 |
| A Marsh | - | - | - | 230,309 | 230,309 |
| N Brown | - | - | - | 148,254 | 148,254 |

* Net change other refers to shares purchased/sold or received as part of the purchase consideration on the sale of a business that was sold during the financial year.

**Notes to the accounts (continued)**
**for the year ended 30 June 2008**

## Note 6 - Auditors Remuneration

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | $000 | $000 | $000 | $000 |
| Remuneration of the auditor of the parent for: | | | | |
| - auditing or reviewing the financial report | 520 | 202 | 520 | 150 |
| Remuneration of other auditors of subsidiaries for: | | | | |
| - auditing or reviewing the financial report of subsidiaries | 69 | 22 | - | - |

## Note 7 - Dividends

| | | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|---|
| | | 2008 | 2007 | 2008 | 2007 |
| | | $000 | $000 | $000 | $000 |
| (a) | **Declared and paid** | | | | |
| | Interim fully franked ordinary dividend of 3.5 (2007: 2.95) cents per share franked at the tax rate of 30% (2007: 30%) | 4,050 | 2,156 | 4,050 | 2,156 |
| | | 4,050 | 2,156 | 4,050 | 2,156 |
| (b) | **Dividends proposed and not recognised as a liability at 30 June 2008** | | | | |
| | Proposed fully franked ordinary dividend of 5 (2007: 2.95) cents per share franked at the tax rate of 30% (2007: 30%) | 6,505 | 2,454 | 6,505 | 2,454 |
| | | 6,505 | 2,454 | 6,505 | 2,454 |
| (c) | **Balance of franking account at year end adjusted for franking credits arising from:** | | | | |
| | Opening balance | 1,964 | 9,178 | 1,964 | 9,178 |
| | Payment of provision for income tax | 10,108 | 2,082 | 10,108 | 2,082 |
| | Dividends recognised as receivables and franking debits arising from payment of proposed dividends, and franking credits that may be prevented from distribution in subsequent financial years | (2,486) | (1,052) | (2,486) | (1,052) |
| | Subsequent to year-end, the franking account would be reduced by the proposed dividend reflected per (b) as follows. | 9,586 | 10,208 | 9,586 | 10,208 |

**Notes to the accounts (continued)**
**for the year ended 30 June 2008**

## Note 8 Earnings per Share

| | Consolidated Group | |
|---|---|---|
| | 2008 | 2007 |
| | $000 | $000 |
| (a) Reconciliation of earnings to profit or loss | | |
| Profit | 22,012 | 8,174 |
| Earnings used to calculate basic EPS | 22,012 | 8,174 |
| Earnings used in the calculation of dilutive EPS | 22,012 | 8,174 |
| | No. | No. |
| (b) Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS | 101,536,637 | 45,113,766 |
| Weighted average number of options outstanding | 5,408,197 | 2,362,740 |
| Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS | 106,944,834 | 47,476,506 |

## Note 9 - Cash and Cash Equivalents

| | | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|---|
| | | 2008 | 2007 | 2008 | 2007 |
| | Note | $000 | $000 | $000 | $000 |
| Cash at bank and in hand | | - | - | - | 452 |
| | | - | - | - | 452 |

**Reconciliation of cash**

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:

| | Note | Consolidated Group 2008 $000 | Consolidated Group 2007 $000 | Parent Entity 2008 $000 | Parent Entity 2007 $000 |
|---|---|---|---|---|---|
| Cash and cash equivalents | | - | - | - | 452 |
| Bank overdrafts | 18 | (11,715) | (2,045) | (4,422) | - |
| | | (11,715) | (2,045) | (4,422) | 452 |

**Notes to the accounts (continued)**
**for the year ended 30 June 2008**

## Note 10 - Trade and Other Receivables

| | | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|---|
| | | 2008 | 2007 | 2008 | 2007 |
| | Note | $000 | $000 | $000 | $000 |
| CURRENT | | | | | |
| Trade receivables | 10c | 130,581 | 17,258 | 2,728 | 5 |
| Provision for impairment of receivables | 10b | (222) | (150) | - | - |
| Total Trade receivables | | 130,359 | 17,108 | 2,728 | 5 |
| Term receivables | | - | 2,000 | - | 2,000 |
| Provision for impairment of receivables | | - | - | - | - |
| Total Term receivables | | - | 2,000 | - | 2,000 |
| Other receivables | | 256 | 225 | - | - |
| Fuel rebate receivables | | 379 | 333 | - | - |
| Total Other receivables | | 635 | 558 | - | - |
| Total Current Trade and Other Receivables | | 130,994 | 19,666 | 2,728 | 2,005 |
| NON-CURRENT | | | | | |
| Amounts receivable from: | | | | | |
| Wholly-owned entities | | - | - | 136,610 | 29,204 |
| Key management personnel | 10a | 2,255 | - | 2,255 | - |
| | | 2,255 | - | 138,865 | 29,204 |
| Total Non-Current Trade and Other Receivables | | 2,255 | - | 138,865 | 29,204 |

**Notes to the accounts (continued)**
**for the year ended 30 June 2008**

## Note 10 - Trade and Other Receivables (continued)

a. Key Management Personnel

| | Balance at Beginning of year $000 | Balance at End of Year $000 | Interest Charged $000 | Interest not Charged $000 | Provision for Impairment $000 | Number of Individuals $000 |
|---|---|---|---|---|---|---|
| 2008 | - | 2,255 | - | 67 | - | 6 |
| 2007 | - | - | - | - | - | - |

Individuals with loans above $100,000 in reporting period

| | Balance 1.7.07 $000 | Interest Charged $000 | Interest Not Charged $000 | Provision for Impairment $000 | Balance 30.6.2008 $000 | Highest Balance During Period $000 |
|---|---|---|---|---|---|---|
| D Patterson | - | - | 46 | - | 1,538 | 1,538 |
| G Parrett | - | - | 6 | - | 206 | 206 |
| P Wilson | - | - | 6 | - | 205 | 205 |
| K Pallas | - | - | 3 | - | 102 | 102 |
| J Hickey | - | - | 3 | - | 102 | 102 |
| A Butters | - | - | 3 | - | 102 | 102 |

All amounts advanced to employees and directors are secured interest free limited recourse loans loaned for the purchase of shares in Coote Industrial issued under the company's share and option plan.

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 arms length basis

## Notes to the accounts (continued)
### for the year ended 30 June 2008

Note 10 - Trade and Other Receivables (continued)

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 an 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 Balance 1.7.06 $000 | Charge for the Year $000 | Amounts Written Off $000 | Closing Balance 30.6.07 $000 |
|---|---|---|---|---|
| **Consolidated Group** | | | | |
| (i) Current trade receivables | - | (150) | - | (150) |
| | - | (150) | - | (150) |
| **Parent Entity** | | | | |
| (i) Current trade receivables | - | - | - | - |
| (ii) Non-current wholly owned subsidiaries | - | - | - | - |
| | - | - | - | - |

| | Opening Balance 1.7.07 $000 | Charge for the Year $000 | Amounts Written Off $000 | Closing Balance 30.6.08 $000 |
|---|---|---|---|---|
| **Consolidated Group** | | | | |
| (i) Current trade receivables | (150) | (125) | 53 | (222) |
| | (150) | (125) | 53 | (222) |
| **Parent Entity** | | | | |
| (i) Current trade receivables | - | - | - | - |
| (ii) Non-current wholly owned subsidiaries | - | - | - | - |
| | - | - | - | - |

*Ageing of past due but not impaired*

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2008 $000 | 2007 $000 | 2008 $000 | 2007 $000 |
| 60 - 90 days | 2,042 | 751 | 56 | - |
| 90 - 120 days | 2,305 | 1,291 | 37 | - |
| Total | 4,347 | 2,042 | 93 | - |

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 directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

**Notes to the accounts (continued)**
**for the year ended 30 June 2008**

## Note 10 - Trade and Other Receivables (continued)

### c) Material Trade Receivable

During FY08 Gemco Rail acquired a number of locomotives and wagons from various parties for the purpose of rebuild, refurbishment and future sale.

In the second half of FY08 a number of locomotives and wagons were refurbished and sold to rolling stock entity Greentrains Pty Ltd. The basis for the sale agreement provided terms for payment, which allowed for the timely inspection, accreditation and acceptance of the locomotives and wagons. Ownership does not pass on these assets until the amounts due are paid in full including any interest charged where applied.

| | $ 000 |
|---|---|
| Locomotive Project Revenues due from Greentrains at balance date. | 82,713 |

The Board has provided an extension until the end of October 2008 to enable Greentrains Pty Ltd to complete the events of the transaction. In accordance with the above and considering all other information available to them, the CIL directors believe that it is probable that the full amount of the receivable will be paid.

## Note 11 - Inventories

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | $000 | $000 | $000 | $000 |
| CURRENT | | | | |
| At cost | | | | |
| Raw materials and stores | 5,398 | 1,234 | - | - |
| Work in progress | 34,148 | 2,607 | - | - |
| Finished goods | 25,578 | 11,068 | - | - |
| | 65,124 | 14,909 | - | - |

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | $000 | $000 | $000 | $000 |
| NON CURRENT | | | | |
| At cost | | | | |
| Finished goods | 7,200 | - | - | - |
| | 7,200 | - | - | - |

**Notes to the accounts (continued)**
**for the year ended 30 June 2008**

## Note 12 - Controlled Entities

| | Country of Incorporation | Date of Control | Percentage Owned % 2008 | 2007 |
|---|---|---|---|---|
| Parent Entity: | | | | |
| Coote Industrial Ltd | Australia | | | |
| Subsidiaries of Coote Industrial Ltd: | | | | |
| Coote Engineering Pty Ltd | Australia | 1/07/2006 | 100 | 100 |
| *Subsidiaries of Coote Engineering Pty Ltd:* | | | | |
| Hedemora Investments AB | Sweden | 1/07/2006 | 100 | 100 |
| *Subsidiaries of Hedemora Investments AB:* | | | | |
| *Hedemora Diesel AB* | Sweden | 1/07/2006 | 100 | 100 |
| P C Diesel Pty Ltd | Australia | 1/07/2006 | 100 | 100 |
| *Subsidiaries of P C Diesel Pty Ltd* | | | | |
| *Industrial Powertrain Pty Ltd* | Australia | 1/07/2007 | 100 | 0 |
| Coote Rail Pty Ltd (formerly Coote Industrial Management Services Pty Ltd) | Australia | 1/07/2006 | 100 | 100 |
| Drivetrain Australia Pty Ltd | Australia | 1/07/2007 | 100 | 0 |
| *Subsidiaries of Drivetrain Australia Pty Ltd:* | | | | |
| *Drivetrain Philippines Inc* | Philippines | 1/07/2007 | 100 | 0 |
| *Drivetrain Singapore Pte Ltd* | Singapore | 1/07/2007 | 100 | 0 |
| *Drivetrain Limited* | New Zealand | 1/07/2007 | 100 | 0 |
| Coote Manufacturing Pty Ltd | Australia | 1/07/2006 | 100 | 100 |
| *Subsidiaries of Coote Manufacturing Pty Ltd:* | | | | |
| *Convair Engineering Pty Ltd* | Australia | 1/07/2006 | 100 | 100 |
| Coote Logistics Pty Ltd | Australia | 1/07/2006 | 100 | 100 |
| *Subsidiaries of Coote Logistics Pty Ltd:* | | | | |
| *Asset Kinetics Pty Ltd* | Australia | 1/07/2006 | 100 | 100 |
| *FCD Logistics Pty LTD atf Fremantle Container Depot (1996) Unit Trust* | Australia | 1/07/2007 | 100 | 0 |
| Coote Energy Pty Ltd | Australia | 18/04/2007 | 100 | 100 |
| South Spur Rail Services Pty Ltd | Australia | 30/04/2007 | 100 | 100 |
| *Subsidiaries of South Spur Rail Services Pty Ltd:* | | | | |
| *Centre for Excellence in Rail Training Pty Ltd* | Australia | 30/04/2007 | 100 | 100 |
| *Momentum Rail (NSW) Pty Ltd* | Australia | 30/04/2007 | 100 | 100 |
| *Midland Railway Company Pty Ltd* | Australia | 30/04/2007 | 100 | 100 |
| *Sydney Railway Company Pty Ltd* | Australia | 30/04/2007 | 100 | 100 |
| *Australian Rail Mining Services Pty Ltd* | Australia | 30/04/2007 | 100 | 100 |
| *Southern & Silverton Railway Pty Ltd* | Australia | 30/04/2007 | 100 | 100 |
| ***Gemco Rail Pty Ltd*** | Australia | 1/07/2007 | 100 | 0 |
| *Subsidiaries of Gemco Rail Pty Ltd* | | | | |
| *Railway Bearings Refurbishment Services Pty Ltd* | Australia | 1/07/2007 | 100 | 0 |
| *Gemco Leasing Pty Ltd* | Australia | 18/06/2008 | 100 | 0 |

## Notes to the accounts (continued)
## for the year ended 30 June 2008

### Note 13 - Financial Assets

| | Note | Consolidated Group 2008 $000 | Consolidated Group 2007 $000 | Parent Entity 2008 $000 | Parent Entity 2007 $000 |
|---|---|---|---|---|---|
| NON CURRENT | | | | | |
| Available for sale | | | | | |
| Shares in listed companies | | 568 | - | 59,577 | 25,174 |
| Loans receivable | | 4,436 | - | 4,407 | - |
| | | 5,004 | - | 63,984 | 25,174 |

Loans receivable are due from a number of entities related to the Rail Technical Support Group. It is expected that these amounts will be settled on exercise of the option to purchase RTSG currently held by Coote Industrial Ltd

### Note 14 - Property, Plant and Equipment

| | Note | Consolidated Group 2008 $000 | Consolidated Group 2007 $000 | Parent Entity 2008 $000 | Parent Entity 2007 $000 |
|---|---|---|---|---|---|
| LAND AND BUILDINGS | | | | | |
| Freehold land at: | | | | | |
| at cost | | 53 | 53 | - | - |
| Total Land | | 53 | 53 | - | - |
| Buildings at: | | | | | |
| at cost | | 735 | 735 | - | - |
| Less accumulated depreciation | | (453) | (434) | - | - |
| Total Buildings | | 282 | 301 | - | - |
| Total Land and Buildings | | 335 | 354 | - | - |
| PLANT AND EQUIPMENT | | | | | |
| Plant and equipment: | | | | | |
| At cost | | 33,738 | 17,095 | 1,860 | - |
| Accumulated depreciation | | (13,981) | (4,752) | (424) | - |
| | | 19,757 | 12,343 | 1,436 | - |
| Leasehold improvements | | | | | |
| At cost | | 2,886 | 747 | 465 | - |
| Accumulated amortisation | | (512) | - | (132) | - |
| Total Leasehold Improvements | | 2,374 | 747 | 333 | - |
| Leased plant and equipment | | | | | |
| Capitalised leased assets | | 16,314 | 24,023 | 891 | - |
| Accumulated depreciation | | (4,108) | (2,393) | (341) | - |
| | | 12,206 | 21,630 | 550 | - |
| Total Plant and Equipment | | 34,337 | 34,720 | 2,319 | - |
| Total Property, Plant and Equipment | | 34,672 | 35,074 | 2,319 | - |

**Notes to the accounts (continued)**
**for the year ended 30 June 2008**

Note 14 - Property, Plant and Equipment (continued)

(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

| Consolidated Group | Freehold Land $000 | Buildings $000 | Leasehold Improvements $000 | Plant and Equipment $000 | Leased Plant and Equipment $000 | Total $000 |
|---|---|---|---|---|---|---|
| Balance at 1 July 2006 | 53 | 320 | - | 942 | 1,973 | 3,288 |
| Additions | - | 4 | 7 | 307 | 3,378 | 3,696 |
| Disposals | - | - | - | (222) | - | (222) |
| Additions through acquisition of entity | - | - | 740 | 12,207 | 17,316 | 30,263 |
| Revaluation increments/ (decrements) | - | - | - | - | - | - |
| Depreciation expense | - | (23) | - | (891) | (1,037) | (1,951) |
| Capitalised borrowing cost and depreciation | - | - | - | - | - | - |
| Balance at 30 June 2007 | 53 | 301 | 747 | 12,343 | 21,630 | 35,074 |
| Additions | - | - | 844 | 12,448 | 7,639 | 13,731 |
| Disposals | - | - | - | (4,711) | (14,817) | (19,528) |
| Additions through acquisition of entity | - | - | 1,020 | 10,688 | 393 | 12,101 |
| Depreciation expense | - | (19) | (237) | (3,811) | (2,639) | (6,706) |
| Capitalised borrowing costs and depreciation | - | - | - | - | - | - |
| Balance at 30 June 2008 | 53 | 282 | 2,374 | 26,957 | 12,206 | 34,672 |

| Parent Entity | Freehold Land $000 | Buildings $000 | Leasehold Improvements $000 | Plant and Equipment $000 | Leased Plant and Equipment $000 | Total $000 |
|---|---|---|---|---|---|---|
| Balance at 1 July 2006 | - | - | - | - | - | - |
| Additions | - | - | - | - | - | - |
| Disposals | - | - | - | - | - | - |
| Depreciation expense | - | - | - | - | - | - |
| Capitalised borrowing cost and depreciation | - | - | - | - | - | - |
| Balance at 30 June 2007 | - | - | - | - | - | - |
| Additions | - | - | 465 | 1,776 | 770 | 3,011 |
| Disposals | - | - | - | - | (23) | (23) |
| Revaluation increments/ (decrements) | - | - | - | - | - | - |
| Depreciation expense | - | - | (132) | (340) | (197) | (669) |
| Balance at 30 June 2008 | - | - | 333 | 1,436 | 550 | 2,319 |

## Notes to the accounts (continued)
### for the year ended 30 June 2008

| Note 15 - Intangible Assets | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | $000 | $000 | $000 | $000 |
| **Goodwill** | | | | |
| Cost: | | | | |
| Opening balance | 34,812 | 8,984 | - | - |
| Additions: | | | | |
| Additional assets recognised on acquisitions | (774) | - | - | - |
| Acquisition through subsidiaries acquired | 46,803 | 25,828 | - | - |
| Closing balance | 80,841 | 34,812 | - | - |
| Accumulated impairment: | | | | |
| Opening balance | - | - | - | - |
| Impairment for the year | (436) | - | - | - |
| Closing balance | (436) | - | - | - |
| Net book value | 80,405 | 34,812 | - | - |
| **Customer related intangibles** | | | | |
| Cost: | | | | |
| Opening balance | - | - | - | - |
| Additions | | | | |
| Acquisitions through subsidiaries acquired | 14,493 | - | - | - |
| Closing balance | 14,493 | - | - | - |
| Accumulated amortisation: | | | | |
| Opening balance | - | - | - | - |
| Amortisation for the year | (1,383) | - | - | - |
| Closing balance | (1,383) | - | - | - |
| Net book value | 13,110 | - | - | - |
| **Total intangible assets:** | | | | |
| At cost | 95,334 | 34,812 | - | - |
| Accumulated amortisation | (1,383) | - | - | - |
| Impairment | (436) | | | |
| Net book value | 93,515 | 34,812 | - | - |

## Note 15 - Intangible Assets (continued)

### Impairment tests for cash generating units containing goodwill

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

| | Consolidated Group | |
|---|---|---|
| | 2008 | 2007 |
| | $000 | $000 |
| Engineering Services | 25,213 | 12,614 |
| Transport Services | 13,086 | 4,477 |
| Rollingstock & Rail Services | 41,094 | 16,765 |
| Energy | 1,012 | 956 |
| Total goodwill | 80,405 | 34,812 |

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

The recoverable amount of the cash generating unit is based on value in use calculators. The calculations use cash flow projections based on 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.

Key assumptions used for value in use calculations

A growth rate of between -10% to 5% has been applied to extrapolate cash flows. The growth rate does not exceed the long-term average growth rate for the business in which the cash generating units operate.
A pre-tax discount rate of 10% 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 and their country of operation. The recoverable amount of each cash generating unit exceeds its carrying amount with the exception of $436,000 which has been impaired and extinguishes the total goodwill in this cash generating unit.

The impairment testing has shown there to be a reasonable gap between the value-in use calculations and the net – book value of the assets of each of the cash generating units.

## Notes to the accounts (continued)
## for the year ended 30 June 2008

### Note 16 – Correction of error note- Acquisition of Coote Engineering Pty Ltd in July 1 2006

The company has identified a retrospective correction in the accounting for the acquisition of Coote Engineering Pty Ltd by Coote Industrial Ltd on 1 July 2006. Coote Industrial Ltd acquired Coote Engineering Pty Ltd for $41.523m in accordance with the Share Sale Agreement.

Previously the transaction was accounted for on the basis that Coote Industrial Ltd acquired Coote Engineering Pty Ltd. The transaction was identified as a reverse acquisition which requires the consolidated financial statements to reflect the existing accounting values of Coote Engineering Pty Ltd and the fair value of the assets, liabilities and contingent liabilities of Coote Industrial Ltd instead of the fair value of Coote Engineering Pty Ltd.

This correction has the impact of reducing goodwill and issued capital by $41.523m in the comparative statement line items as reflected in the current balance sheet.

The correction has no impact on operations, earnings, cash flows or earnings per share

| Balance sheet line item | 30 June 2007 Opening Balance $000 | Correction $000 | 30 June 2007 Closing balance $000 |
|---|---|---|---|
| Issued Capital | 81,393 | (41,523) | 39,870 |
| Intangible assets | 76,335 | (41,523) | 34,812 |

This amount has been amended in the 2007 comparatives

### Note 17 - Other Assets

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | $000 | $000 | $000 | $000 |
| CURRENT | | | | |
| Other Current Assets | 330 | 300 | - | 76 |
| Prepayments | 1,757 | 1,489 | 57 | - |
| | 2,087 | 1,789 | 57 | 76 |

### Note 18 - Trade and Other Payables

| | | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|---|
| | | 2008 | 2007 | 2008 | 2007 |
| | Note | $000 | $000 | $000 | $000 |
| CURRENT | | | | | |
| Unsecured liabilities | | | | | |
| Trade payables | | 23,169 | 12,333 | 457 | 114 |
| Sundry payables and accrued expenses | | 18,429 | 4,035 | 814 | 1,838 |
| Deferred Income | | 158 | - | - | - |
| | | 41,756 | 16,368 | 1,271 | 1,952 |

## Notes to the accounts (continued)
**for the year ended 30 June 2008**

### Note 19 - Financial Liabilities

| | | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|---|
| | | 2008 | 2007 | 2008 | 2007 |
| | Note | $000 | $000 | $000 | $000 |
| CURRENT | | | | | |
| Secured liabilities | | | | | |
| Bank overdrafts | 9 | 11,715 | 2,045 | 4,422 | - |
| Lease liability | 24 | 6,786 | 3,131 | 896 | - |
| Bank loans | | 25,000 | 380 | - | - |
| | | 43,501 | 5,556 | 5,318 | - |
| NON-CURRENT | | | | | |
| Secured liabilities | | | | | |
| Bank loans | | 81,594 | 15,222 | 73,000 | 14,000 |
| Lease liability | 24 | 16,720 | 16,375 | 482 | - |
| | | 98,314 | 31,597 | 73,482 | 14,000 |
| (a) Total current and non-current secured liabilities: | | | | | |
| Bank overdraft | | 11,715 | 2,045 | 4,422 | - |
| Bank loan | | 106,594 | 15,602 | 73,000 | 14,000 |
| Lease liability | | 23,506 | 19,506 | 1,378 | - |
| | | 141,815 | 37,153 | 78,800 | 14,000 |

Lease liabilities are secured by a charge over the leased asset

| The bank loan facilities are made up of three facilities being: | 2008 $000 | 2007 $000 | Maturity Dates | Interest Basis |
|---|---|---|---|---|
| - Cash Advance Facility | 73,000 | 14,000 | Jan-10 | Floating |
| - Equipment Loan | 25,000 | - | Sep-08 | Fixed |
| - Swedish Loan Facility | 8,594 | 1,222 | Feb-12 | Floating |
| | 106,594 | 15,222 | | |

These loan facilities were fully drawn down at 30 June 2008

The equipment loan facility due to mature in September 08 was subsequently renegotiated and will now mature in October 08

The group operates a single overdraft across the Australian operations. This has a limit of $15m of which $11.378m was utilized at 30 June 2008

The Cash Advance Facility and Bank Overdraft are secured via a fixed and floating charge over the total assets of the Australian entities.

**Notes to the accounts (continued)**
**for the year ended 30 June 2008**

Note 20 - Tax

| | Consolidated Group 2008 $000 | Consolidated Group 2007 $000 | Parent Entity 2008 $000 | Parent Entity 2007 $000 |
|---|---|---|---|---|
| **Liabilities** | | | | |
| CURRENT | | | | |
| Income Tax | 10,117 | 2,082 | 10,108 | 988 |
| Total | 10,117 | 2,082 | 10,108 | 988 |

| NON-CURRENT | Opening Balance $000 | Balance Acquired $000 | Charged to Income $000 | Charged directly to Equity $000 | Changes in Tax Rate $000 | Exchange Differences $000 | Closing Balance $000 |
|---|---|---|---|---|---|---|---|
| Consolidated Group | | | | | | | |
| Deferred Tax Liability | | | | | | | |
| Other | 230 | - | 43 | - | - | - | 273 |
| **Balance at 30 June 2007** | 230 | - | 43 | - | - | - | 273 |
| Other | 273 | 111 | (105) | - | - | 9 | 288 |
| **Balance at 30 June 2008** | 273 | 111 | (105) | - | - | 9 | 288 |
| | | | | | | | |
| Deferred Tax Assets | | | | | | | |
| Provisions | 664 | - | 102 | - | - | - | 766 |
| Transaction costs on equity issue | - | - | - | 297 | - | - | 297 |
| Losses | 172 | - | 920 | - | - | - | 1,092 |
| Other | 92 | - | 90 | - | - | - | 182 |
| **Balance at 30 June 2007** | 928 | - | 1,112 | 297 | - | - | 2,337 |
| Provisions | 766 | 378 | 447 | - | - | - | 1,591 |
| Transaction costs on equity issue | 297 | - | - | 457 | - | - | 754 |
| Losses | 1,092 | - | (640) | - | - | 18 | 470 |
| Other | 182 | - | 195 | - | - | - | 377 |
| **Balance at 30 June 2008** | 2,337 | 378 | 2 | 457 | - | 18 | 3,192 |

**Notes to the accounts (continued)**
**for the year ended 30 June 2008**

Note 20- Tax (continued)

| NON-CURRENT | Opening Balance $000 | Balance Acquired $000 | Charged to Income $000 | Charged directly to Equity $000 | Changes in Tax Rate $000 | Exchange Differences $000 | Closing Balance $000 |
|---|---|---|---|---|---|---|---|
| Parent Entity | | | | | | | |
| Deferred Tax Liability | | | | | | | |
| Fair value gain | - | - | - | - | - | - | - |
| Other | - | - | 47 | - | - | - | 47 |
| Balance at 30 June 2007 | - | - | 47 | - | - | - | 47 |
| Other | 47 | - | - | - | - | - | 47 |
| Balance at 30 June 2008 | 47 | - | - | - | - | - | 47 |
| Deferred Tax Assets | | | | | | | |
| Provisions | - | - | 25 | - | - | - | 25 |
| Transaction costs on equity issue | - | - | - | 298 | - | - | 298 |
| Losses | - | - | 47 | - | - | - | 47 |
| Other | - | - | 169 | - | - | - | 169 |
| Balance at 30 June 2007 | - | - | 241 | 298 | - | - | 539 |
| Provisions | 25 | 94 | 125 | - | - | - | 244 |
| Transaction costs on equity issue | 298 | - | - | 456 | - | - | 754 |
| Losses | 47 | 99 | - | - | - | - | 146 |
| Other | 169 | - | (36) | - | - | - | 133 |
| Balance at 30 June 2008 | 539 | 193 | 89 | 456 | - | - | 1,277 |

**Notes to the accounts (continued)**
**for the year ended 30 June 2008**

## Note 21 - Provisions

| Consolidated Group | Warranties | Long Service Leave Employee Benefits | Annual Leave Employee Benefits | Other | Total |
|---|---|---|---|---|---|
| | $000 | $000 | $000 | $000 | $000 |
| Opening balance at 1 July 2007 | - | 450 | 2,097 | - | 2,547 |
| Additional provisions | 74 | 867 | 4,895 | 275 | 6,111 |
| Amounts used | - | (212) | (4,244) | (53) | (4,509) |
| Additional provisions through acquisition of entity | - | 661 | 1,242 | - | 1,903 |
| Balance at 30 June 2008 | 74 | 1,766 | 3,990 | 222 | 6,052 |

| Parent Entity | Warranties | Long Service Leave Employee Benefits | Annual Leave Employee Benefits | Other | Total |
|---|---|---|---|---|---|
| | $000 | $000 | $000 | $000 | $000 |
| Opening balance at 1 July 2007 | - | - | - | - | - |
| Additional provisions | - | 273 | 653 | - | 926 |
| Amounts used | - | (11) | (209) | - | (220) |
| Balance at 30 June 2008 | - | 262 | 444 | - | 706 |

## Notes to the accounts (continued)
## for the year ended 30 June 2008

### Note 21 - Provisions (continued)

| Analysis of Total Provisions | Consolidated Group 2008 $000 | Consolidated Group 2007 $000 | Parent Entity 2008 $000 | Parent Entity 2007 $000 |
|---|---|---|---|---|
| Current | 4,286 | 2,097 | 444 | - |
| Non-current | 1,766 | 450 | 262 | - |
| | 6,052 | 2,547 | 706 | - |

**Provision for Warranties**

A provision of $74,000 at 30/6/2008 has been recognised for estimated warranty claims in respect of products and services sold which are still under warranty at balance date. The provision for warranties has been based upon total sales for the past 1 year and claims experienced.

**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 to this report.

### Note 22 - Issued Capital

| | Consolidated Group 2008 $000 | Consolidated Group 2007 $000 | Parent Entity 2008 $000 | Parent Entity 2007 $000 |
|---|---|---|---|---|
| 116,025,252 (2007: 81,600,539) fully paid ordinary shares with no par value | 117,632 | 39,870 | 117,632 | 39,870 |
| | 117,632 | 39,870 | 117,632 | 39,870 |
| **(a) Ordinary Shares** | **No.** | **No.** | **No.** | **No.** |
| At the beginning of reporting period | 81,600,539 | 2 | 81,600,539 | 2 |
| Shares issued during year | | | | |
| 31/08/2007 (2007: 31/10/2006) | 1,595,455 | 48,083,503 | 1,595,455 | 48,083,503 |
| 31/10/2007 (2007: 14/12/2006) | 72,520 | 25,000,000 | 72,520 | 25,000,000 |
| 31/08/2007 (2007: 03/04/2007) | 2,000,000 | 112,489 | 2,000,000 | 112,489 |
| 30/11/2007 (2007: 28/06/2007) | 190,114 | 8,404,545 | 190,114 | 8,404,545 |
| 30/11/2007 | 29,166,667 | - | 29,166,667 | - |
| 28/02/2008 | 1,100,000 | - | 1,100,000 | - |
| 31/03/2008 | 299,957 | - | 299,957 | - |
| At reporting date | 116,025,252 | 81,600,539 | 116,025,252 | 81,600,539 |

## Notes to the accounts (continued)
**for the year ended 30 June 2008**

### Note 22 - Issued Capital (continued)

| Date | No. | Price | |
|---|---|---|---|
| 31/08/2007 | 1,595,455 | $1.10 | Shares issued to complete acquisition of South Spur Rail Services |
| 31/08/2007 | 2,000,000 | $2.05 | Shares issued as part of Gemco Rail acquisition |
| 31/10/2007 | 72,520 | $2.69 | Shares issued in relation to Dividend Re-investment plan |
| 30/11/2007 | 29,166,667 | $2.40 | Shares issued as part of capital raising to sophisticated investors |
| 30/11/2007 | 190,114 | $2.63 | Shares issued as part of Drivetrain Australia acquisition |
| 28/02/2007 | 1,100,000 | $2.05 | Shares issued to key management personnel |
| 31/03/2008 | 299,957 | $1.31 | Shares issued in relation to Dividend Re-investment plan |

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 the 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**

i. At 30 June 2008 7,400,000 (2007: 4,400,000) options were on issue. No options were exercised during this financial year.

(c) **Capital Management**

The Board monitors the capital of the group in order to maintain a good debt to equity ratio, provide the shareholders with adequate returns and ensure that the group can fund its operations and continue as a going concern

The groups debt and capital includes ordinary shares and financial liabilities

The Board effectively monitors the groups capital and when deemed necessary adjusts the capital structure in response to changes in operational requirements and market risks

The gearing ratios for the year ended 30 June 2008 and 2007 are as follows:

| | Note | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|---|
| | | 2008 | 2007 | 2008 | 2007 |
| | | $000 | $000 | $000 | $000 |
| Total Borrowings | | 141,815 | 37,153 | 78,800 | 14,000 |
| Net Debt | | 141,815 | 37,153 | 78,800 | 14,000 |
| Total Equity | | 144,015 | 50,164 | 127,133 | 40,463 |
| Total Capital | | 285,830 | 87,317 | 205,933 | 54,463 |
| Gearing Ratio | | 98% | 74% | 62% | 35% |

The Board believes the current gearing ratio of 98% at 30 June 2008 is above the current band of 40% - 60% that they would prefer to operate within given the current market environment. It is the intention of management to reduce leverage in the new financial year.

## Note 23 - 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.

**Notes to the accounts (continued)**
**for the year ended 30 June 2008**

## Note 24 - Capital and Leasing Commitments

| | | Note | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|---|---|
| | | | 2008 | 2007 | 2008 | 2007 |
| | | | $000 | $000 | $000 | $000 |
| (a) | **Finance Lease Commitments** | | | | | |
| | Payable — minimum lease payments | | | | | |
| | - not later than 12 months | | 7,900 | 5,786 | 966 | - |
| | - between 12 months and 5 years | | 21,210 | 12,735 | 560 | - |
| | - greater than 5 years | | - | 6,405 | - | - |
| | Minimum lease payments | | 29,110 | 24,926 | 1,526 | - |
| | Less future finance charges | | (5,604) | (5,420) | (148) | |
| | Present value of minimum lease payments | | 23,506 | 19,506 | 1,378 | - |
| (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 | | 12,858 | 4,557 | 76 | - |
| | - between 12 months and 5 years | | 45,198 | 844 | 177 | - |
| | - greater than 5 years | | 894 | - | - | - |
| | | | 58,950 | 5,401 | 253 | - |
| (c) | **Capital Expenditure Commitments** | | | | | |
| | Capital expenditure commitments contracted for: | | | | | |
| | Plant and equipment purchases | | - | 179 | - | - |
| | Capital expenditure projects | | - | - | - | - |
| | | | - | 179 | - | - |
| | Payable: | | | | | |
| | - not later than 12 months | | - | 179 | - | - |
| | - between 12 months and 5 years | | - | - | - | - |
| | - greater than 5 years | | - | - | - | - |
| | | | - | 179 | - | - |

Since balance date Gemco Leasing Pty Ltd has entered into operating lease agreement with Greentrains Pty Ltd for the provision of locomotives and wagons on commercial terms for a period of 5 years at an annual rate of $9.4m p.a. These locomotives and wagons are in turn offered to Gemco Rails existing customers on operating lease, “dry” hire terms.

## Notes to the accounts (continued)
## for the year ended 30 June 2008

### Note 25 Segment Reporting

| | Engineering Services | | Transport Services | | Rollingstock & Rail Services | | Energy | | Eliminations | | Consolidated Group | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2008 $000 | 2007 $000 | 2008 $000 | 2007 $000 | 2008 $000 | 2007 $000 | 2008 $000 | 2007 $000 | 2008 $000 | 2007 $000 | 2008 $000 | 2007 $000 |
| Primary Reporting - Business Segments | | | | | | | | | | | | |
| REVENUE | | | | | | | | | | | | |
| External Sales | 104,517 | 50,371 | 19,175 | 9,085 | 227,780 | 11,247 | 2,776 | 227 | (8,398) | (2,617) | 345,850 | 68, 313 |
| Unallocated revenue | | | | | | | | | | | 461 | 646 |
| Total revenue | | | | | | | | | | | 346,311 | 68,959 |
| RESULT | | | | | | | | | | | | |
| Segment result | 11,275 | 12,848 | 661 | 1,250 | 36,311 | 1,272 | (804) | (89) | (358) | (618) | 47,085 | 14,663 |
| Unallocated expenses net of unallocated revenue | | | | | | | | | | | (5,967) | (632) |
| Finance Costs | | | | | | | | | | | (8,943) | (2,969) |
| Profit before income tax | | | | | | | | | | | 32,175 | 11,062 |
| Income tax expense | | | | | | | | | | | (10,163) | (2,888) |
| Profit after income tax | | | | | | | | | | | 22,012 | 8,174 |

Note 25 Segment Reporting (continued)

| | Engineering Services | | Transport Services | | Rollingstock & Rail Services | | Energy | | Eliminations | | Consolidated Group | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2008 $000 | 2007 $000 | 2008 $000 | 2007 $000 | 2008 $000 | 2007 $000 | 2008 $000 | 2007 $000 | 2008 $000 | 2007 $000 | 2008 $000 | 2007 $000 |
| ASSETS | | | | | | | | | | | | |
| Segment assets | 94,256 | 42,314 | 27,510 | 9,183 | 190,525 | 35,416 | 3,841 | 1,790 | (46,624) | (9,708) | 269,508 | 78,995 |
| Unallocated assets | | | | | | | | | | | 71,343 | 29,319 |
| Total assets | | | | | | | | | | | 340,851 | 108,314 |
| LIABILITIES | | | | | | | | | | | | |
| Segment liabilities | 90,808 | 30,276 | 23,243 | 8.735 | 167,339 | 26,357 | 5,402 | 1,867 | (32,493) | (553) | 254,299 | 66,682 |
| Unallocated liabilities | | | | | | | | | | | (54,559) | (8,532) |
| Total liabilities | | | | | | | | | | | 199,740 | 58,150 |
| OTHER | | | | | | | | | | | | |
| Depreciation and amortisation of segment assets | 2,381 | 987 | 1,980 | 760 | 3,348 | 195 | 147 | 32 | - | (23) | 7,856 | 1,951 |
| Unallocated | | | | | | | | | | | 669 | - |
| | | | | | | | | | | | 8,525 | 1,951 |
| Acquisition of non-current segment assets | 5,145 | 3,222 | 2,153 | 174 | 3,360 | 275 | 707 | 25 | - | - | 11,365 | 3,696 |
| Unallocated | | | | | | | | | | | 2,366 | - |
| | | | | | | | | | | | 13,731 | 3,696 |

## Notes to the accounts (continued)
### for the year ended 30 June 2008

Note 25- Segment Reporting (continued)

| Secondary Reporting — Geographical Segments | Segmental Revenues from sales to external customers | | Segment Assets | | Segment Liabilities | |
|---|---|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| | $000 | $000 | $000 | $000 | $000 | $000 |
| Australia | 337,107 | 60,209 | 323,696 | 91,460 | 189,604 | 48,389 |
| Sweden | 9,204 | 8,750 | 17,155 | 16,854 | 10,424 | 9,761 |
| | 346,311 | 68,959 | 340,851 | 108,314 | 200,028 | 58,150 |

#### Accounting Policies

Segment revenues and expenses are those directly attributable to the segments and include any joint revenue and expenses where a reasonable basis of allocation exists. Segment assets include all assets used by a segment and consist principally of cash, receivables, inventories, intangibles and property, plant and equipment, net of allowances and accumulated depreciation and amortisation. While most such assets can be directly attributed to individual segments, the carrying amount of certain assets used jointly by two or more segments is allocated to the segments on a reasonable basis. Segment liabilities consist principally of payables, employee benefits, accrued expenses, provisions and borrowings. Segment assets and liabilities do not include deferred income taxes.

#### Inter-segment Transfers

In relation to the primary segment revenues, expenses and results transfers between segments have been included. The prices charged on inter-segment transactions are the same as those charged for similar goods to parties outside of the consolidated group at an arm's length. These transfers are eliminated on consolidation.

#### Business Segments

The consolidation group has the following four business segments:

*Engineering Services Division, Logistics Division, Rail Services and Rollingstock Division and Energy Division.*

Further information on the activities of each of these segments can be found throughout the annual report.

#### Geographical Segments

The geographical segments comprise of Australia and Sweden. The Australian geographical segment includes 3 additional segments, being New Zealand, Philippines and Singapore. The operations of these subsidiaries do not represent a significant proportion of the activities of the consolidated group.

**Notes to the accounts (continued)**
**for the year ended 30 June 2008**

## Note 26 Cash Flow Information

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2008 $000 | 2007 $000 | 2008 $000 | 2007 $000 |
| (a) **Reconciliation of Cash Flow from Operations with Profit after Income Tax** | | | | |
| Profit after income tax | 22,012 | 8,174 | 15,132 | 2,204 |
| Non-cash flows in profit | | | | |
| Amortisation | 1,819 | - | - | - |
| Depreciation | 6,706 | 1,951 | 669 | - |
| Write-off of capitalised expenditure | - | - | - | - |
| Net gain on disposal of property, plant and equipment | (85) | (257) | (7) | - |
| Share options expensed | 282 | 546 | 282 | 546 |
| Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries | | | | |
| (Increase)/decrease in trade and term receivables | (57,909) | (1,870) | 217 | (4,387) |
| (Increase)/decrease in prepayments | (307) | (1,223) | 246 | - |
| (Increase)/decrease in inventories | (57,415) | (3,386) | - | - |
| Increase/(decrease) in trade payables and accruals | (1,450) | (14,583) | (15,558) | 27 |
| Increase/(decrease) in income taxes payable | 7,230 | (279) | 276 | 877 |
| Increase/(decrease) in deferred taxes payable | (162) | (1,079) | 117 | - |
| Increase/(decrease) in provisions | 5,795 | 1,714 | (991) | - |
| Cash flow from operations | (73,484) | (10,292) | 383 | (733) |

**Notes to the accounts (continued)**
**for the year ended 30 June 2008**

## Note 26 Cash Flow Information (continued)

(b) Acquisition of entities (i)

### Industrial Powertrain

On the 28 August 2007 P C Diesel Pty Ltd (a 100% subsidiary of Coote Engineering Pty Ltd) acquired all of the shares in Industrial Powertrain Pty Ltd.

The profit and loss for the acquisition has been incorporated into the groups' accounts from 1 July 2007 the date that control was obtained. This equated to revenue of $5.6m and profit of $1.40m before interest and tax.

The goodwill on acquisition is as follows:

| | $'000 |
|---|---|
| Purchase consideration: | |
| Cash paid | 5,000 |
| Other costs directly attributable to acquisition | 127 |
| Total purchase consideration | 5,127 |

Assets and Liabilities held at acquisition date:

| | Acquiree's Carrying Value $'000 | Provisional Fair Value $'000 |
|---|---|---|
| Cash | 114 | 114 |
| Receivables | 942 | 942 |
| Inventories / WIP | 295 | 855 |
| Property, plant and equipment | 82 | 825 |
| Other assets | 24 | 24 |
| Payables | (255) | (255) |
| Interest bearing liabilities | - | - |
| Employee benefit liabilities including superannuation | (60) | (60) |
| Other liabilities | (1,137) | (1,137) |
| Sub-total | 5 | 1,308 |
| Provisional goodwill on consideration | | 3,819 |

**Notes to the accounts (continued)**
**for the year ended 30 June 2008**

## Note 26 Cash Flow Information (continued)

(b) Acquisition of entities (ii)

### Fremantle Container Depot (1996) Unit Trust

On the 3 August 2007 Coote Logistics Pty Ltd (a 100% subsidiary of Coote Industrial Ltd) acquired all of the shares in FCD Logistics Pty Ltd and the units of the Fremantle Container Depot (1996) Unit Trust. FCD Logistics Pty Ltd acts as the trustee of the Fremantle Container Depot (1996) Unit Trust.

The profit and loss for the acquisition has been incorporated into the groups' accounts from 1 July 2007 the date that control was obtained. This equated to revenue of $11.94m and profit of $1.14m before interest and tax.

The goodwill on acquisition is as follows:

| | $'000 |
|---|---|
| Purchase consideration: | |
| Cash paid | 12,316 |
| Other costs directly attributable to acquisition | 777 |
| Total purchase consideration | 13,093 |

Assets and Liabilities held at acquisition date:

| | Acquiree's Carrying Value $'000 | Provisional Fair Value $'000 |
|---|---|---|
| Cash | 8 | 8 |
| Receivables | 1,798 | 1,798 |
| Inventories / WIP | 59 | 59 |
| Property, plant and equipment | 3,101 | 3,101 |
| Other assets | 308 | 247 |
| Payables | (778) | (778) |
| Interest bearing liabilities | - | - |
| Employee benefit liabilities including superannuation | (190) | (190) |
| Other liabilities | (94) | (178) |
| Sub-total | 4,212 | 4,067 |
| Provisional goodwill on consideration | | 9,026 |

## Note 26 Cash Flow Information (continued)

### (b) Acquisition of entities (iii)

### Gemco Rail Pty Ltd

On the 14 August 2007 Coote Industrial Ltd acquired all of the shares in Gemco Rail Pty Ltd.

The profit and loss for the acquisition has been incorporated into the groups' accounts from 1 July 2007 the date that control was obtained. This equated to revenue of $147.3m and profit of $27.23m before interest and tax

The goodwill on acquisition is as follows:

| | Consolidated $000 | Parent Entity $000 |
|---|---|---|
| Purchase consideration: | | |
| Cash paid | 30,028 | 30,028 |
| Issue of shares | 4,100 | 4,100 |
| Other costs directly attributable to acquisition | 247 | 247 |
| Total purchase consideration | 34,375 | 34,375 |

Assets and Liabilities held at acquisition date:

| | Acquiree's Carrying Value $'000 | Provisional Fair Value $'000 |
|---|---|---|
| Cash | 267 | 267 |
| Receivables | 7,301 | 7,301 |
| Inventories / WIP | 7,968 | 7,968 |
| Property, plant and equipment | 3,486 | 5,585 |
| Other assets | 1,891 | 1,891 |
| Customer related intangibles | | 9,500 |
| Payables | (9,668) | (9,668) |
| Interest bearing liabilities | (3,296) | (3,296) |
| Employee benefit liabilities including superannuation | (798) | (933) |
| Other liabilities | (7,001) | (7,030) |
| Sub-total | 150 | 11,585 |
| Provisional goodwill on consideration | | 22,790 |

**Notes to the accounts (continued)**
**for the year ended 30 June 2008**

## Note 26 Cash Flow Information (continued)

### (b) Acquisition of entities (iv)

### Drivetrain Australia Pty Ltd

On the 30 November 2007 Coote Engineering Pty Ltd (a 100% subsidiary of Coote Industrial Ltd) acquired all of the shares in Drivetrain Australia Pty Ltd.

The profit and loss for the acquisition has been incorporated into the groups' accounts from 1 July 2007 the date that control was obtained. This equated to revenue of $40.9m and profit of $3.92m after before interest and tax

The goodwill on acquisition is as follows:

| | $'000 |
|---|---|
| Purchase consideration: | |
| Cash paid | 11,549 |
| Issue of shares | 500 |
| Other costs directly attributable to acquisition | 93 |
| Total purchase consideration | 12,142 |

Assets and Liabilities held at acquisition date:

| | Acquiree's Carrying Value $'000 | Provisional Fair Value $'000 |
|---|---|---|
| Cash | 471 | 471 |
| Receivables | 5,972 | 5,972 |
| Inventories / WIP | 9,325 | 9,325 |
| Property, plant and equipment | 1,138 | 1,138 |
| Other assets | 713 | 713 |
| Customer related intangibles | | 3,800 |
| Payables | (5,671) | (5,671) |
| Interest bearing liabilities | (3,101) | (3,101) |
| Employee benefit liabilities including superannuation | (442) | (720) |
| Other liabilities | (8,405) | (8,405) |
| Sub-total | - | 3,522 |
| Provisional goodwill on consideration | | 8,620 |

**Notes to the accounts (continued)**
**for the year ended 30 June 2008**

## Note 26 Cash Flow Information (continued)

(b) Acquisition of entities (v)

### Smithfield Diesel

On the 5 June 2008 Hedemora Pty Ltd (a 100% subsidiary of Coote Industrial Ltd) acquired the assets of Smithfield Diesel as a going concern.

The revenue and expenses attributable to the acquisition have been incorporated in the accounts of Hedemora from 5 June 2008 the date that control was obtained.

The provisional goodwill on acquisition is as follows:

| | $'000 |
|---|---|
| Purchase consideration: | |
| Cash paid | 1,350 |
| Issue of shares | |
| Other costs directly attributable to acquisition | 55 |
| Total purchase consideration | 1,405 |

Assets and Liabilities held at acquisition date:

| | Acquiree's Carrying Value $'000 | Provisional Fair Value $'000 |
|---|---|---|
| Cash | | |
| Receivables | | |
| Inventories / WIP | 239 | 239 |
| Property, plant and equipment | 30 | 815 |
| Other assets | | |
| Customer related intangibles | | 176 |
| Payables | | |
| Interest bearing liabilities | | |
| Employee benefit liabilities including superannuation | | |
| Other liabilities | | |
| Sub-total | 269 | 1,230 |
| Provisional goodwill on consideration | | 175 |

**Notes to the accounts (continued)**
**for the year ended 30 June 2008**

## Note 26 Cash Flow Information (continued)

(b) Acquisition of entities (vi)

### Bucks Rail Welding

On the 3 March 2008 Momentum Rail (NSW) Pty Ltd (a 100% subsidiary of South Spur Rail Services Pty Ltd) acquired the assets of Bucks Rail Welding as a going concern.

The revenue and expenses attributable to the acquisition have been incorporated in the accounts of Momentum Rail from 3 March 2008 the date that control was obtained.

The provisional goodwill on acquisition is as follows:

| | $'000 |
|---|---|
| Purchase consideration: | |
| Cash paid | 3,850 |
| Issue of shares | |
| Other costs directly attributable to acquisition | 177 |
| Total purchase consideration | 4,027 |

Assets and Liabilities held at acquisition date:

| | Acquiree's Carrying Value $'000 | Provisional Fair Value $'000 |
|---|---|---|
| Cash | | |
| Receivables | | |
| Inventories / WIP | | |
| Property, plant and equipment | 220 | 637 |
| Customer related intangibles | | 1,017 |
| Payables | | |
| Interest bearing liabilities | | |
| Employee benefit liabilities including superannuation | | |
| Other liabilities | | |
| Sub-total | 220 | 1,654 |
| Provisional goodwill on consideration | | 2,373 |
| Other identifiable intangibles | | |

The goodwill on these acquisitions is attributable to the high profitability of the acquired businesses and the significant synergies expected to arise after the group's acquisition

## Notes to the accounts (continued)
## for the year ended 30 June 2008

### Note 27 - Share Based Payments

The following share-based payment arrangements existed at 30 June 2008:
(a) On 14 December 2006, 2,900,000 share options were granted to the directors and company secretary to accept ordinary shares at an exercise price of $1.00. The options are exercisable after 14 September 2007 but before 14 December 2009. The options hold no voting or dividends rights and are not transferable. If a director ceases employment prior to exercising the options they are deemed to have lapsed. Since balance date no director has ceased employment. At balance date no share option has been exercised.

(b) 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. The options are exercisable after 14 September 2007 but before 14 December 2009. The options hold no voting or dividends rights and are not transferable.

(c) 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:

| Number | Exercise Price $ | Exercise Date | Expiry Date |
|---|---|---|---|
| 1,000,000 | 3.00 | 29/08/2008 | 29/02/2011 |
| 1,000,000 | 3.50 | 29/02/2009 | 29/08/2012 |
| 1,000,000 | 4.00 | 29/08/2009 | 29/02/2012 |

| | Consolidated Group | | | | Parent Entity | | | |
|---|---|---|---|---|---|---|---|---|
| | 2008 | | 2007 | | 2008 | | 2007 | |
| | Number of Options | Weighted Average Exercise Price $ | Number of Options | Weighted Average Exercise Price $ | Number of Options | Weighted Average Exercise Price $ | Number of Options | Weighted Average Exercise Price $ |
| Outstanding at the beginning of the year | 4,400,000 | 1.00 | - | - | 4,400,000 | 1.00 | - | - |
| Granted | 3,000,000 | 3.50 | 4,400,000 | 1.00 | 3,000,000 | 3.50 | 4,400,000 | 1.00 |
| Forfeited | - | - | - | - | - | - | - | - |
| Exercised | - | - | - | - | - | - | - | - |
| Expired | - | - | - | - | - | - | - | - |
| Outstanding at year-end | 7,400,000 | 2.01 | 4,400,000 | 1.00 | 7,400,000 | 2.01 | 4,400,000 | 1.00 |
| Exercisable at year-end | 4,400,000 | - | - | - | 4,400,000 | - | - | - |

There were no options exercised during the year ended 30 June 2008.

The options outstanding at 30 June 2007 had a weighted average exercise price of $1.00 and a weighted average remaining contractual life of 1.5 year.

The weighted average fair value of the options granted during the year was $3.50

The price was calculated by using a bi-nominal option pricing model applying the following inputs:

| | | |
|---|---|---|
| Weighted average exercise price | $3.50 | |
| Weighted average life of option | 3 | years |
| Underlying share price | $1.40 | |
| Expected share price volatility | 45% | |
| Risk free interest rate | 5.85% | |

**Notes to the accounts (continued)**
**for the year ended 30 June 2008**

## Note 27 - Share Based Payments (continued)

Historical volatility adjusted for the volatility of the industrials sector due to the company's short trading history has been the basis for determining expected share price volatility as it is assumed that this is indicative of future tender, which may not eventuate.

The life of the options is based on expected exercise patterns, which may not eventuate in the future.

Included under employee benefits expense in the income statement is $282,469 (2007: $546,000), and relates, in full to equity-settled share based payment transactions

## Note 28 - Contingent Liabilities

Gemco Rail currently holds a put and call option over Rail Technical Support Group (RTSG) to be exercised no later then 31 October 2008. Concurrently with settlement of the option will be receipt of the loans amounts due from parties related to RTSG. This will result in a net payment to RTSG of $1.1m.

## 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 | Commencem-ent Date | Current Rent p.a. | Completion Date |
|---|---|---|---|---|---|---|---|
| U1/15 Colin Jamieson Drive Welshpool WA | PC Diesel | Ganesha | Monthly | Nil | 1/09/2005 | $65,000 | Monthly |
| 627 - 635 Bickley Road Maddington WA | Various | OGB | 3 years | 2 | 1/07/2004 | $550,000 | 30/06/2009 |
| 6 Sandhill Street Wedgefield WA | Asset Kinetics | OGB | 3 years | 3 | 1/07/2004 | 150,000 | 31/12/2009 |

* 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.

### (b) Other transactions

Coote Industrial Limited subsidiary Gemco Rail Pty Ltd, incorporated new entity Gemco Leasing Pty Ltd on 18/06/2008, for the purpose of providing locomotives and wagons for rental to its existing rail operators customers as an additional service. Locomotives and wagons have been provided by Greentrains Pty Ltd on commercial terms. Greentrains Pty Ltd minor shareholder is Orange Grove Brickworks Pty Ltd as trustee for the Orange Grove Brickworks Family Trust of which Michael Coote is a Director; he does not hold any shares in the trustee company or obtain any beneficial interest from the trust.

**Notes to the accounts (continued)**
**for the year ended 30 June 2008**

## Note 30 - Related Party Transactions (continued)

### (c) Transactions with subsidiaries

The following transactions occurred with related parties:

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| Related Party Transaction | $000 | $000 | $000 | $000 |
| *Tax consolidation legislation* | | | | |
| Current tax payable assumed from wholly-owned tax consolidated entities | - | - | 8,835 | 965 |
| *Dividend revenue* | | | | |
| Subsidiaries | - | - | 17,290 | 3,895 |
| *Interest revenue* | | | | |
| Subsidiaries | - | - | 11,448 | 467 |

### (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:

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| Related Party Transaction | $000 | $000 | $000 | $000 |
| *Current receivables* | | | | |
| Wholly-owned entities | - | - | 2,540 | 147 |

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

| | 2008 | 2007 | 2008 | 2007 |
|---|---|---|---|---|
| Related Party Transaction | $000 | $000 | $000 | $000 |
| *Loans to subsidiaries* | | | | |
| Beginning of the year | - | - | 29,204 | - |
| Loans received | - | - | 107,406 | 29,204 |
| End of year | - | - | 136,610 | 29,204 |

## Note 31 - Events Subsequent to Reporting Date

There have been no subsequent events since balance date.

**Notes to the accounts (continued)**
**for the year ended 30 June 2008**

## Note 32- Financial Risk Management

### a. Financial Risk Management Policies

The group's financial instruments consist mainly of accounts receivables and payables, loans to and from subsidiaries and external borrowings.

The main purpose of non-derivative financial instruments is to raise finance for group operations.

Derivatives are occasionally used by the group for hedging purposes. This however is limited to the use forward exchange contracts. The group does not speculate in the trading of derivative instruments.

#### i Treasury Risk Management

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.

Managements 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 cash flow requirements.

#### ii Financial Risk Exposures and Management

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

*Interest rate risk*

Interest rate risk is managed with a mixture of fixed and floating rate debt. At 30 June 2008 approximately 43% of group debt is fixed. For further details on interest rate risk refer to Note 30(b)(i) & (ii).

*Foreign currency risk*

The group is exposed to fluctuations in foreign currencies arising from the sale and purchase of goods and services in currencies other than the group's measurement currency. Refer to Note 30(b)(i) for further details.

*Liquidity risk*

The group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained. Management ensures that all discussions with facility providers are commenced well before maturity date to ensure that these facilities can be renegotiated or replaced on favourable terms.

*Credit risk*

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

Credit risk is managed by each of the individual business units and reviewed regularly by Management. It arises from exposures to customers as well as through certain derivative financial instruments and deposits with financial institutions.

Management aims to mitigate credit risk by undertaking the following actions :

- only banks and financial institutions with a sound financial standing are utilised as counter parties;
- assessing the individual characteristics of each customer with increased emphasis on those requesting large credit limits being contractual or otherwise.
- monitoring the aging profile of existing customers by business unit and taking action where necessary. This is aimed at minimising the occurrence of bad debts

Credit risk for derivative financial instruments arises from the potential failure by counter-parties to the contract to meet their obligations.

## Notes to the accounts (continued)
### for the year ended 30 June 2008

**Note 32 - Financial Risk Management (continued)**

At balance date the consolidated group has a material exposure to a single receivable as part of its normal operations. No impairment has been raised on this receivable as Board is confident payment will be received. This credit risk has been mitigated by ensuring ownership of the goods sold until such time as the funds have been received. Further details can be found in note 10(c).

b. **Financial Instruments**

i **Derivative Financial Instruments**

Derivative financial instruments are used by the consolidated group to hedge exposure to exchange rate risk associated with large foreign currency payables. Transactions for hedging purposes are undertaken without the use of collateral as only reputable institutions with sound financial positions are dealt with.

*Forward Exchange Contracts*

The consolidated group enters into forward exchange contracts to buy and sell specified amounts of foreign currencies in the future at stipulated exchange rates. The objective in entering the forward exchange contracts is to protect the consolidated group against unfavourable exchange rate movements for both the contracted and anticipated future sales and purchases undertaken in foreign currencies.

The accounting policy in regard to forward exchange contracts is detailed in Note 1.

At balance date the group did not have any outstanding forward exchange contracts

i **Financial instrument composition and maturity analysis:**

The tables below reflect the undiscounted contractual settlement terms for financial instruments of a fixed period of maturity, as well as management's expectations of the settlement period for all other financial instruments. As such, the amounts may not reconcile to the balance sheet.

| | | | | | Fixed Interest Rate Maturing | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Weighted Average Effective Interest Rate | | Floating Interest Rate | | Within 1 Year | | 1 to 5 years | | Non Interest Bearing | | Total | |
| Consolidated Group | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| | % | % | $000 | $000 | $000 | $000 | $000 | $000 | $000 | $000 | $000 | $000 |
| **Financial Assets:** | | | | | | | | | | | | |
| Receivables | - | - | - | - | - | - | - | - | 130,994 | 19,666 | 130,994 | 19,666 |
| Investments | - | - | - | - | - | - | - | - | 568 | - | 568 | - |
| Loans | 9.50 | - | 4,436 | - | - | - | - | - | - | - | 4,436 | - |
| **Total Financial Assets** | | | 4,436 | - | - | - | - | - | 131,562 | 19,666 | 135,998 | 19,666 |
| **Financial Liabilities:** | | | | | | | | | | | | |
| Bank loans and overdrafts | 8.95 | 8.23 | 81,594 | 15,602 | 36,715 | - | - | 2,045 | - | - | 118,309 | 17,647 |
| Trade and sundry payables | | | - | - | - | - | - | - | 41,756 | 16,368 | 41,756 | 16,368 |
| Lease liabilities | 8.97 | 8.60 | - | - | 6,786 | 3,131 | 16,720 | 16,375 | - | - | 23,506 | 19,506 |
| **Total Financial Liabilities** | | | 81,594 | 15,602 | 43,501 | 3,131 | 16,720 | 18,420 | 41,756 | 16,368 | 183,571 | 53,521 |

**Notes to the accounts (continued)**
**for the year ended 30 June 2008**

## Note 32 - Financial Risk Management (continued)

| Parent Entity | Weighted Average Effective Interest Rate | | Floating Interest Rate | | Fixed Interest Rate Maturing Within 1 Year | | Fixed Interest Rate Maturing 1 to 5 years | | Non Interest Bearing | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| | % | % | $000 | $000 | $000 | $000 | $000 | $000 | $000 | $000 | $000 | $000 |
| **Financial Assets:** | | | | | | | | | | | | |
| Receivables | 9.17 | 9.00 | 136,610 | 29,204 | - | - | - | - | 4,983 | 2,005 | 141,593 | 31,209 |
| Loans | 9.50 | - | 4,407 | - | - | - | - | - | - | - | 4,407 | - |
| Investments | - | - | - | - | - | - | - | - | 59,577 | 25,174 | 59,577 | 25,174 |
| **Total Financial Assets** | | | 141,017 | 29,204 | - | - | - | - | 64,560 | 27,179 | 205,577 | 56,383 |
| **Financial Liabilities:** | | | | | | | | | | | | |
| Bank loans and overdrafts | 8.66 | 7.90 | 73,000 | 14,000 | 4,422 | - | - | - | - | - | 77,422 | 14,000 |
| Trade and sundry payables | | | - | - | - | - | - | - | 1,271 | 1,952 | 1,271 | 1,952 |
| Lease liabilities | 8.97 | | - | - | 896 | - | 482 | - | - | - | 1,378 | - |
| **Total Financial Liabilities** | | | 73,000 | 14,000 | 5,318 | - | 482 | - | 1,271 | 1,952 | 80,071 | 15,952 |

Trade and sundry payables are expected to be paid as followed:

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | $000 | $000 | $000 | $000 |
| Less than 6 months | 41,756 | 16,368 | 1,271 | 1,952 |
| 6 months to 5 years | - | - | - | - |
| | 41,756 | 16,368 | 1,271 | 1,952 |

iii **Net Fair Values**

The net fair values of:

- Listed investments have been valued at the quoted market bid price at balance date, adjusted for transaction costs expected to be incurred.
- Other assets and other liabilities approximate their carrying value.

No financial assets and financial liabilities are readily traded on organised markets in standardised form other than listed investments and forward exchange contracts.

Aggregate net fair values and carrying amounts of financial assets and financial liabilities at balance date.

**Notes to the accounts (continued)**
**for the year ended 30 June 2008**

## Note 32 - Financial Risk Management (continued)

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | Carrying Amount $000 | Net Fair Value $000 | Carrying Amount $000 | Net Fair Value $000 |
| **Financial Assets** | | | | |
| Available-for-sale financial assets at fair value | 5,004 | 5,004 | 63,984 | 63,984 |
| Loans and receivables | 130,994 | 130,994 | 19,666 | 19,666 |
| | 135,998 | 135,998 | 83,650 | 83,650 |
| **Financial Liabilities** | | | | |
| Other loans and amounts due | 118,309 | 118,309 | 17,647 | 17,647 |
| Other liabilities | 65,262 | 65,262 | 35,874 | 35,874 |
| | 183,571 | 183,571 | 53,521 | 53,521 |

iv. **Sensitivity Analysis**

**Interest Rate and Foreign Currency Risk**

The group has performed sensitivity analysis relating to its exposure to interest rate risk and foreign currency risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

*Interest Rate Sensitivity Analysis*

At 30 June 2008, 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:

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2008 $000 | 2007 $000 | 2008 $000 | 2007 $000 |
| Change in profit | | | | |
| - Increase in interest rate by 100 basis points | (656) | (23) | (632) | (11) |
| - Decrease in interest rate by 100 basis points | 656 | 23 | 632 | 11 |
| Change in Equity | | | | |
| - Increase in interest rate by 100 basis points | (656) | (23) | (632) | (11) |
| - Decrease in interest rate by 100 basis points | 656 | 23 | 632 | 11 |

*Foreign Currency Risk Sensitivity Analysis*

At 30 June 2008, the effect on profit and equity as a result of changes in the value of the Australian Dollar to the Swedish Krona, with all other variables remaining constant is as follows:

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2008 $000 | 2007 $000 | 2008 $000 | 2007 $000 |
| Change in profit | | | | |
| - Improvement in AUD to SEK by 5% | 108 | 130 | - | - |
| - Decline in AUD to SEK by 5% | (108) | (130) | - | - |
| Change in Equity | | | | |
| - Improvement in AUD to SEK by 5% | (376) | (302) | - | - |
| - Decline in AUD to SEK by 5% | 376 | 302 | - | - |

## Notes to the accounts (continued)
### for the year ended 30 June 2008

The above interest rate, foreign exchange rate and price risk sensitivity analysis has been performed on the assumption that all other variables remain unchanged.

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

## Shareholder information

The following information is required by the Australian Stock Exchange Ltd in respect of listed public companies.

### 1. Shareholding

**a. Distribution of Shareholders**

| Category (size of holding) | No. Ordinary |
|---|---|
| 1 – 1,000 | 77,825 |
| 1,001 – 5,000 | 1,677,462 |
| 5,001 – 10,000 | 2,760,360 |
| 10,001 – 100,000 | 13,381,905 |
| 100,001 – and over | 98,127,700 |
| | 116,025,252 |

**b. The number of shareholdings held in less than marketable parcels is 42.**

**c. The names of the substantial shareholders listed in the holding company's register as at 31 August 2008 are:**

| Shareholder | No. Ordinary |
|---|---|
| Michael Charles Coote | 42,075,075 |
| Grahger Group | 9,200,000 |

**d. Voting Rights**

The voting rights attached to each class of equity security are as follows:

Ordinary shares

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.

e. 20 Largest Shareholders — Ordinary Shares

| Position | Name | Number of Ordinary Fully Paid Shares Held | % Held of Issued Ordinary Capital |
|---|---|---|---|
| 1 | Michael Charles Coote | 39,100,000 | 33.24 |
| 2 | Grahger Capital Investment Pty Ltd | 6,000,000 | 5.10 |
| 3 | National Nominees Ltd | 5,609,143 | 4.77 |
| 4 | ANZ Nominees Ltd | 4,119,930 | 3.50 |
| 5 | Grahger Capital Securities Pty Ltd | 3,200,000 | 2.72 |
| 6 | Equity Trustees Ltd | 3,116,667 | 2.65 |
| 7 | Thorney Holdings Pty Ltd | 2,500,000 | 2.13 |
| 8 | Ganesha Nominees Pty Ltd | 2,302,027 | 1.96 |
| 9 | Sean Wilson | 2,227,272 | 1.89 |
| 10 | WJ Coote Pty Ltd | 2,209,624 | 1.88 |
| 11 | Citymont Pty Ltd | 2,131,818 | 1.81 |
| 12 | Gerda Pty Ltd | 2,000,000 | 1.70 |
| 13 | James Wilson | 1,931,309 | 1.64 |
| 14 | UBS Nominees Pty Ltd | 1,739,670 | 1.48 |
| 15 | J P Morgan Nominees Australia Ltd | 1,532,122 | 1.30 |
| 16 | Orange Grove Brickworks Pty Ltd | 1,073,464 | 0.91 |
| 17 | Wildflower Investments Pty Ltd | 1,038,450 | 0.88 |
| 18 | WF Coote & Co Pty Ltd | 1,023,029 | 0.87 |
| 19 | Skydawn Pty Ltd | 957,787 | 0.81 |
| 20 | John Wilson | 909,091 | 0.77 |
| | | 78,721,403 | 72.02 |

2. **The name of the company secretary is Mustapha Darwish**

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

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

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

Western Australia 770 Canning Highway, Applecross, WA 6153

## 5. Stock Exchange Listing

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

## 6. Unquoted Securities

Options over Unissued Shares

A total of 7,400,000 options are on issue. 4,400,000 options are on issue to directors and employees. With the balance issued to the company's corporate advisor

## 7. Other Disclosures

Restricted Securities

Currently 31,787,412 shares held by Michael Coote are under voluntary escrow. These shares will be available for sale from 12 December 2008

## Corporate Directory

| Registered Office | Head Office |
|---|---|
| **Grant Thornton** | **Coote Industrial Limited** |
| Level 1, 10 Kings Park Road | 627 – 635 Bickley Road |
| West Perth WA 6005 | Maddington WA 6109 |
| | ACN 120 432 144 |