Engenco

ANNUAL REPORT 2019

Contents

This Annual Report includes the Engenco Limited's Directors' Report, the Annual Financial Report and Independent Audit Report for the financial year ended 30 June 2019 lodged with the Australian Securities and Investments Commission and ASX Limited. The Annual Report is available on the Engenco website www.engenco.com.au. A copy of our full Corporate Governance Statement and ASX Appendix 4G outlining compliance with ASX Corporate Governance Principles and Recommendations is available on our website at engenco.com.au//investor-centre/corporate-governance-statement.

Engenco Limited ABN 99 120 432 144

Company Highlights

Revenue
$'000

FY17	$129,319
FY18	$157,336
FY19	$174,850

EBITDA
$'000

FY17	$12,785
FY18	$17,320
FY19	$16,627

Net Assets
$'000

FY17	$57,011
FY18	$73,218
FY19	$84,075

Basic Earnings Per Share
Cents

FY17	2.67c
FY18	5.74c
FY19	4.54c

Dividend
Cents

FY17	0.5c
FY18	1.0c
FY19	1.5c

REVENUE INCREASED BY **11.1%**

Vince De Santis

We believe the results of our collective efforts over the past few years speak for themselves but you, our shareholders, will be the ultimate judge.

Chairman's Report

To those of you who are familiar with the contents of previous Engenco Annual Reports, annual general meeting materials and investor presentations, I offer you a friendly word of caution – many key elements of what you are about to read will sound familiar. A cynic might say "repetitive and boring", but we would prefer to describe it as "highly convicted and consistent". We believe the results of our collective efforts over the past few years speak for themselves but you, our shareholders, will be the ultimate judge.

As another year ends, the "Engenco flywheel" keeps turning…

> "We ended FY19 in a very sound financial position with more than $23 million in cash, no debt and an undrawn $10 million revolving credit facility with National Australia Bank."

Our net profit before tax was comparable to that achieved in the prior year (FY19: $12.7m v FY18: $13.0m), assisted by the one-off gain generated on the sale of most of the Group's rail wagon fleet. While we had aimed for higher profitability in FY19, we did continue building the capacity and capability of the Engenco group of businesses for which many of the benefits will be realised in future periods, so it was also pleasing that we have been able to do this and maintain our profitability at the same time.

We are periodically quizzed about the Company's relatively substantial carry forward tax losses and while we cannot alter the events which unfortunately lead to their generation, it is good that we are now able to utilise these losses to enhance returns to our shareholders and bolster Engenco's cash position. It is due to the ongoing confidence in the Company's future financial performance that under the application of relevant accounting standards, we were obliged to increase the amount of the carry forward tax losses that are now recognised on the Company's balance sheet.

Given the Company's strong financial position, we were also very pleased to reward our shareholders with a 50% increase in the final dividend from 1 cent, to 1.5 cents per share. And with our healthy franking account balance, this dividend will again be fully franked.

I would like to draw your attention to one other set of metrics, namely the Company's return on capital employed (or "ROCE") . This removes the effect of any perceived "free hit" derived from the use of our carry forward tax losses. While slightly down on FY18's ROCE of 18%, we were pleased with this year's outcome of 15% given the relatively high proportion of assets held in cash.

With the Australian stock market at or near record highs, interest rates at historic lows and other key economic indicators such as GDP, inflation and unemployment all looking relatively weak, it would not be unreasonable to be somewhat confused on how the Australian economy may fare over the next year. And of course we must deal with a highly interconnected "global economy" and the ever present risks that external shocks pose, some "on the radar" and others completely unforeseeable, in both the Australian and overseas markets in which Engenco operates.

We have been spruiking the virtues of a strong balance sheet for quite some time and our position has not changed. To coin an often used phrase, we remain alert but are by no means alarmed and given the relatively small share which Engenco occupies in many of the markets in which it operates, we remain excited about the opportunities that lay ahead of us to keep profitably developing and growing the business.

Investing in our future

It may be stating the bleeding obvious but the key to our continued success lies in the hands of our people. We are confident that a number of key personnel appointments over the past year together with the ongoing investment in our "people and culture" programs will deliver very positive outcomes as we continue to build our human capacity and foster a high performance environment throughout the business.

As a company, we continue to evolve and mature and Engenco is a vastly different looking business to what it was only a few short years ago for which we are immensely proud. And for this we extend our sincere thanks and appreciation to all those Engenco men and women who come to work each day to deliver superior service and value to our customers. We also wish to thank their families for the support they provide to our people. To that end, the provision of a safe and secure workplace and being an "employer of choice" continue to be two of our key organisational objectives.

To our customers, we once again thank you for the trust and confidence you place in Engenco and allowing us to service your requirements to the best of our abilities.

And finally, to our shareholders, we really do appreciate your decision to allocate some of your investment capital to our company. To the many long term shareholders who have supported us as well as more recent entrants onto our share register, it gives us great pleasure in being able to report another year of solid achievement and present a sound foundation from which we continue with the next stage of the climb.

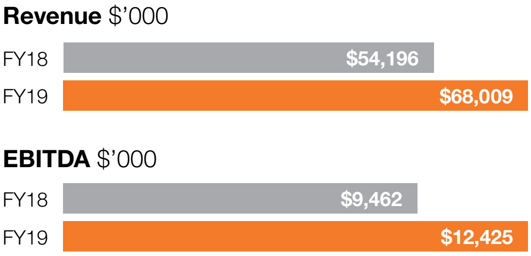
As a new year begins, the "Engenco flywheel" continues to gather momentum.

Vince De Santis
Chairman

Business Unit Overview

GEMCORAIL

38.9% of total revenue



Key Operations

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

Achievements

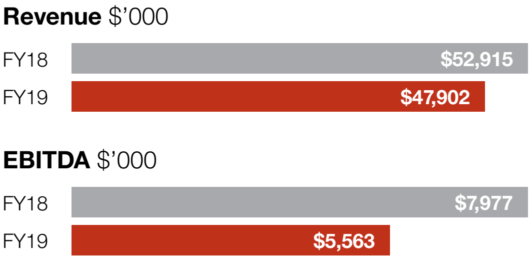
- Positive revenue trajectory driven by expansion of heavy maintenance activities and modernised wheel bearing refurbishment facility
- Increased capacity via east coast expansion, including agreement to establish new Central Queensland facility
- Continued establishment of alliances with globally recognised OEM partners

Outlook

Our customer satisfaction and service delivery has led to increased service outsourcing, supporting the positive trajectory for the business. Continued expansion of activities on the East coast is expected to contribute positively to the business in the future.

Drivetrain

27.4% of total revenue



Key Operations

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

Achievements

- Refined business structures to focus on growth opportunities in the mining, transport, energy and defence industries
- Investments in strategic inventory and expansion of the product range
- The successful introduction of a range of innovative products

Outlook

Growth prospects include: expanded technical services and products in the mining sector; new specialist services in the gas compression market; and ongoing support for the Collins Class Submarine life-extension program.

Momentum Rail

13.5% of total revenue

Revenue $'000

EBITDA $'000

Key Operations

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

Achievements

- Successful completion of major rail upgrade project in South Australia
- Continues to build on its reputation as an employer of choice and a prime provider of supplementary rail personnel

Outlook

With the continued industry growth, Momentum is well positioned to contribute to nation-building projects, working closely with "tier 1" infrastructure customers.

CERT Training

6.6% of total revenue

Revenue $'000

EBITDA $'000

Key Operations

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

Achievements

- Renewal of Registered Training Organisation (RTO) Registration by ASQA
- Government funded training initiatives providing growth prospects
- Roll-out of technology to progress the "Paperless RTO" strategy

Outlook

Growing demand for rail operations training and certification in line with multiple long-term National rail projects.

Convair

9.8% of total revenue

Revenue $'000

EBITDA $'000

Key Operations

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

Achievements

- Lean manufacturing initiatives (including a new tanker design) resulting in improved production efficiency
- Capitalised on strong demand for tankers from the numerous construction and infrastructure projects around Australia

Outlook

Focus on maintaining production efficiency improvements and providing a higher quality product ensuring high levels of customer satisfaction.

Managing Director and CEO's Report

Kevin Pallas

A high-performance culture is growing across the business and in support of this a Group People and Culture Plan was introduced during the year.

It has been another successful year for Engenco, with several positive outcomes and further developments for expansion. Having further strengthened our balance sheet and with increasing financial reserves and growing revenue streams, the Group is entering an exciting phase of development.

Positive momentum from several periods of improving financial performance continued in the 2019 financial year with consolidated revenue of $174.9m for the year, representing a 11.1% increase over the previous year, and a Compound Annual Growth Rate (CAGR) of 6.9% over a four-year period. The revenue mix changed somewhat in response to our focus on driving long-term repeatable business, and this had some impact on margin performance. Consolidated Group EBITDA performance of $16.6m and NPBT of $12.7m for the year were at a similar level compared to the outstanding performance last year, and this repeatability is a pleasing outcome. Net profit after tax was $14.2m, this result included the positive benefit of again increasing the partial recognition of our tax losses. FY18 was the first year tax losses against future profits were partially recognised, having a significant one-off impact on the FY18 Net profit after tax.

> "The Group continued to generate positive cash flow during the year and remained debt free whilst having access to an undrawn facility of $10m with the NAB. For the year net cash increased by $15.1m, partly contributed to by the sale of surplus assets."

Net cash flow provided by operations was $12.3m, up from $8.3m last year. Capital expenditure levels in total were lower compared to the previous year's 2019: $3m (2018: $3.6m), however the focus was on growth assets acquisition which accounted for around three-quarters of the total capex. The year ended in a healthy cash balance of $23.4m.

A high-performance culture is growing across the business and in support of this a Group People and Culture Plan was introduced during the year. This initiative includes leadership development structures and enterprise-wide individual performance plans, driving clear alignment between expectations and actions. Additionally, a focus on succession planning helps de-risk a relatively thin executive team and supports the long-term growth aspirations of the Company.

It is pleasing to report that continued vigilance and the importance placed on a safe work environment has resulted in an improving safety KPI trend. Group Lost Time Injury Frequency Rate decreased from 4.90 to 2.07, a year-on-year reduction of 57%. Further improvements are being driven and recent risk reviews pre- and post-injury have resulted in task modification, the introduction of automated technology and continuing employee education. The Company is committed to managing risks in an integrated, systematic and practical manner and as such the Group HSEQ Action Plan and Corporate Risk Registers are continuously reviewed with a view to currency and mitigation actions. The Group HSEQ team with the assistance of site management and staff conducted 25 comprehensive site-based WHS audits and 47 internal process audits during FY19. All non-conformances, opportunities for improvement and any independently reported issues throughout the year are consolidated into the Group HSEQ Action Plan for continual management review.

The Group's multi-year strategy to expand its range of goods and services, and investment in people, plant and technology is delivering long-term benefits on several fronts. These initiatives have ensured higher quality revenue, greater operational efficiency and financial stability for the business at a time of transition toward new growth opportunities. During this expansion phase, more moderate margins have been generated, and some development costs have been absorbed. These investments are however an important step forward for the Group as we continue our growth and profitability improvement journey.

Good penetration of the market has also supported an expansion of the Group's Newcastle facilities in New South Wales by Gemco, CERT and Drivetrain, including additional coal rail rollingstock fleet maintenance work, and increased servicing capacity for mobile mining machinery.

Developing our people

Gemco Rail's growth plans included the establishment of new maintenance capacity on the East coast which was met with a very positive response from customers. Consequently during the year, our Telarah facility rapidly reached capacity on day shift, whilst the flexible and high-quality services provided by Gemco have ensured on-going customer support and further growth is expected in the Hunter Valley region. Similarly, our modernised wheel bearing refurbishment facility in Western Australia allows economic refurbishment of heavy haul rolling stock bearings, resulting in very good growth of this revenue stream historically focussed on the non-bulk freight market. In Central Queensland, we are establishing a wheel bearing and wagon maintenance workshop to service the bulk materials rail market in the region. This facility will support continued expansion of rail rollingstock maintenance services along Australia's East coast, enabling the Company to service more long-term contracts including those recently won.

Our people focused businesses, CERT Training and Momentum Rail, provide diversity of income for the Group. During the year CERT Training achieved Australian Skills Quality Authority (ASQA) registration renewal, a great outcome following additional investment in compliance and quality. With further focus on government funded training and having expanded training facilities in Newcastle and Victoria, CERT has begun to benefit from improving demand for rail vocational training. Momentum enjoyed a stable level of labour-hire revenue from regular customers in the rail operations segment, and completed a large lower margin project towards the end of FY19.

Drivetrain's revenue and margin performance deteriorated in the year as several factors including a lower Australian dollar and increased pricing competition affected the mature product lines that Drivetrain has historically relied upon.

Improved direct marketing of an expanded range of Drivetrain technical services and products, particularly to mining and mining contracting businesses, has resulted in deeper customer relationships and greater demand for Drivetrain's goods and services. New specialist products and services for the engine and gas compression market have been well-received and open further opportunities with customers.

Additionally, the introduction of the UT99 underground mining utility vehicle into the Drivetrain product range opens long-term maintenance prospects after the lower margin capital sales are realised.

As the Hedemora Sweden business shifts focus to monetisation of the HS Turbocharger range, collaboration opportunities on fuel and turbocharger technology opportunities are evolving. Appointment of a USA based sales team member is also driving turbocharger sales activity in the Americas, whilst the Swedish team has been successful with several new installations in Europe and Asia.

Convair's solid performance in the year reflected a buoyant Australian construction industry which was evident throughout the period. Increased revenue resulted in better profitability as margins remained moderate, whilst constant re-investment in lean manufacturing initiatives has ensured that Convair remains competitive against imported alternatives.

> "Our multi-year investment strategy is already delivering benefits and provides a solid platform for significant long-term growth."

Vitally important are the everyday efforts, support and progress of our people – the leaders, managers, technicians and administrative staff – all of whom continue to grow in confidence and all of whom I am immensely proud and honoured to lead. Through the support of a well-engaged board of directors we have invested to establish a stronger, more focused business with the personnel, products and services to become a great choice for customers in our core markets.

Kevin Pallas
Managing Director and CEO

Demonstrating Capability

Directors' Report

for the year ended 30 June 2019

The directors present their report, together with the consolidated financial statements of the Group, comprising of Engenco Limited ("the Company") and its controlled entities, for the financial year ended 30 June 2019 and the auditor's report thereon.

Directors

The directors of the Company at any time during or since the end of the financial year are:

Vincent De Santis

BCom, LLB (Hons)

CHAIRMAN SINCE 24 MARCH 2016, NON-EXECUTIVE DIRECTOR SINCE 19 JULY 2010, MEMBER OF AUDIT AND RISK COMMITTEE SINCE 31 JULY 2013.

Vince was the Managing Director of the Elphinstone Group up until December 2018. He initially joined the Elphinstone Group in 2000 as the Group's Legal Counsel and Finance & Investment Manager. During his time with the Group, Vince also served as a director of various subsidiary and joint venture companies including William Adams Pty Ltd, Gekko Systems Pty Ltd and APac Energy Rental Pte Ltd. Prior to that, he was a Senior Associate in the Energy, Resources & Projects team at national law firm Corrs Chambers Westgarth, based in Melbourne. Vince is also a member of the University of Tasmania's North West Advisory Board and the Tasmanian Rhodes Scholarship Selection Committee.

Kevin Pallas

BCom, MAICD

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

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

Dale Elphinstone OA

FAICD

NON-EXECUTIVE DIRECTOR SINCE 19 JULY 2010.

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

Alison von Bibra

BSc, MBA

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

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

Ross Dunning AC

BE (Hons), BCom, FIE Aust, FIRSE, RPEQ

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

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

From left: Dale Elphinstone, Vincent De Santis, Kevin Pallas, Alison von Bibra and Ross Dunning.

Meetings of Directors

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

Board Member	Director Meetings	Audit and Risk Committee Meetings
Vincent De Santis	12/12	4/4
Kevin Pallas	12/12	–
Dale Elphinstone	11/12	–
Alison von Bibra	11/12	4/4
Ross Dunning	12/12	4/4

Directors' Shareholdings

The directors' shareholding of ordinary shares as at 30 June 2019 were:

	Ordinary Shares
Vincent De Santis	378,951
Kevin Pallas	72,632
Dale Elphinstone	202,406,914
Alison von Bibra	34,793
Ross Dunning	182,948

Company Secretary

Paul Burrows

BCom, CA, GAICD

COMPANY SECRETARY AND CHIEF FINANCIAL OFFICER SINCE 10 DECEMBER 2018.

Paul has vast experience in ASX listed entities and global businesses. He holds a Bachelor of Commerce degree, is a Chartered Accountant and is a Graduate of the Australian Institute of Company Directors. Paul has significant experience in corporate governance, mergers and acquisitions and financial reporting in high growth environments together with hands-on experience in the implementation of system and process improvements.

Linda Dillon

BCom, CA, CS, GDipAppFin, DipInvestRel

COMPANY SECRETARY AND CHIEF FINANCIAL OFFICER FROM 6 APRIL 2018 TO 1 AUGUST 2018.

Linda previously gained deep experience as a CFO and Company Secretary of a number of ASX Listed entities and multinational groups in a wide range of industries. Linda holds a Bachelor of Commerce degree, a Graduate Diploma in Applied Finance, a Diploma in Investor Relations, and is a Chartered Accountant and Chartered Secretary.

Andrew Nightingale

BCom, LLB

COMPANY SECRETARY SINCE 1 AUGUST 2018.

Andrew is a lawyer with over 10 years' experience, including working for a corporate regulator, an ombudsman and a variety of in house teams. Andrew holds a Bachelor of Laws and a Bachelor of Commerce from the University of Otago, and has practiced law in the United Kingdom and New Zealand.

Principal Activities

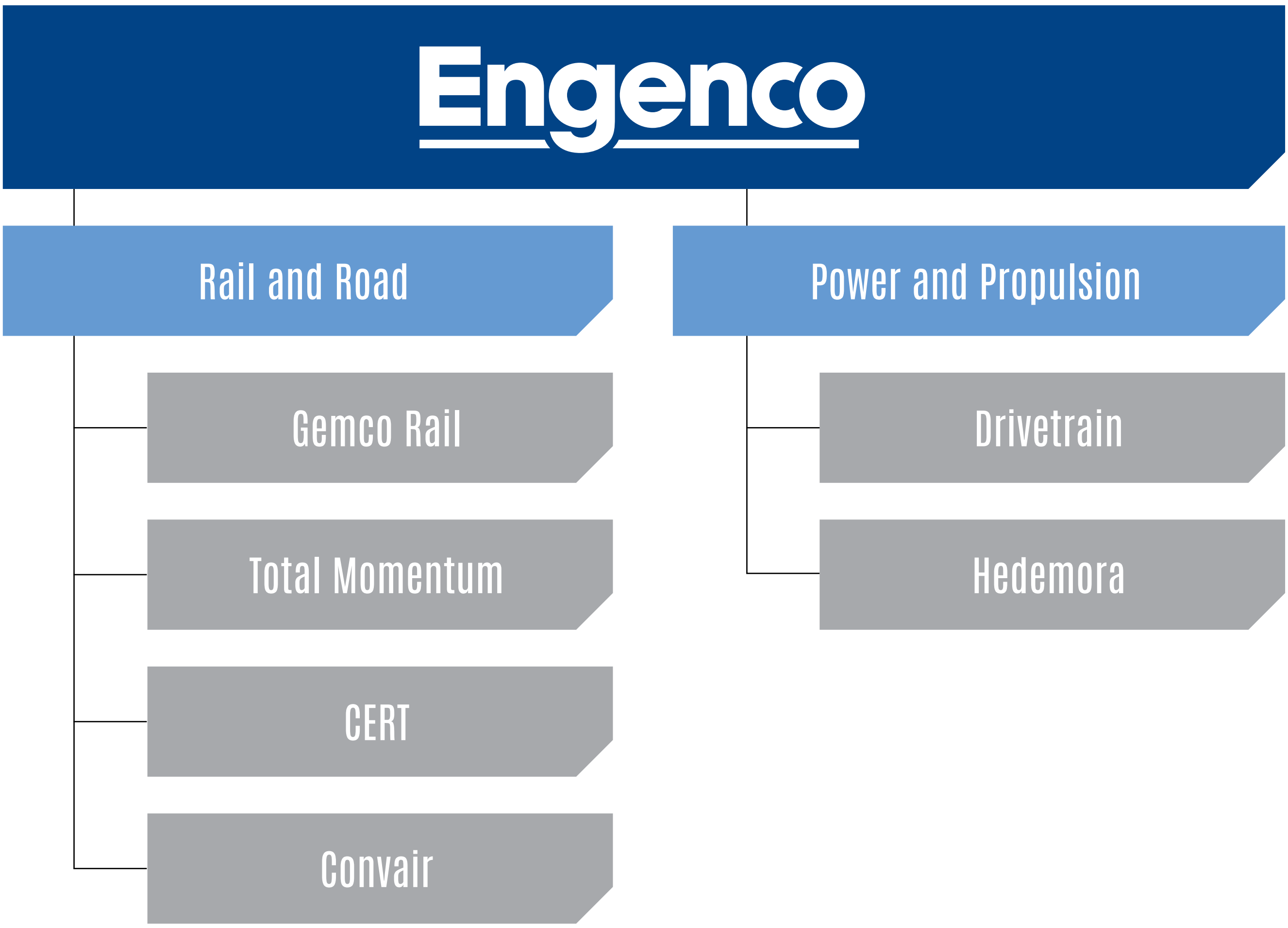
The Group provides a diverse range of engineering services and products through two business streams: Power & Propulsion and Rail & Road. Engenco businesses specialise in:

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

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

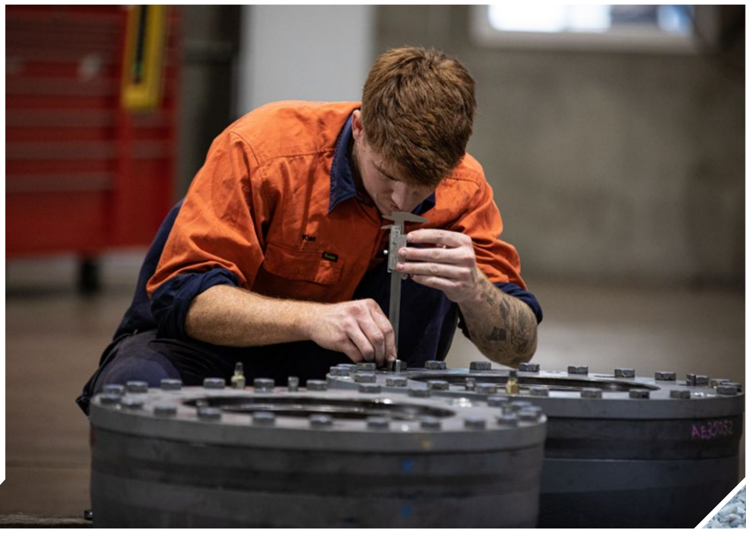
The Group operates globally and employs over 600 people (full time equivalent) in over twenty locations in three countries.

Group Overview



Directors' Report

for the year ended 30 June 2019



GEMCORAIL

Drivetrain

Gemco Rail

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

Services include:

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

The flagship facility in Forrestfield WA is complemented by other facilities strategically located on main lines in Victoria, South Australia and New South Wales.

Drivetrain

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

Services include:

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

Drivetrain has facilities and service centres in eight locations in the ANZ region.

Momentum RAIL

Total Momentum (Momentum Rail)

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

CERT TRAINING

Centre for Excellence in Rail Training (CERT Training)

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

CONVAIR

Convair Engineering (Convair)

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

A group of diverse industrial businesses built on solid engineering capabilities

Directors' Report

for the year ended 30 June 2019

Operating and Financial Review

Operating Results

The Group reported a net profit after tax, including non-controlling interests, of $14,227,000 for the year ended 30 June 2019. The consolidated result for the year is summarised as follows:

	2019 $'000	2018 $'000
Revenue	174,850	157,336
EBITDA[2]	16,627	17,320
EBIT[1]	13,012	13,490
Profit / (loss) after tax	14,227	18,003
Net operating cash flow	12,321	8,292
Net assets	84,075	73,218
Net cash / (debt)	23,408	8,318

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

2 EBITDA is EBIT before depreciation and amortisation.

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

Review of Principal Businesses

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

Significant Changes in the State of Affairs

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

Dividends

Since the end of the previous financial year, the Board declared a final dividend of 1 cent per ordinary share (fully franked) on 29 August 2018 and subsequently paid the dividend on 27 September 2018.

On 21 August 2019, the Board resolved to declare a final dividend of 1.5 cents per share (fully franked). Payment of the dividend to shareholders will take place on 26 September 2019.

Events Subsequent to Reporting Date

On 21 August 2019, the Board resolved to declare a final dividend of 1.5 cents per share (fully franked). Payment of the dividend to shareholders will take place in 26 September 2019.

Other than the above, there has not arisen, in the interval between the end of the financial year and the date of this report, any item, transaction or event which would have a material effect on the financial statements of the Group at 30 June 2019.

Environmental Regulation

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

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

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

National Greenhouse and Energy Reporting Guidelines

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

Indemnification and Insurance of Officers

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

Non-Audit Services

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

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

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

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

	2019 $
SERVICES OTHER THAN AUDIT AND REVIEW OF FINANCIAL STATEMENTS:	
Other Services	
Taxation compliance services	4,580
Advisory services	11,495
	16,075
AUDIT AND REVIEW OF FINANCIAL STATEMENTS	**344,117**
TOTAL PAID TO KPMG	**360,192**

Lead Auditor's Independence Declaration

The lead auditor's independence declaration is set out on page 25 and forms part of the Directors' Report for the financial year ended 30 June 2019.

Rounding Off

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

Remuneration Report - Audited

Remuneration Policy

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

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

- All executive directors and key executives receive a salary package comprised of a base salary, short-term incentive and superannuation.
- The Board reviews executive packages annually by reference to the Group's performance, executive performance and comparable market information.
- The performance objectives of each executive are agreed at the beginning of each fiscal year and recorded via the annual Short-Term Incentive Plan. These performance objectives are based predominantly on achievement of the Board approved budget targets for the given year and improvements in the key safety measure of Lost Time Injury Frequency Rate. Performance against other recorded objectives is also monitored and linked to the achievement of the Group's strategy and overall development. Other than those made under the Short-Term Incentive Plan, incentive payments are at the discretion of the Board of Directors. All performance objectives are aligned with increasing shareholder value.
- The directors and key executives receive a superannuation guarantee contribution required by the government (which was 9.5% during the year) and do not receive any other retirement benefits. Some individuals, however, may choose to sacrifice part of their salary to increase superannuation contributions.
- All remuneration paid to directors and executives is valued at cost to the Group and expensed.
- The Board policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The Board determines payments to non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders.
- To align directors' interests with shareholder interests, the directors are encouraged to hold shares in the Company.

Performance Conditions Linked to Remuneration

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

Consequences of Performance on Shareholder Wealth

No short-term performance benefits have been awarded in the current financial year related to the achievement of the annual Short-Term Incentive Plan.

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

	2015 $	2016 $	2017 $	2018 $	2019 $
Revenue	133,834,000	135,318,000	129,399,000	157,336,000	174,850,000
NPAT attributable to members	(27,593,000)	3,828,000	8,309,000	18,003,000	14,227,000
EBITDA	(20,668,000)	11,078,000	12,765,000	17,320,000	16,627,000
EBIT	(30,128,000)	5,503,000	9,117,000	13,490,000	13,012,000
Operating income growth[1]	(241%)	n/a	66%	48%	(4%)
Share price at year-end	$0.10	$0.10	$0.21	$0.49	$0.42
% Change in share price	(17%)	0%	121%	133%	(14%)
Capital employed[2]	46,448,000	49,988,000	57,565,000	74,400,000	85,145,000
Return on capital employed[3]	(65%)	11%	16%	18%	15%
Dividends paid	–	–	–	1,567,000	3,134,000

1 Operating income growth is the movement in EBIT year-on-year

2 Capital employed is total assets less current liabilities

3 Return on capital employed is EBIT over capital employed

Non-Executive Directors

Total compensation for all non-executive directors was last voted upon by shareholders at the 2010 Annual General Meeting. The base fee for the Chairperson is $160,000 per annum. Base fees for other non-executive directors do not exceed $80,000 per annum.

Directors' base fees cover all main board activities. Non-executive director members who sit on a committee receive an additional fee of $6,000 per annum. Non-executive director members who hold the position of Chairperson on a committee receive an additional fee of $6,000 per annum. Non-executive directors do not receive performance-related compensation and are not provided with retirement benefits apart from statutory superannuation (paid in addition to the base fees noted above).

Remuneration Report - Audited (cont'd)

Directors' and Key Executive Officers' Remuneration Details for Year Ended 30 June 2019

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

				Short-Term			Post-Employment	Other Long-Term			
		Salary and Fees $	Non-Monetary Benefits $	Other Benefits $	Discretionary Performance Benefit $	Sub-Total $	Super-annuation Benefit $	Long Service Leave $	Termination Benefits $	Total $	% Remuneration Performance Ralated
DIRECTORS											
NON-EXECUTIVE DIRECTORS											
V De Santis[1]	**2019**	**166,000**	**–**	**–**	**–**	**166,000**	**15,770**	**–**	**–**	**181,770**	**–**
Chairman	2018	166,000	–	–	–	166,000	15,770	–	–	181,770	–
D Elphinstone[2]	**2019**	**80,000**	**–**	**–**	**–**	**80,000**	**7,600**	**–**	**–**	**87,600**	**–**
	2018	80,000	–	–	–	80,000	7,600	–	–	87,600	–
R Dunning	**2019**	**92,000**	**–**	**–**	**–**	**92,000**	**8,740**	**–**	**–**	**100,740**	**–**
	2018	92,000	–	–	–	92,000	8,740	–	–	100,740	–
A von Bibra	**2019**	**86,000**	**–**	**–**	**–**	**86,000**	**8,170**	**–**	**–**	**94,170**	**–**
	2018	86,000	–	–	–	86,000	8,170	–	–	94,170	–
SUB-TOTAL NON-EXECUTIVE DIRECTORS' REMUNERATION											
	2019	**424,000**	**–**	**–**	**–**	**424,000**	**40,280**	**–**	**–**	**464,280**	**–**
	2018	424,000	–	–	–	424,000	40,280	–	–	464,280	–
EXECUTIVE DIRECTORS											
K Pallas	**2019**	**410,520**	**–**	**–**	**45,662**	**456,182**	**43,337**	**13,302**	**–**	**512,821**	**8.9%**
Managing Director & CEO	2018	387,752	–	–	91,324	479,076	45,512	11,702	–	536,290	17.0%
SUB-TOTAL EXECUTIVE DIRECTORS' REMUNERATION											
	2019	**410,520**	**–**	**–**	**45,662**	**456,182**	**43,337**	**13,302**	**–**	**512,821**	**8.9%**
	2018	387,752	–	–	91,324	479,076	45,512	11,702	–	536,290	17.0%
TOTAL DIRECTORS' REMUNERATION											
	2019	**834,520**	**–**	**–**	**45,662**	**880,182**	**83,617**	**13,302**	**–**	**977,101**	**4.7%**
	2018	811,752	–	–	91,324	903,076	85,792	11,702	–	1,000,570	9.1%

					Short-Term		Post-Employment	Other Long-Term			
		Salary and Fees $	Non-Monetary Benefits $	Other Benefits $	Discretionary Performance Benefit $	Sub-Total $	Super-annuation Benefit $	Long Service Leave $	Termination Benefits $	Total $	% Remuneration Performance Ralated
EXECUTIVES											
P Burrows: appointed 10 December 2018	**2019**	**142,000**	**–**	**–**	**6,849**	**148,849**	**14,141**	**–**	**–**	**162,990**	**4.2%**
Chief Financial Officer/ Company Secretary	2018	–	–	–	–	–	–	–	–	–	–
FORMER											
L Dillion[3]	**2019**	**51,619**	**–**	**–**	**–**	**51,619**	**9,880**	**–**	**80,000**	**141,499**	**–**
Chief Financial Officer/ Company Secretary	2018	69,230	–	–	–	69,230	6,577	–	–	75,807	–
G Campbell: resigned 6 April 2018	**2019**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Chief Financial Officer/ Company Secretary	2018	222,930	–	–	–	222,930	14,462	–	–	237,392	–
TOTAL EXECUTIVE OFFICERS' REMUNERATION											
	2019	**193,619**	**–**	**–**	**6,849**	**200,468**	**24,021**	**–**	**80,000**	**304,489**	**2.2%**
	2018	292,160	–	–	–	292,160	21,039	–	–	313,199	–
TOTAL DIRECTORS' AND EXECUTIVE OFFICERS' REMUNERATION											
	2019	**1,028,139**	**–**	**–**	**52,511**	**1,080,650**	**107,638**	**13,302**	**80,000**	**1,281,590**	**4.1%**
	2018	1,103,912	–	–	91,324	1,195,236	106,831	11,702	–	1,313,769	7.0%

1 Fees for the services of V De Santis were paid via agreements with Elphinstone Group (Aust) Pty Ltd which is a related party of the Company up until 21 December 2018.

2 Fees for the services of D Elphinstone were paid via agreements with Elphinstone Group (Aust) Pty Ltd which is a related party of the Company.

3 L Dillon was appointed 6 April 2018 and resigned 1 August 2018.

Remuneration Report - Audited (cont'd)

Loans to Key Management Personnel and their Related Parties

The balance of loans to key management personnel and their related parties outstanding as at 30 June 2019 is $NIL (2018: $NIL).

Service Contracts

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

	Terms of Agreement	Termination Benefit
V De Santis	Ongoing director agreement	N/A – Non-Executive Director
K Pallas	Permanent employment contract	8 weeks' pay
D Elphinstone	Ongoing director agreement	N/A – Non-Executive Director
A von Bibra	Ongoing director agreement	N/A – Non-Executive Director
R Dunning	Ongoing director agreement	N/A – Non-Executive Director
P Burrows	Permanent employment contract	3 months' pay
L Dillon	Permanent employment contract	3 months' pay
G Campbell	Permanent employment contract	8 weeks' pay

Options and Rights Over Equity Instruments Granted

In the 2018 and 2019 financial years no executive directors, non-executive directors or key management personnel had any options or rights.

Other Transactions with Key Management Personnel

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

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

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

Movements in Shares

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

2019	Balance 1 July 2018	Received as compensation	Other changes*	Balance 30 June 2019
V De Santis	378,951	–	–	378,951
K Pallas	72,632	–	–	72,632
D Elphinstone	202,406,914	–	–	202,406,914
A von Bibra	34,793	–	–	34,793
R Dunning	182,948	–	–	182,948
P Burrows	–	–	–	–
L Dillon	–	–	–	–
G Campbell	–	–	–	–

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

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

Vincent De Santis

Chairman

Dated 22 August 2019

Directors' Declaration

for the year ended 30 June 2019

Directors' Declaration

1. In the opinion of the directors of Engenco Limited (the Company):
    a. the consolidated financial statements and notes that are set out on pages 31 to 73 and the Remuneration Report on pages 18 to 23 in the Directors' Report, are in accordance with the *Corporations Act 2001*, including:
        i. giving a true and fair view of the Group's financial position as at 30 June 2019 and of its performance for the financial year ended on that date; and
        ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
    b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2019.
3. The directors draw attention to Note 1 to the financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

Vincent De Santis

Chairman

Dated 22 August 2019

Auditor's Independence Declaration

for the year ended 30 June 2019

KPMG

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

To the Directors of Engenco Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Engenco Limited for the financial year ended 30 June 2019 there have been:

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

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

KPMG

KPMG

S E Bell

Suzanne Bell

Partner

Melbourne

22 August 2019

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Independent Auditor's Report

To the shareholders of Engenco Limited

Report on the audit of the Financial Report

Opinion

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

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

- giving a true and fair view of the ***Group***'s financial position as at 30 June 2019 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The Financial Report comprises:

- Consolidated statement of financial position as at 30 June 2019;
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

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

Basis for opinion

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

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

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

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Key Audit Matters

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

- Revenue recognition

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

This matter was addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Revenue recognition ($174,850k)

Refer to Note 4 to the Financial Report

The key audit matter	How the matter was addressed in our audit
Revenue recognition was a key audit matter for us due to the multiple revenue streams and the financial significance of the amount. The Group's revenue consists of various revenue streams comprising maintenance, repair and overhaul of powertrain systems, manufacture and maintenance of wagons and associated rail equipment, leasing of wagons, manufacture and supply of road and storage tankers and training and workforce provisioning services within the rail industry. This necessitated greater involvement by the audit team to determine appropriate revenue recognition including timing and measurement. In addition, the Group has applied AASB 15 Revenue from Contracts with Customers, from 1 July 2018. As disclosed in Note 1(i)(II) to the Financial Report, revenues from rendering of services and construction contracts are recognised over time based on the management's determination of stage of completion towards satisfaction of performance obligations and estimation of total contract revenue and costs. The recognition of these amounts involves management's judgemental assessment and estimation. Given the significance of changes to the accounting standard for Revenue, additional audit effort was applied to the revenue recognition and the related disclosures.	Our procedures included: • evaluating the appropriateness of the Group's revenue recognition policies against the requirements of AASB 15 Revenue from Contracts with Customers ("AASB 15"); • for samples of revenue transactions, we checked the underlying records and inspected the terms and conditions of the revenue contract for consistency with the Group's policies and procedures for timing and measurement of revenue recognition; • comparing cash receipts to revenue recognised during the period; • testing samples of revenue transactions from immediately before and immediately after year end, across different revenue streams, comparing the year in which the revenue was recognised to terms of the underlying contract; • evaluating the contract performance in relation to the recognition of revenue and cost accruals for samples of on-going contracts as at the year-end; • testing samples of credit notes issued post year-end to identify any significant reversals of revenue recognised pre year-end; • assessment of samples of customer contracts to evaluate the change, if any, in revenue recognition in accordance with the transition impact of AASB 15; and • assessment of the additional disclosures relating to the adoption of AASB 15 against the requirements of the accounting standard.

Independent Auditor's Report

for the year ended 30 June 2019

KPMG

Other Information

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

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

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

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

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

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

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

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

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

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

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

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Engenco Limited for the year ended 30 June 2019, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in pages 18 to 23 of the Directors' report for the year ended 30 June 2019.

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

KPMG

KPMG

Suzanne Bell

Partner

Melbourne

22 August 2019

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for the year ended 30 June 2019

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Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 30 June 2019

	Notes	Consolidated Group 2019 $'000	2018 $'000
Revenue	4	174,850	157,336
Other income	4	2,869	1,335
Changes in inventories of finished goods and work in progress		2,630	5,004
Raw materials and consumables used		(81,805)	(74,413)
Employee benefits expense	5	(63,822)	(54,918)
Depreciation and amortisation expense		(3,615)	(3,830)
Impairment of inventory		(571)	(90)
Finance costs	5	(322)	(476)
Subcontract freight		(765)	(913)
Repairs and maintenance		(1,072)	(1,178)
Insurances		(1,276)	(1,063)
Rent and outgoings		(6,900)	(5,983)
Foreign exchange movements		(22)	28
Other expenses		(7,489)	(7,825)
PROFIT / (LOSS) BEFORE INCOME TAX		12,690	13,014
Income tax benefit / (expense)	6	1,537	4,989
TOTAL PROFIT / (LOSS) FOR THE PERIOD		**14,227**	**18,003**
Profit / (loss) attributable to:			
Owners of the Company		14,227	18,003
Non-controlling interest		–	–
		14,227	**18,003**
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of overseas subsidiaries		409	(229)
Other comprehensive income for the period, net of tax		409	(229)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**14,636**	**17,774**
Total comprehensive income attributable to:			
Owners of the Company		14,636	17,774
Non-controlling interest		–	–
		14,636	**17,774**
EARNINGS PER SHARE		Cents	Cents
Basic & Diluted earnings per share (cents per share)	7	4.54	5.74
From continuing operations:			
Basic & Diluted earnings per share (cents per share)	7	4.54	5.74

The notes on pages 35 to 73 are an integral part of the consolidated financial statements.

Consolidated Financial Statements

for the year ended 30 June 2019

Consolidated Statement of Financial Position

as at 30 June 2019

	Notes	Consolidated Group 2019 $'000	Consolidated Group 2018 $'000
CURRENT ASSETS			
Cash and cash equivalents	8	23,702	8,656
Trade and other receivables	9	30,312	28,275
Inventories	10	36,574	33,944
Current tax assets	6	30	–
Other current assets	11	2,026	3,315
TOTAL CURRENT ASSETS		**92,644**	**74,190**
NON-CURRENT ASSETS			
Property, plant and equipment	12	11,732	16,839
Deferred tax assets	6	7,366	5,575
Intangible assets	14	200	248
TOTAL NON-CURRENT ASSETS		**19,298**	**22,662**
TOTAL ASSETS		**111,942**	**96,852**
CURRENT LIABILITIES			
Trade and other payables	15	19,408	15,453
Financial liabilities	16	294	338
Current tax liabilities	6	25	132
Provisions	17	7,070	6,529
TOTAL CURRENT LIABILITIES		**26,797**	**22,452**
NON-CURRENT LIABILITIES			
Provisions	17	523	488
Deferred tax liabilities	6	547	694
TOTAL NON-CURRENT LIABILITIES		**1,070**	**1,182**
TOTAL LIABILITIES		**27,867**	**23,634**
NET ASSETS		**84,075**	**73,218**
EQUITY			
Issued capital	20	302,719	302,719
Reserves		58	(351)
Profit reserve		2,433	271
Accumulated losses		(215,306)	(223,592)
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**89,904**	**79,047**
Non-controlling interest		(5,829)	(5,829)
TOTAL EQUITY		**84,075**	**73,218**

The notes on pages 35 to 73 are an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Equity

for the year ended 30 June 2019

Consolidated Group	Share Capital $'000	Accumulated Losses $'000	Profit Reserve $'000	Foreign Currency Translation Reserve $'000	Sub-Total $'000	Non-controlling Interest $'000	Total Equity $'000
BALANCE AT 1 JULY 2017	302,719	(239,757)	–	(122)	62,840	(5,829)	57,011
Profit / (loss)	–	18,003	–	–	18,003	–	18,003
Transfer to profit reserve	–	(1,838)	1,838	–	–	–	–
Other comprehensive income, net of tax	–	–	–	(229)	(229)	–	(229)
TOTAL COMPREHENSIVE INCOME	**–**	**16,165**	**1,838**	**(229)**	**17,774**	**–**	**17,774**
TRANSACTIONS WITH OWNERS OF THE COMPANY							
Contributions and Distributions:							
Dividends paid	–	–	(1,567)	–	(1,567)	–	(1,567)
TOTAL CONTRIBUTIONS AND DISTRIBUTIONS	**–**	**–**	**(1,567)**	**–**	**(1,567)**	**–**	**(1,567)**
BALANCE AT 30 JUNE 2018	**302,719**	**(223,592)**	**271**	**(351)**	**79,047**	**(5,829)**	**73,218**
BALANCE AT 1 JULY 2018	**302,719**	**(223,592)**	**271**	**(351)**	**79,047**	**(5,829)**	**73,218**
Adjustments from adoption of AASB 9 & AASB 15	–	(645)	–	–	(645)	–	(645)
ADJUSTED BALANCE AT 1 JULY 2018	**302,719**	**(224,237)**	**271**	**(351)**	**78,402**	**(5,829)**	**72,573**
COMPREHENSIVE INCOME							
Profit / (loss)	–	14,227	–	–	14,227	–	14,227
Transfer to profit reserve	–	(5,296)	5,296	–	–	–	–
Other comprehensive income, net of tax	–	–	–	409	409	–	409
TOTAL COMPREHENSIVE INCOME	**–**	**8,931**	**5,296**	**409**	**14,636**	**–**	**14,636**
TRANSACTIONS WITH OWNERS OF THE COMPANY							
Contributions and Distributions:							
Dividends paid	–	–	(3,134)	–	(3,134)	–	(3,134)
TOTAL CONTRIBUTIONS AND DISTRIBUTIONS	**–**	**–**	**(3,134)**	**–**	**(3,134)**	**–**	**(3,134)**
BALANCE AT 30 JUNE 2019	**302,719**	**(215,306)**	**2,433**	**58**	**89,904**	**(5,829)**	**84,075**

The notes on pages 35 to 73 are an integral part of the consolidated financial statements.

Consolidated Financial Statements

for the year ended 30 June 2019

Consolidated Statement of Cash Flows

for the year ended 30 June 2019

	Notes	Consolidated Group 2019 $'000	Consolidated Group 2018 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		189,462	172,013
Payments to suppliers and employees		(176,355)	(162,987)
Interest received		74	30
Finance costs		(322)	(476)
Income tax paid		(538)	(288)
NET CASH FROM / (USED IN) OPERATING ACTIVITIES	22(b)	**12,321**	**8,292**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of non-current assets		7,301	801
Purchase of non-current assets		(3,076)	(3,905)
NET CASH FROM / (USED IN) INVESTING ACTIVITIES		**4,225**	**(3,104)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(3,134)	(1,567)
Release of funds on deposit		1,678	–
Repayment of borrowings		–	(4,000)
NET CASH FROM / (USED IN) FINANCING ACTIVITIES		**(1,456)**	**(5,567)**
Net increase / (decrease) in cash and cash equivalents		15,090	(379)
Cash (net of bank overdrafts) at beginning of financial year		8,318	8,697
CASH (NET OF BANK OVERDRAFTS) AT END OF FINANCIAL YEAR	22(a)	**23,408**	**8,318**

The notes on pages 35 to 73 are an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2019

Note 1 - Significant Accounting Policies

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

Reporting Entity

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

Basis of Accounting

Statement of Compliance

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

The consolidated financial statements were authorised for issue by the Board of Directors on 22 August 2019.

Functional and Presentation Currency

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

Use of Judgements and Estimates

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

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

Assumptions and Estimation Uncertainties

Information about assumptions and estimation uncertainties that may have a risk of resulting in a material adjustment in the year ended 30 June 2019 is included in the following notes:

- Note 4 – Revenue and Other Income. Revenue is recognised as contract performance obligations are satisfied. The total contract consideration is allocated to the performance obligations based on their observable stand alone selling prices.
- Note 6 – Tax. Balances disclosed in the financial statements and the notes thereto, related to taxation, are based on the best estimates of directors. These estimates take into account both the financial performance and position of the Company as they pertain to current income taxation legislation, and the directors' understanding thereof. No adjustment has been made for pending or future taxation legislation. The current income tax position represents the directors' best estimate, pending an assessment by taxable authorities in relevant jurisdictions.
- Note 9 – Trade and Other Receivables. The expected credit loss allowances for trade receivables are calculated based on key assumptions that determine the weighted average loss rates and overall loss allowance.
- Note 10 – Inventories. Inventory and WIP values are determined using the net realisable value, where the cost is in excess of this value.

Basis of Measurement

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

Going Concern

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

Significant Accounting Policies

(a) Basis of Consolidation

Non-controlling interests

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

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

Note 1 - Significant Accounting Policies (cont'd)

Subsidiaries

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

Loss of control

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

Interests in equity-accounted investees

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

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

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

Transactions eliminated on consolidation

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

(b) Impairment

Non-financial assets

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

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

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

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

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

(c) Foreign Currency

Foreign currency transactions

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

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

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

Foreign operations

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

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

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

(d) Finance Income and Finance Costs

The Group's finance income and finance costs include:

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

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

(e) Government Grants

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

(f) Goods and Services Tax (GST)

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

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

(g) Comparative Figures

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

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

(h) Rounding of Amounts

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

(i) New Accounting Standards and Interpretations

New accounting standards adopted

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

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

- *Annual Improvements to IFRS's 2014-2016 Cycle (Amendments to IFRS 1 and IAS 28)*
- *IFRIC 22 Foreign Currency Transactions and Advance Consideration*
- *AASB 9 Financial Instruments*
- *AASB 15 Revenue from Contracts with Customers*

The following standards have a material impact on the Group's financial statements in the period of initial adoption.

Note 1 - Significant Accounting Policies (cont'd)

I. AASB 9: Financial Instruments

AASB 9: *Financial Instruments* sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard has replaced IAS 39 Financial Instruments: Recognition and Measurement.

The Group has assessed the impact of the adoption of AASB 9 on the Group's consolidated financial statements. The new standard has required the Group to revise its accounting processes and internal controls related to reporting financialinstruments.

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

Classification and Measurement changes upon application

AASB 9 contains three principal classification categories for financial assets:

- Measured at Amortised Cost;
- Measured at Fair Value through Other Comprehensive Income (FVOCI); and
- Measured at Fair Value through Profit or Loss (FVTPL).

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

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

The Group currently classifies its non-derivative financial assets into the categories of FVTPL and loans and receivables. With the removal of loans and receivables category under AASB 9, loans and receivables will become measured at amortised cost and be subject to the business model and SPPI criterion assessments. There are no impacts to the current carrying values of non-derivative financial assets as a result of these measurement changes.

Upon application of the new standard, trade and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortised cost. There was no change to the carrying value of trade and other receivables as a result of this change.

All other financial assets and liabilities measurement categories under IAS 39 remain unchanged upon transition to the new measurement categories of AASB 9. This also resulted in no impact to these categories carrying amounts upon transition.

Impairment (ECL):

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

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

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

The Group previously only recognised a credit loss when there was objective evidence that impairment had occurred. The new expected credit loss model requires estimates of 12-month or lifetime expected credit losses to be recognised upon initial recognition of the financial asset, and when there is a significant change in credit risk.

Based on the Group's assessment of historical provision rates and forward-looking analysis, the impact on adoption was an increase in the impairment provision of $645,000 recognised through opening retained earnings. An additional specifically identified expected credit loss provision of $203,000 was also recognised through opening retained earnings, as a result of the transition impacts from AASB 15: *Revenue from Contracts with Customers* (see II(ii)).

	$'000
Loss allowance for trade and other receivables balance as at 30 June 2018	324
Additional loss allowance for trade and other receivables	848
Loss allowance for trade and other receivables as at 1 July 2018 under AASB 9	**1,172**

Transition Impact on Retained Earnings

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

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

The Group has taken the above exemption to not restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in carrying amounts of financial assets and liabilities resulting from the adoption of AASB 9 are recognised in retained earnings and reserves as at 1 July 2018. Accordingly, the comparative information presented does not generally reflect the requirements of AASB 9 but rather those of IAS 39. The impact of these changes on the Group's equity is as follows:

For table showing effect on retained earnings – see II. AASB 15: *Revenue from Contracts with Customers*.

II. AASB 15: Revenue from Contracts with Customers

AASB 15: *Revenue from Contracts with Customers* establishes a comprehensive framework for determining whether, how much and when revenue is recognised. The new standard replaced existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programs.*

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

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

The Group has adopted AASB 15 using the Modified Retrospective (Cumulative Effect) approach. As a result, the Group has not restated its prior year comparatives. Instead, the cumulative impact of adopting AASB 15 has been adjusted through opening retained earnings.

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

(i) Sale of goods

The Group engages in the sale of spare parts and components for various rail, road, powertrain and gas compression industry sectors. Under IAS 18 the Group recognised revenue from the sale of goods when the significant risks and rewards of ownership had been transferred to the customer, recovery of the consideration was probable, the associated costs and possible return of goods could be reliably estimated, there was no continuing management involvement with the goods, and the amount of revenue could be reliably measured. Revenue was measured net of returns, trade discounts and volume rebates.

Under AASB 15, revenue is now recognised when a customer obtains control of the goods. The Group did not identify any material impact to the recognition of revenue on the sale of goods domestically or internationally upon initial adoption of AASB 15.

(ii) Rendering of services

The Group performs a number of services to various industry sectors, including maintenance, repairs and overhauls. Under IAS 18 the Group recognised revenue from the rendering of these services with reference to the stage of completion of the transaction at the reporting date. The stage of completion was assessed based on surveys of work performed.

The Group identified one contract for the provision of consultancy services (a non-standard service) as having a material impact on the Group's consolidated financial statements arising from the adoption of AASB 15. The new standard requires the revenue relating to satisfied performance obligations to be recognised, which resulted in an increase through opening retained earnings of $203,000. The Group has determined this amount to be at credit risk, and also raised the necessary expected credit loss provision through opening retained earnings (see I).

Note 1 - Significant Accounting Policies (cont'd)

No other material impacts to the Group's consolidated financial statements were identified.

(iii) Rental income

The Group leases out its fleet of rollingstock and certain items of property, plant and equipment to customers. Under IAS 18 rental income was recognised as revenue on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

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

(iv) Construction contracts

The Group is involved in the manufacture of wagons, carriages, rail equipment and dry bulk tankers. Under IAS 11 contract revenue included the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they would result in revenue and can be reliably measured. Revenue was then recognised in profit or loss with reference to the stage of completion on the contract, which was assessed based on surveys of work performed.

Under AASB 15, claims and variations will be included in the contract accounting when they are approved. Revenue can only be recognised over time if it satisfies one of three criteria, otherwise revenue is to be recognised at a point in time. Of the customer contracts reviewed as part of the Group's assessment process, there were no material impacts identified on the Group's consolidated financial statements arising from the adoption of AASB 15.

(v) RTO training

The Group's RTO entity (CERT Training) delivers nationally accredited and industry-based training courses. Under IAS 18, the revenue from these services was recognised in profit or loss on a systematic basis in the periods in which the expenses are recognised.

There was no material impact on the current revenue accounting for training under AASB 15, however slight changes in accounting has been required to ensure consistency across the Group.

Transition Impact on Retained Earnings

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

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

The following tables summarise the impacts of adopting the new accounting standards on the Group's retained earnings.

	$'000
Retained earnings / accumulated losses balance as previously reported at 30 June 2018	(223,592)
Transition adjustments for AASB 9	(848)
Transition adjustments for AASB 15	203
Retained earnings / accumulated losses balance as at 1 July 2018 under AASB 9 and AASB 15	**(224,237)**

Standards issued but not yet effective

AASB 16: Leases

AASB 16: *Leases* replaces the current AASB 117: *Leases* standard with a mandatory effective date for the Group of 1 July 2019.

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

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

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

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

The Group will be applying AASB 16 from 1 July 2019, using the "modified retrospective" transition method whereby the right-of-use asset has been calculated as its carrying amount as if AASB 16 had been applied since the lease commencement date, but discounted using the Group's incremental borrowing rate at the date of initial application.

Under this method, there is no requirement to restate comparatives.

When applying the modified retrospective approach to leases previously classified as operating leases under AASB 117, the Group can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. Engenco expects to apply a number of the practical expedients and exemptions including:

- The application of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Utilising previous assessments of onerous leases;
- Option to 'grandfather' the assessment of which contracts are leases – AASB 16 lease accounting is only applied to those contracts previously identified to contain a lease under AASB 117. The new lease definition requirement is only applied to those contracts entered into after the date of initial application;
- Recognition exemption for short-term and low-value leases – Leases which have a lease term of less than 12 months or are less than A$10,000 in annual value will not be accounted for under AASB 16;
- The use of hindsight in determining the lease term.

Another practical expedient available to Group, is to not separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component. The Group will not elect to combine lease and non-lease components for its property leases. As such, the calculated lease liability will exclude an estimate of the stand-alone price of the non-lease component.

The Group has performed an impact assessment of AASB 16 had the standard been adopted as at 1 July 2019. In summary, the estimated impact of the adoption of AASB 16 on the Balance Sheet as at 1 July 2019, is an increase in assets (right-of-use asset) of between $16 million and $18 million, inclusive of make good assets, and an increase in liabilities (lease liability) of between $17 million and $19 million.

The net difference between these balances would have been recognised as an adjustment to equity. Assuming no changes to the lease portfolio from 1 July 2019, the estimated impact on profit for the year ended 30 June 2020 is expected to be immaterial for the Group.

A key assumption in determining this estimate is the lease term and option assessment decision. Engenco considers an option to extend a lease to be reasonably certain when the extension date is within twelve months and no decision has been made to terminate, or when there is a clear economic incentive for extension, such as:

- Favourable contractual terms and conditions in the option period compared to market rates;
- Leasehold improvements have recently been undertaken and are likely to have significant residual value at the end of the current lease period;
- Significant termination costs exist; or
- The underlying asset is important to the Group's operations.

Other key assumptions include discount rates, asset retirement obligations and non-lease components.

Other Accounting Standards

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

- IFRIC 23 *Uncertainty over Income Tax Treatments*
- *Annual Improvements to IFRS's 2015-2017 Cycle – various standards*
- *Amendments to References to Conceptual Framework in IFRS Standards*
- *Long-term Interest in Associates and Joint Ventures (Amendments to IAS 28)*

Notes to the Consolidated Financial Statements

for the year ended 30 June 2019

Note 2 - Controlled Entities

Note: Subsidiaries are indented beneath their parent entity

	Country of Incorporation	Date of Control	Percentage Owned 2019	Percentage Owned 2018
• Engenco Limited	Australia			
– Convair Engineering Pty Ltd	Australia	1 Jul 06	100	100
– Engenco Logistics Pty Ltd	Australia	1 Jul 06	100	100
– – Asset Kinetics Pty Ltd	Australia	1 Jul 06	100	100
– Engenco Investments Pty Ltd	Australia	18 Apr 07	100	100
– – Australian Rail Mining Services Pty Ltd	Australia	30 Apr 07	100	100
– – Centre for Excellence in Rail Training Pty Ltd	Australia	30 Apr 07	100	100
– – EGN Rail Pty Ltd	Australia	30 Apr 07	100	100
– – EGN Rail (NSW) Pty Ltd	Australia	30 Apr 07	100	100
– – Midland Railway Company Pty Ltd	Australia	30 Apr 07	100	100
– – Momentum Rail (Vic) Pty Ltd	Australia	30 Apr 07	100	100
– – Momentum Rail (WA) Pty Ltd	Australia	30 Apr 07	100	100
– – Sydney Railway Company Pty Ltd	Australia	30 Apr 07	100	100
– – Greentrains Pty Ltd[1] (formerly Greentrains Limited)	Australia	17 Jul 09	81	81
– – – Greentrains Leasing Pty Ltd	Australia	18 Jun 08	100	100
– Drivetrain Power and Propulsion Pty Ltd	Australia	1 Jul 06	100	100
– – Drivetrain Australia Pty Ltd	Australia	1 Jul 06	100	100
– – – DTPP Energy Pty Ltd	Australia	25 May 10	100	100
– – – Drivetrain Philippines Inc.	Philippines	1 Jul 07	100	100
– – – Drivetrain Singapore Pte Ltd	Singapore	1 Jul 07	100	100
– – – Drivetrain Limited	New Zealand	1 Jul 07	100	100
– – – Drivetrain USA Inc.	USA	31 Dec 08	100	100
– – – – Hyradix Inc.	USA	31 Dec 08	100	100
– – – Hedemora Investments AB	Sweden	1 Jul 06	100	100
– – – – Hedemora Turbo & Diesel AB	Sweden	1 Jul 06	100	100
– Gemco Rail Pty Ltd	Australia	1 Jul 07	100	100
– – Railway Bearings Refurbishment Services Pty Ltd	Australia	1 Jul 07	100	100
– – New RTS Pty Ltd	Australia	3 Dec 08	100	100
– Hedemora Pty Ltd	Australia	1 Jul 06	100	100
– Industrial Powertrain Pty Ltd	Australia	1 Jul 07	100	100
– – PC Diesel Pty Ltd	Australia	1 Jul 06	100	100
– Total Momentum Pty Ltd	Australia	30 Apr 07	100	100

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

Note 3 - Operating Segments

Basis of Segmentation

Identification of Reportable Segments

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

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

Types of Products and Services by Segment

The chief operating decision maker considers the business from a Business Line perspective and has identified five (5) reportable segments as follows:

(a) Drivetrain

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

(b) Centre for Excellence in Rail Training (CERT Training)

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

(c) Convair Engineering (Convair)

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

(d) Total Momentum (Momentum Rail)

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

(e) Gemco Rail

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

(f) All Other

This includes the parent entity, non-reportable segments and consolidation / inter-segment elimination adjustments.

Basis of Reporting by Operating Segments

(a) Basis of reporting

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

(b) Inter-segment transactions

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

(c) Segment assets

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

(d) Segment liabilities

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

Note 3 - Operating Segments (cont'd)

Information about Reportable Segments

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

(i) Segment Performance

Year ended 30 June 2019

Reportable Segments	Drivetrain $'000	CERT Training $'000	Convair $'000	Momentum Rail $'000	Gemco Rail $'000	All Other $'000	Consolidated Group $'000
REVENUE							
External revenue	47,737	11,429	17,128	23,526	67,980	6,976	174,776
Inter-segment revenue	165	46	–	159	29	3,334	3,733
Interest revenue	–	–	–	–	–	74	74
TOTAL SEGMENT REVENUE	**47,902**	**11,475**	**17,128**	**23,685**	**68,009**	**10,384**	**178,583**
Reconciliation of segment revenue to Group revenue:							
Inter-segment elimination	–	–	–	–	–	(3,733)	(3,733)
TOTAL GROUP REVENUE	**47,902**	**11,475**	**17,128**	**23,685**	**68,009**	**6,651**	**174,850**
SEGMENT EBITDA	5,563	1,967	1,540	2,837	12,425	(7,705)	16,627
Reconciliation of segment EBITDA to Group net profit / (loss) before tax:							
Depreciation and amortisation	(391)	(79)	(286)	(29)	(2,109)	(721)	(3,615)
Finance costs	(14)	(33)	(4)	–	(3)	(268)	(322)
TOTAL PROFIT / (LOSS) BEFORE TAX	**5,158**	**1,855**	**1,250**	**2,808**	**10,313**	**(8,694)**	**12,690**

Year ended 30 June 2018*

Reportable Segments	Drivetrain $'000	CERT Training $'000	Convair $'000	Momentum Rail $'000	Gemco Rail $'000	All Other $'000	Consolidated Group $'000
REVENUE							
External revenue	52,729	12,240	15,593	18,976	54,196	3,572	157,306
Inter-segment revenue	186	40	–	25	–	3,159	3,410
Interest revenue	–	–	–	–	–	30	30
TOTAL SEGMENT REVENUE	**52,915**	**12,280**	**15,593**	**19,001**	**54,196**	**6,761**	**160,746**
Reconciliation of segment revenue to Group revenue:							
Inter-segment elimination	–	–	–	–	–	(3,410)	(3,410)
TOTAL GROUP REVENUE	**52,915**	**12,280**	**15,593**	**19,001**	**54,196**	**3,351**	**157,336**
SEGMENT EBITDA	7,977	3,590	1,437	3,000	9,462	(8,146)	17,320
Reconciliation of segment EBITDA to Group net profit / (loss) before tax:							
Depreciation and amortisation	(390)	(65)	(282)	(48)	(2,236)	(809)	(3,830)
Finance costs	(23)	(40)	(6)	(1)	(5)	(401)	(476)
TOTAL PROFIT / (LOSS) BEFORE TAX	**7,564**	**3,485**	**1,149**	**2,951**	**7,221**	**(9,356)**	**13,014**

*2018 comparatives have been restated for the current year classification of continuing and discontinued operations, and of identifiable operating segments as non-reportable.

Note 3 - Operating Segments (cont'd)

(ii) Segment Assets

As at 30 June 2019

Reportable Segments	Drivetrain $'000	CERT Training $'000	Convair $'000	Momentum Rail $'000	Gemco Rail $'000	All Other $'000	Consolidated Group $'000
ASSETS							
Segment assets	38,689	9,678	13,905	6,150	35,612	2,770	106,804
Capital expenditure	82	187	369	–	1,801	528	2,967
Investments	–	–	–	–	–	–	–
Intangibles	–	–	–	–	–	200	200
Reconciliation of segment assets to Group assets:							
Segment eliminations	–	–	–	–	–	–	(5,395)
Unallocated Items:							
Deferred tax assets	–	–	–	–	–	–	7,366
TOTAL ASSETS	**38,771**	**9,865**	**14,274**	**6,150**	**37,413**	**3,498**	**111,942**

As at 30 June 2018*

Reportable Segments	Drivetrain $'000	CERT Training $'000	Convair $'000	Momentum Rail $'000	Gemco Rail $'000	All Other $'000	Consolidated Group $'000
ASSETS							
Segment assets	35,239	11,747	16,459	8,248	32,364	(11,690)	92,367
Capital expenditure	261	57	1,200	101	1,393	561	3,573
Investments	–	–	–	–	–	–	–
Intangibles	–	–	–	–	–	248	248
Reconciliation of segment assets to Group assets:							
Segment eliminations	–	–	–	–	–	–	(4,911)
Unallocated Items:							
Deferred tax assets	–	–	–	–	–	–	5,575
TOTAL ASSETS	**35,500**	**11,804**	**17,659**	**8,349**	**33,757**	**(10,881)**	**96,852**

*2018 comparatives have been restated for the current year classification of continuing and discontinued operations, and of identifiable operating segments as non-reportable.

(iii) Segment Liabilities

As at 30 June 2019

Reportable Segments	Drivetrain $'000	CERT Training $'000	Convair $'000	Momentum Rail $'000	Gemco Rail $'000	All Other $'000	Consolidated Group $'000
LIABILITIES							
Segment liabilities	49,359	1,047	2,528	835	76,247	(97,301)	32,715
Reconciliation of segment liabilities to Group liabilities:							
Segment eliminations	–	–	–	–	–	–	(5,395)
Unallocated Items:							
Deferred tax liabilities	–	–	–	–	–	–	547
TOTAL LIABILITIES	**49,359**	**1,047**	**2,528**	**835**	**76,247**	**(97,301)**	**27,867**

As at 30 June 2018*

Reportable Segments	Drivetrain $'000	CERT Training $'000	Convair $'000	Momentum Rail $'000	Gemco Rail $'000	All Other $'000	Consolidated Group $'000
LIABILITIES							
Segment liabilities	53,449	1,172	5,320	1,598	79,514	(113,202)	27,851
Reconciliation of segment liabilities to Group liabilities:							
Segment eliminations	–	–	–	–	–	–	(4,911)
Unallocated Items:							
Deferred tax liabilities	–	–	–	–	–	–	694
TOTAL LIABILITIES	**53,449**	**1,172**	**5,320**	**1,598**	**79,514**	**(113,202)**	**23,634**

*2018 comparatives have been restated for the current year classification of continuing and discounted operations, and of identifiable operating segments as non-reportable.

Note 3 - Operating Segments (cont'd)

(iv) Geographical Information

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

Revenue	2019 $'000	2018 $'000
Australasia	164,572	150,741
Europe	10,278	6,595
United States of America	–	–
TOTAL REVENUE	**174,850**	**157,336**

Assets	2019 $'000	2018 $'000
Australasia	100,016	85,355
Europe	11,900	11,457
United States of America	26	40
TOTAL ASSETS	**111,942**	**96,852**

(v) Major customers

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

Note 4 - Revenue and Other Income

Sale of Goods

Revenue is recognised at a point in time when a customer obtains control of the goods. Revenue is measured net of returns, trade discounts and volume rebates.

Rendering of Services

Revenue is recognised as contract performance obligations are satisfied over time. The total contract consideration is allocated to the performance obligations based on their observable stand alone selling prices.

Construction Contracts

Revenue is recognised as contract performance obligations are satisfied over time. The total contract consideration is allocated to the performance obligations based on their observable stand alone selling prices. Claims and variations are included in the contract consideration only when they are approved.

RTO Training

Revenue is recognised at the point in time when the performance obligation is satisfied.

Lease Rental Income

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

	2019 $'000	2018 $'000
SALES REVENUE		
Sales of goods and services	173,022	155,091
Lease rental income	1,754	2,215
TOTAL SALES REVENUE	**174,776**	**157,306**
OTHER REVENUE		
Interest received – external	74	30
TOTAL OTHER REVENUE	**74**	**30**
TOTAL REVENUE	**174,850**	**157,336**
OTHER INCOME		
Gain on disposal of property, plant and equipment	2,656	305
Other gains	213	1,030
TOTAL OTHER INCOME	**2,869**	**1,335**

Note 4 - Revenue and Other Income (cont'd)

Set out below is the disaggregation of the Group's revenue from contracts with customers:

	Consolidated Group	
	Revenue Recognition	30 Jun 19 $'000
Sale of goods	Point in time	53,342
Rendering of services	Over time	48,555
Construction contracts	Over time	59,650
RTO training	Point in time	11,475
Lease rental income	Over time	1,754
TOTAL SALES REVENUE		**174,776**

The Group did not identify a material impact to the recognition of revenue as a result of adopting AASB 15: *Revenue from Contracts with Customers*. Details of assessment can be found in Note 1(i)(II).

Note 5 - Expenses

	2019 $'000	2018 $'000
FINANCE COSTS		
Interest – related parties	–	43
Other finance costs	322	433
TOTAL FINANCE COSTS	**322**	**476**
EMPLOYEE BENEFITS EXPENSE		
Wages and salaries	56,793	48,720
Annual leave expense	2,364	1,938
Long service leave expense	454	490
Defined contribution plan	4,211	3,770
TOTAL EMPLOYEE BENEFITS EXPENSE	**63,822**	**54,918**
RENTAL EXPENSE ON OPERATING LEASES		
Lease payments	5,013	4,555
TOTAL RENTAL EXPENSE ON OPERATING LEASES	**5,013**	**4,555**

Note 6 - Tax

Tax Consolidation

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

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

Current Tax

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

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

Deferred Tax

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

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

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

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

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

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

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

	2019 $'000	2018 $'000
CURRENT		
Income tax receivable / (payable)	5	(132)
TOTAL	**5**	**(132)**

Notes to the Consolidated Financial Statements

for the year ended 30 June 2019

Note 6 - Tax (cont'd)

	2019 $'000	2018 $'000
(a) The components of tax expense / (benefit) comprise:		
Current income tax expense / (benefit)		
– Current income tax expense / (benefit)	220	(79)
– Adjustment for prior years	–	(456)
Current income tax expense / (benefit)		
– Origination and reversal of temporary differences	(1,757)	(4,454)
Income tax expense / (benefit) reported in the Statement of Profit or Loss and OCI	**(1,537)**	**(4,989)**
(b) A reconciliation between tax expense / (benefit) and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:		
Accounting profit / (loss) before tax	12,690	13,014
At the Company's statutory domestic income tax rate of 30% (2018: 30%)	**3,807**	**3,904**
Add / (Less) tax effect of:		
– Foreign tax rate adjustment	(49)	(957)
– Utilisation of tax losses not previously recognised	106	(6,369)
– Other non-allowable items	396	3,312
– Adjustment for prior years	–	(456)
– Movements in unrecognised temporary differences	–	31
– Other (DTA partial recognition of prior year loses)	(5,797)	(4,454)
Income tax expense / (benefit)	**(1,537)**	**(4,989)**

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

	Consolidated Group							
	Opening Balance $'000	Balance Acquired $'000	(Credited)/ Charged to Income $'000	Charged Directly to Equity $'000	Changes in Tax Rate $'000	Exchange Differences $'000	Other $'000	Closing Balance $'000
NON-CURRENT								
Deferred tax liabilities:								
Other	72	–	826	–	–	–	(204)	**694**
Balance at 30 June 2018	**72**	**–**	**826**	**–**	**–**	**–**	**(204)**	**694**
Other	694	–	(147)	–	–	–	–	**547**
Balance at 30 June 2019	**694**	**–**	**(147)**	**–**	**–**	**–**	**–**	**547**
Deferred tax assets:								
Provisions	295	–	826	–	–	–	–	1,121
Accruals	–	–	–	–	–	–	–	–
Losses	–	–	4,454	–	–	–	–	4,454
Balance at 30 June 2018	**295**	**–**	**5,280**	**–**	**–**	**–**	**–**	**5,575**
Provisions	1,121	–	(367)	–	–	–	402	1,156
Accruals	–	–	–	–	–	–	–	–
Losses	4,454	–	1,756	–	–	–	–	6,210
Balance at 30 June 2019	**5,575**	**–**	**1,389**	**–**	**–**	**–**	**402**	**7,366**

The Company has estimated Australian carry forward operating tax losses of $79,142,794 at June 2019 (2018: $94,368,624) which are not fully recognised. The ability to utilise the operating tax losses will be subject to satisfying relevant eligibility criteria for the recoupment of carry forward tax losses.

An additional deferred tax asset of $5,797,000 was partially recognised in 2019 from previously unrecognised tax losses, based on the probable nature that future taxable profits would be available against which the tax losses can be recovered and, therefore, the related deferred tax asset can be realised.

Note 7 - Earnings Per Share

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

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

	2019 $'000	2018 $'000
(a) RECONCILIATION OF EARNINGS TO PROFIT OR LOSS		
Profit / (loss) for the year	14,227	18,003
(Profit) / loss for the year, attributable to non-controlling interest	–	–
Earnings used to calculate basic EPS	**14,227**	**18,003**
Earnings used in the calculation of dilutive EPS	**14,227**	**18,003**
(b) RECONCILIATION OF EARNINGS TO PROFIT OR LOSS FROM CONTINUING OPERATIONS		
Profit / (loss) for the year from continuing operations	14,227	18,003
(Profit) / loss for the year, attributable to non-controlling interest in respect of continuing operations	–	–
Earnings used to calculate basic EPS from continuing operations	**14,227**	**18,003**
Earnings used in the calculation of dilutive EPS from continuing operations	**14,227**	**18,003**
	No.'000	No.'000
(c) WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES OUTSTANDING DURING THE YEAR USED IN CALCULATING BASIC EPS	313,381	313,381
Weighted average number of dilutive options outstanding	–	–
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	**313,381**	**313,381**

Note 8 - Cash and Cash Equivalents

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

	2019 $'000	2018 $'000
CASH AT BANK AND IN HAND	23,702	8,656
	23,702	**8,656**

As at the reporting date, where the Group has the legally enforceable right of set-off and the intention to settle on a net basis within its banking facilities, the Group has set-off bank overdrafts of $21,782,819 (2018: $26,239,011) against cash and cash equivalents of $28,845,402 (2018: $31,192,557) resulting in a net positive cash position of $7,062,583 (2018: $4,953,546).

Note 9 - Trade and Other Receivables

	2019 $'000	2018 $'000
CURRENT		
Trade receivables	28,045	26,338
Provision for impairment of receivables	(846)	(324)
Total trade receivables	**27,199**	**26,014**
Accrued income*	2,875	1,983
Sundry receivables	238	278
Total other receivables	**3,113**	**2,261**
TOTAL CURRENT TRADE AND OTHER RECEIVABLES	**30,312**	**28,275**

*Contract assets are disclosed within accrued income.

(a) Expected Credit Loss Provision for Impairment of Receivables

The Group has established a Credit Management Policy under which each new customer application is analysed individually for creditworthiness before the Group offers any form of credit, or any variation to the standard terms and conditions. Credit facilities are generally offered on terms of 30 to 60 days from end of month. The Group's review procedure includes the utilisation of external ratings, credit agency information and other industry information. Credit limits are established and monitored for each customer with any sales exceeding these limits requiring approval. The Group monitors the economic environments in which it operates, and proactively takes any necessary actions to limit its credit exposure to customers and industries that are experiencing economic volatility.

The Group has adopted the simplified approach when calculating its expected credit loss provisions. This allows the recognition of lifetime expected credit losses at all times. This provision is reassessed when there is a significant change in credit risk. These amounts have been included in the provision for impairment of accounts receivable.

The Group uses a provisions matrix to measure the expected credit losses of trade receivables from individual customers. Loss rates are calculated using a "roll rate" method based on the probability of a receivable progressing through successive stages of delinquency to write-off. Roll rates are calculated separately per operating segment. Loss rates are based on actual credit loss experience over the past three years, which are adjusted where deemed necessary for economic factors to reflect differences in economic conditions over which the historical data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

2019	Weighted average loss rate	Gross carrying amount $'000	Loss allowance $'000	Credit impaired
Current (not past due)	0.47%	23,676	112	No
1 – 30 days past due	2.99%	2,434	73	No
31 – 60 days past due	8.11%	210	17	No
61 – 90 days past due	15.96%	675	108	No
More than 90 days past due	36.82%	813	299	Yes
Total ECL Provision		**27,808**	**609**	
Specific Provision		237	237	Yes
Total Provision		**28,045**	**846**	

Note 9 - Trade and Other Receivables (cont'd)

2019	Loss Allowance $'000
Loss allowance for trade and other receivables balance as at 30 June 2018	324
Additional loss allowance for trade and other receivables (AASB 9: *Financial Instruments*)	848
Loss allowance for trade and other receivables opening balance as a 1 July 2018	1,172
Utilised loss allowance for trade and other receivables	(331)
Additional loss allowance as at 30 June 2019	5
Loss allowance for trade receivables closing balance as at 30 June 2019	**846**

Note 10 - Inventories

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

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

	2019 $'000	2018 $'000
CURRENT		
At cost:		
– Work in progress	4,789	5,460
– Finished goods	21,480	16,679
	26,269	**22,139**
At net realisable value:		
– Work in progress	–	–
– Finished goods	10,305	11,805
	10,305	**11,805**
TOTAL INVENTORY	**36,574**	**33,944**

The Group has completed a comprehensive review of the carrying value of inventory. As a result of the review, inventory has been impaired by $571,000 (2018: $90,000).

Note 11 - Other Current Assets

	2019 $'000	2018 $'000
CURRENT		
Other current assets	517	2,236
Prepayments	1,509	1,079
TOTAL CURRENT OTHER ASSETS	**2,026**	**3,315**

Note 12 - Property, Plant and Equipment

Recognition and Measurement

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

Subsequent Expenditure

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

Depreciation

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

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

Class of Property, Plant & Equipment	Depreciation Rate
Leasehold improvements	10% – 100%
Plant and equipment	5% – 67%
Leased plant and equipment	30% – 67%
Buildings	2.50%

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

	2019 $'000	2018 $'000
LAND AND BUILDINGS		
Freehold land:		
– At cost	53	53
TOTAL LAND	**53**	**53**
Buildings:		
– At cost	806	806
– Less accumulated depreciation	(652)	(630)
TOTAL BUILDINGS	**154**	**176**
TOTAL LAND AND BUILDINGS	**207**	**229**
PLANT AND EQUIPMENT		
Plant and equipment:		
– At cost	80,933	82,854
– Accumulated depreciation and impairment	(69,697)	(66,597)
TOTAL PLANT AND EQUIPMENT	**11,236**	**16,257**
Leasehold improvements:		
– At cost	3,557	3,260
– Accumulated depreciation	(3,268)	(2,907)
TOTAL LEASEHOLD IMPROVEMENTS	**289**	**353**
TOTAL PLANT AND EQUIPMENT	**11,525**	**16,610**
TOTAL PROPERTY, PLANT AND EQUIPMENT	**11,732**	**16,839**

*2018 comparatives have been restated for current year classification of asset classes.

Note 12 - Property, Plant and Equipment (cont'd)

(a) Reconciliation of Carrying Amounts

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

	Consolidated Group				
	Freehold Land $'000	Buildings $'000	Leasehold Improvements $'000	Plant and Equipment* $'000	Total $'000
BALANCE AT 1 JULY 2017	53	207	539	16,577	17,376
Additions	–	–	183	3,390	3,573
Disposals	–	–	–	(464)	(464)
Depreciation expense	–	(31)	(369)	(3,246)	(3,646)
BALANCE AT 30 JUNE 2018	**53**	**176**	**353**	**16,257**	**16,839**
Additions	–	–	296	2,671	2,967
Disposals	–	–	–	(4,592)	(4,592)
Depreciation expense	–	(22)	(360)	(3,100)	(3,482)
BALANCE AT 30 JUNE 2019	**53**	**154**	**289**	**11,236**	**11,732**

*2018 comparatives have been restated for current year classification of asset classes.

Note 13 - Net Tangible Assets

	2019 Cents	2018 Cents
Net tangible assets per ordinary share: 313,380,943 shares (2018: 313,380,943 shares)	26.5	23.6

Note 14 - Intangible Assets

Recognition and measurement

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

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

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

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

Subsequent expenditure

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

Amortisation

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

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

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

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

	2019 $'000	2018 $'000
OTHER IDENTIFIABLE INTANGIBLES		
Cost:		
Opening balance	12,993	12,959
Additions	85	34
Closing balance	**13,078**	**12,993**
Accumulated amortisation:		
Opening balance	(12,745)	(12,561)
Amortisation for the year	(133)	(184)
Closing balance	**(12,878)**	**(12,745)**
NET BOOK VALUE	**200**	**248**
TOTAL INTANGIBLE ASSETS		
At cost	13,078	12,993
Accumulated amortisation and impairment	(12,878)	(12,745)
NET BOOK VALUE	**200**	**248**

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

Note 15 - Trade and Other Payables

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

	2019 $'000	2018 $'000
CURRENT		
Unsecured liabilities:		
Trade payables	15,571	11,953
Sundry payables and accrued expenses	2,686	2,730
Deferred income*	1,151	770
TOTAL TRADE AND OTHER PAYABLES	**19,408**	**15,453**

*Contract liabilities are disclosed within deferred income.

Note 16 - Financial Liabilities

Non-Derivative Financial Liabilities - Measurement

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

Non-Derivative Financial Liabilities - Recognition and Derecognition

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

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

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

	Note	2019 $'000	2018 $'000
CURRENT			
Secured liabilities:			
Bank overdrafts	22(a)	294	338
TOTAL CURRENT FINANCIAL LIABILITIES		**294**	**338**

Information about the Group's exposure to interest rate, foreign currency and liquidity risk is included in Note 23 – Financial Risk Management.

(a) Collateral Provided

Bank facility

The bank facility with National Australia Bank is comprised of $10.0m Revolving Credit Facility, $6m Bank Guarantee Facility, $0.6m Credit Card Facility and $0.5m Set off Facility. These facilities are secured against the Australian assets of the Group. The facility expires on 20 November 2021.

The bank facility of $2.0m with the Commonwealth Bank of Australia (CBA) was secured by a cash deposit into a secured bank account. The facility expired on 30 June 2019.

Related party debt and facility

The related party debt facility with Elph Pty Ltd (Elph) was terminated 20 November 2018.

Defaults and breaches

There were no defaults or breaches during the year ended 30 June 2019 on any of the above mentioned facilities.

Lease liabilities

Lease liabilities are secured by underlying leased assets.

(b) Debt Facilities and Credit Standby Arrangements

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

	Facility Available 2019 $'000	Facility Used 2019 $'000	Maturity Dates 2019	Facility Available 2018 $'000	Facility Used 2018 $'000	Maturity Dates 2018	Interest Basis
NAB Revolving Credit Facility	16,600	–	Nov-21	–	–	–	Floating
CBA Working Capital Multi Option Facility	–	–	Expired	2,000*	1,420	Jun-19	Floating
Swedish Overdraft Facility (SEK)**	920	–	Dec-19	906	–	Dec-18	Floating
Elph Funding Facility	–	–	Expired	10,000	–	Apr-19	Fixed
	17,520	**–**		**12,906**	**1,420**		

*Comprises net bank overdrafts, off balance sheet bank guarantees and business credit cards and other trade products.

**Facility is denominated in SEK, and presented in AUD above.

Note 17 - Provisions

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

Provision for Long-Term Employee Benefits

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

Restructuring

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

Site Restoration

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

Onerous Contracts

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

Other Provisions

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

Notes to the Consolidated Financial Statements

for the year ended 30 June 2019

Note 17 - Provisions (cont'd)

	Consolidated Group					
	Long Service Leave Employee Benefits $'000	Annual Leave Employee Benefits $'000	Onerous Contracts $'000	Restructuring $'000	Other $'000	Total $'000
BALANCE AT 1 JULY 2018	2,714	2,797	236	9	1,261	7,017
Provisions raised	454	2,364	96	–	246	3,160
Transfer in / (out)	–	–	–	–	–	–
Provisions used	(230)	(2,194)	–	(9)	(151)	(2,584)
BALANCE AT 30 JUNE 2019	**2,938**	**2,967**	**332**	**–**	**1,356**	**7,593**
Current	2,415	2,967	332	–	1,356	7,070
Non-current	523	–	–	–	–	523
BALANCE AT 30 JUNE 2019	**2,938**	**2,967**	**332**	**–**	**1,356**	**7,593**

Note 18 - Capital and Leasing Commitments

Determining Whether an Arrangement Contains a Lease

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

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

Leased Assets

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

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

Lease Payments

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

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

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

LEASES AS A LESSEE

(a) Finance Lease Commitments

As at 30 June 2019, the Group is not a party to any finance lease arrangements (2018: NIL).

	2019 $'000	2018 $'000
(b) Operating Lease Commitments		
Non-cancellable operating leases contracted for but not capitalised in the financial statements		
Payable – minimum lease payments:		
– not later than 12 months	4,250	4,500
– between 12 months and 5 years	9,440	11,558
– greater than 5 years	2,528	4,253
	16,218	**20,311**

During the year-ended 30 June 2019, $5,013,000 was recognised as an expense in the Statement of Profit or Loss and OCI in respect of operating leases (2018: $4,555,000).

(c) Contractual Commitments

At 30 June 2019, the Group had not entered into any contractual commitments for the acquisition of property, plant and equipment and other intangible assets (2018: NIL).

LEASES AS A LESSOR

	2019 $'000	2018 $'000
(d) Operating Lease Receivables		
Receivable – minimum lease payments:		
– not later than 12 months	630	1,358
– between 12 months and 5 years	687	1,553
– greater than 5 years	193	316
	1,510	**3,227**

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

Note 19 - Contingent Liabilities

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

The Group has arranged for its bankers to guarantee its performance to third parties. The maximum amount of these guarantees at 30 June 2019 is $1,289,974 (2018: $1,419,512).

Note 20 - Issued Capital and Reserves

(a) Share Capital

	2019 $'000	2018 $'000
313,380,943 (2018: 313,380,943) fully paid ordinary shares	302,719	302,719
	302,719	302,719

Ordinary shares

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

	2019 No.	2018 No.
At beginning of reporting period	313,380,943	313,380,943
AT REPORTING DATE	313,380,943	313,380,943

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

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

(b) Nature and Purpose of Reserves

Foreign currency translation reserve

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

Profit reserve

The profit reserve comprises a transfer of net profits and characterises profits available for distribution as dividend in future years.

(c) Dividends

After the reporting date, the following final dividend was declared by the board of directors. The dividend has not been recognised as a liability as at 30 June 2019, and there are no tax consequences.

	2019 $'000	2018 $'000
(a) FINAL DIVIDEND DECLARED		
1.5 cents per ordinary share (2018: 1 cent)	4,701	3,134
(b) FRANKING CREDIT BALANCE		
Amount of franking credits available to shareholders of Engenco Limited for subsequent financial years are:		
Franking account balance as at the end of the financial year at 30% (2018: 30%)	9,239	10,582

Note 21 - Parent Entity Disclosures

As at, and throughout the financial year ended, 30 June 2019 the parent entity of the Group was Engenco Limited. The ultimate controlling party of the Company at reporting date was Elph Investments Pty Ltd, incorporated in Australia.

	2019 $'000	2018 $'000
(a) Financial Position of Parent Entity at year end		
ASSETS		
Current assets	12,643	2,903
Non-current assets	17,153	31,461
TOTAL ASSETS	**29,796**	**34,364**
LIABILITIES		
Current liabilities	22,884	27,205
Non-current liabilities	275	4,624
TOTAL LIABILITIES	**23,159**	**31,829**
NET ASSETS	**6,637**	**2,535**
EQUITY		
Issued capital	302,720	302,720
Profit reserve	2,433	271
Accumulated losses	(298,516)	(300,456)
TOTAL EQUITY	**6,637**	**2,535**
(b) Result of Parent Entity		
Profit / (loss) for the year	4,373	(3,014)
Other comprehensive income	–	–
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE PERIOD	**4,373**	**(3,014)**

(c) Parent Entity Guarantees in respect of the debts of its subsidiaries

The parent entity acts as guarantor for debt facilities. Details of these facilities can be found in Note 16(a) – Financial Liabilities.

(d) Parent Entity Contingent Liabilities

At 30 June 2019, the parent entity has no significant contingent liabilities (2018: NIL).

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

At 30 June 2019, the parent entity had not entered into any contractual commitments for the acquisition of property, plant and equipment and other intangible assets (2018: NIL).

Notes to the Consolidated Financial Statements

for the year ended 30 June 2019

Note 22 - Cash Flow Information

(a) Reconciliation of Cash at End of Financial Year

	Note	2019 $'000	2018 $'000
Cash and cash equivalents	8	23,702	8,656
Bank overdrafts	16	(294)	(338)
CASH (NET OF BANK OVERDRAFTS) AT END OF FINANCIAL YEAR		**23,408**	**8,318**

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

	2019 $'000	2018 $'000
PROFIT / (LOSS) AFTER INCOME TAX	14,227	18,003
Adjustments for non-cash items:		
– Depreciation	3,482	3,646
– Other intangibles amortisation	133	184
– (Reversal of) / impairment losses on inventory	571	90
– Movement in ECL provision	5	–
– Net finance costs	248	446
– Income tax expense / (benefit)	(1,537)	(4,989)
– Gain on sale of property, plant and equipment	(2,656)	(305)
	14,473	**17,075**
Changes in:		
– (Increase) / decrease in trade and other receivables	(1,997)	(2,226)
– (Increase) / decrease in prepayments	(429)	(144)
– (Increase) / decrease in inventories	(3,201)	(5,094)
– Increase / (decrease) in trade payables and accruals	3,684	(424)
– Increase / (decrease) in provisions	577	(161)
Cash provided by / (used in) operating activities	**13,107**	**9,026**
– Net interest paid	(248)	(446)
– Income taxes paid	(538)	(288)
CASH FLOW PROVIDED BY / (USED IN) OPERATIONS	**12,321**	**8,292**

(c) Reconciliation of Financial Liabilities in Financing Activities

	2018 $'000	Cash Flows $'000	Non-Cash Changes $'000	2019 $'000
Bank Overdraft	338	–	(44)	294
TOTAL FINANCIAL LIABILITIES	**338**	**–**	**(44)**	**294**

Note 23 - Financial Risk Management

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

	Note	2019 $'000	2018 $'000
FINANCIAL ASSETS			
Cash and cash equivalents	8	23,702	8,656
Trade and other receivables	9	30,312	28,275
		54,014	**36,931**
FINANCIAL LIABILITIES			
Financial liabilities at amortised cost:			
– Trade and other payables	15	19,048	15,453
– Borrowings	16	294	338
		19,702	**15,791**

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. Management's overall risk management strategy seeks to assist the Group in meeting its financial targets, while minimising potential adverse effects on financial performance. Management operates under the supervision of members of the Board of Directors. Risk management transactions are approved by senior management personnel.

ii. Financial Risk Exposures and Management

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

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

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

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

a. Interest Rate Risk

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

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

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

Note 23 - Financial Risk Management (cont'd)

	2019 $'000	2018 $'000
FLOATING RATE INSTRUMENTS		
Bank Overdrafts	294	338
Total	**294**	**338**

b. Liquidity Risk

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

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

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

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

Financial Liability Maturity Analysis

	Consolidated Group							
	Within 1 Year		1 to 5 Years		Over 5 Years		Total	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000	2019 $'000	2018 $'000	2019 $'000	2018 $'000
FINANCIAL LIABILITIES DUE FOR PAYMENT								
Bank overdrafts and loans	294	338	–	–	–	–	294	338
Trade and other payables	19,408	15,453	–	–	–	–	19,408	15,453
Total Expected Outflows	**19,702**	**15,791**	**–**	**–**	**–**	**–**	**19,702**	**15,791**

c. Currency Risk

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

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

d. Credit Risk

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

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

Where the Group is unable to ascertain a satisfactory credit risk profile in relation to a customer or counter-party, then risk may be further managed through title retention clauses over goods or obtaining security by way of personal or commercial guarantees over assets of sufficient value which can be claimed against in the event of any default. The Group has established procedures to ensure Personal Property Securities Act 2009 (Cth) registration is performed for all relevant assets.

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

On a geographical basis the Group has significant credit risk exposures in Australia given the substantial operations in this region. Details with respect of the credit risk of Trade and Other Receivables can be found in Note 9.

Trade and other receivables that are neither past due or impaired are considered to be of high credit quality. Aggregates of such amounts are detailed in Note 9 – Trade and Other Receivables.

Balances held with banks are with AA rated financial institutions, details of these holdings can be found in Note 8 – Cash and Cash Equivalents.

iii. Net Fair Values

Fair Value Estimation

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

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

	Consolidated Group			
	2019 Carrying Value $'000	2019 Fair Value $'000	2018 Carrying Value $'000	2018 Fair Value $'000
FINANCIAL ASSETS				
Cash and cash equivalents	23,702	23,702	8,656	8,656
Trade and other receivables	30,312	30,312	28,275	28,275
	54,014	**54,014**	**36,931**	**36,931**
FINANCIAL LIABILITIES				
Trade and other payables	19,408	19,408	15,453	15,453
Loans and borrowings	294	294	338	338
	19,702	**19,702**	**15,791**	**15,791**

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

- Cash and cash equivalents, trade and other receivables and trade and other payables are short-term instruments in nature whose carrying value is equivalent to fair value.

Note 23 - Financial Risk Management (cont'd)

- Loans and borrowings have carrying values equivalent to fair value. The majority of these facilities have floating rates and those that are fixed are expected to be held to maturity and as such when discounted bear little resemblance to the carrying value.

iv. Sensitivity Analysis

a. Interest Rate Risk and Currency Risk

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

b. Interest Rate Sensitivity Analysis

The Group is not sensitive to the effect on earnings and equity as a result of changes in the interest rate as at reporting date, the Group does not carry any debt balances subject to a floating interest rate.

c. Currency Risk Sensitivity Analysis

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

	2019 $'000	2018 $'000
CHANGE IN EARNINGS		
– Improvement in AUD to SEK by 5%	(16)	(15)
– Decline in AUD to SEK by 5%	16	15
CHANGE IN EQUITY		
– Improvement in AUD to SEK by 5%	(467)	(472)
– Decline in AUD to SEK by 5%	467	472

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

v. Capital Management

Management monitors the capital of the Group in an effort to maintain an appropriate debt to equity ratio, provide the shareholders with adequate returns and ensure that the Group can fund its operations. The Group's debt and capital includes ordinary shares and financial liabilities. The gearing ratios as at 30 June 2019 and 2018 are as follows:

	2019 $'000	2018 $'000
Total Borrowings	294	338
Net Debt / (Cash)	(23,408)	(8,318)
Total Equity	84,075	73,218
TOTAL EQUITY AND NET DEBT	**60,667**	**64,900**
GEARING RATIO	**(28%)**	**(11%)**

Note 24 - Related Party Transactions

(a) Transactions with Key Management Personnel

Short-term employee benefits

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

Defined contribution plans

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

Other long-term employee benefits

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

Termination benefits

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

(i) Key Management Personnel Compensation

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

	2019 $'000	2018 $'000
Short-term employee benefits	1,080,650	1,195,236
Post-employment benefits	107,638	106,831
Termination benefits	80,000	–
Other long-term benefits	13,302	11,702
TOTAL	**1,281,590**	**1,313,769**

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

(ii) Key Management Personnel Transactions

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

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

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

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

Note 24 - Related Party Transactions (cont'd)

Related Party	Director	Revenue / (Cost) for the year ended 30 June 2019 $	2018 $	Receivable / (Payable) as at 30 June 2019 $	2018 $
Elph Pty Ltd[1]	V De Santis/D Elphinstone	(91,135)	(279,824)	–	–
Elphinstone Group (Aust) Pty Ltd[2]	V De Santis/D Elphinstone	(384,530)	(471,807)	(8,030)	(38,489)
William Adams Pty Ltd[3]	V De Santis/D Elphinstone	(1,943)	(115,615)	(1,738)	3,904
United Equipment Pty Ltd[4]	V De Santis/D Elphinstone	(408,987)	(350,958)	(12,534)	(37,799)
Southern Prospect Pty Ltd[5]	D Elphinstone	75,128	–	9,526	–
Elphinstone Pty Ltd[6]	D Elphinstone	2,949,281	3,697,372	329,021	20,531

1 Line Fees and interest were incurred and paid to Elph Pty Ltd in relation to the related party funding facility with the Group. Dale Elphinstone is a director and the Chairman of this entity. Vincent De Santis was also a director of Elph Pty Ltd during the period, resigning 21 December 2018.

2 Director fees and travel expense reimbursements were paid to Elphinstone Group (Aust) Pty Ltd for the services of Dale Elphinstone (Non-Executive Director) and Vincent De Santis (Chairman). Legal service fees were also paid to Elphinstone Group (Aust) Pty Ltd during the year. Dale Elphinstone is Chairman of this entity. Vincent De Santis was also a director of Elph Pty Ltd during the period, resigning 21 December 2018.

3 Goods were purchased from and sold to William Adams Pty Ltd during the period. Dale Elphinstone is the Chairman and a director. Vincent De Santis was also a director of Williams Adams Pty Ltd during the period, resigning 21 December 2018.

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

5 Goods were sold to Southern Prospect Pty Ltd during the period. Dale Elphinstone is the Chairman of this entity.

6 Goods were sold to Elphinstone Pty Ltd during the period. Dale Elphinstone is a director and the Chairman of this entity.

(b) Other Related Party Transactions

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

Related Party Transaction	2019 $'000	2018 $'000
Current receivables (parent entity):		
Receivables from subsidiaries	524	502

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

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

Rate: Fixed rate reviewable quarterly.

Note 25 - Auditor's Remuneration

	2019 $	2018 $
Audit and Review Services		
Auditors of the Company		
– KPMG Australia – audit and review of financial statements	314,221	270,000
– KPMG Australia – audit and review of financial statements	29,896	40,980
TOTAL AUDIT AND REVIEW SERVICES	**344,117**	**310,980**
Other Services		
Auditors of the Company		
– KPMG Australia – in relation to taxation compliance services	4,580	2,772
– KPMG Australia – in relation to advisory services	11,495	–
– KPMG Overseas – in relation to taxation compliance services	–	11,062
TOTAL OTHER SERVICES	**16,075**	**13,834**

Note 26 - Events Subsequent to Reporting Date

On 21 August 2019, the Board resolved to declare a final dividend of 1.5 cents per share (fully franked). Payment of the dividend to shareholders will take place in 26 September 2019.

Other than the above, there has not arisen, in the interval between the end of the financial year and the date of this report, any item, transaction or event which would have a material effect on the financial statements of the Group at 30 June 2019.

Shareholder Information

for the year ended 30 June 2019

Additional Information for Listed Companies at 11 August 2019

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

1. Shareholding

(a) Distribution of shareholders

	No. of shareholders	%	No. Ordinary Shares
1 – 1,000	133	0.01%	26,273
1,001 – 5,000	174	0.18%	552,204
5,001 – 10,000	126	0.32%	1,007,065
10,001 – 100,000	232	2.51%	7,854,066
100,001 – and over	105	96.98%	303,941,335
	770	**100%**	**313,380,943**

(b) The number of shareholdings held in less than marketable parcels (less than $500 in value) is 129.

(c) 20 largest shareholders - ordinary shares

Position	Name	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
1	Elph Investments Pty Ltd	109,060,536	34.80%
2	Elph Pty Ltd	93,346,378	29.79%
3	UBS Nominees Pty Ltd	23,802,310	7.60%
4	RAC & JD Brice Superannuation Pty Ltd	18,575,886	5.93%
5	HSBC Custody Nominees (Australia) Limited	12,673,705	4.04%
6	Marford Group Pty Ltd	4,387,029	1.40%
7	Mr Clarence John Kelly, & Mrs Robyn Suzanne Kelly	3,655,000	1.17%
8	Mr Hugh William Maguire, & Mrs Susan Anna Maguire	3,410,000	1.08%
9	JP Morgan Nominees Australia Limited	3,327,593	1.06%
10	Mr Neville Leslie Esler, & Mrs Cheryl Anne Esler	2,396,925	0.76%
11	Mr Dennis Graham Austin, & Mrs Marilyn Alice Austin	1,645,000	0.52%
12	Strategic Value Pty Ltd (TAL SUPER A/C)	1,536,400	0.49%
13	Neko Super Pty Ltd	1,520,304	0.49%
14	Mr Hugh William Maguire	1,300,000	0.41%
15	Jared Charles Lawrence	1,053,661	0.34%
16	Prussner Investment Pty Ltd	1,010,000	0.32%
17	T B I C Pty Ltd	1,000,000	0.32%
18	Mrs Margaret Jane Lindemann, & Mr Luke Charles Lindemann	950,000	0.30%
19	Exldata Pty Ltd	765,000	0.24%
20	BFA Super Pty Ltd	595,027	0.19%
		286,010,754	**91.25%**

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

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

Shareholder Information

for the year ended 30 June 2019

(e) Voting Rights

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

2. The name of the Company Secretaries are:

Paul Burrows
Andrew Nightingale

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

Level 22, 535 Bourke Street, Melbourne, VIC 3000

4. Registers of securities are held at the following address:

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

5. Securities Exchange Listing

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

6. Unquoted Securities

N/A.

7. Other Information

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

Corporate Directory

for the year ended 30 June 2019

Corporate Office

Engenco Limited

Level 22
535 Bourke Street
Melbourne VIC 3000

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

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

Registered Office

Engenco Limited

Level 22
535 Bourke Street
Melbourne VIC 3000

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

Directors

Vincent De Santis

BCom, LLB (Hons)
Non-Executive Chairman

Kevin Pallas

BCom, MAICD
Managing Director & CEO

Dale Elphinstone OA

FAICD
Non-Executive Director

Alison von Bibra

BSc, MBA
Independent Non-Executive Director

Ross Dunning AC

BE (Hons), BCom, FIE Aust, FIRSE, RPEQ
Independent Non-Executive Director

Company Secretary

Paul Burrows

BCom, CA, GAICD
Company Secretary

Andrew Nightingale

BCom, LLB
Company Secretary

Auditors

KPMG

Tower Two
Collins Square
727 Collins Street
Melbourne VIC 3000
T: +61 (0)3 9288 5555
F: +61 (0)3 9288 6666

Share Registry

Security Transfer Australia Pty Ltd

Level 9, Suited 913
530 Little Collins Street
Melbourne VIC 3000
T: +61 (0)3 9628 2200
F: +61 (0)8 9315 2233

www.engenco.com.au