# Engenco

# Annual Report 2020

# Contents



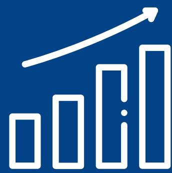
This Annual Report includes Engenco Limited's Directors' Report, the Annual Financial Report and Independent Audit Report for the financial year ended 30 June 2020 lodged with the Australian Securities and Investments Commission and ASX Limited. The Annual Report is available on the Engenco website www.engenco.com.au. 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

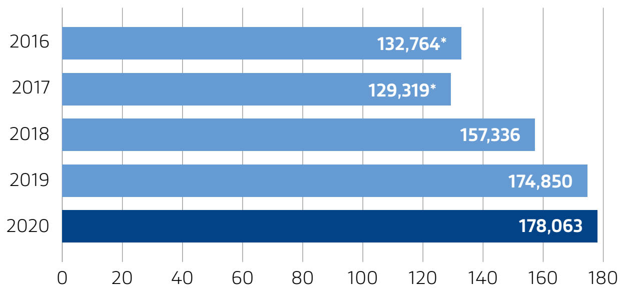
**NET CASH**
**$14.1**
**MILLION**

**504**
**STAFF ACROSS 6 BUSINESS UNITS**

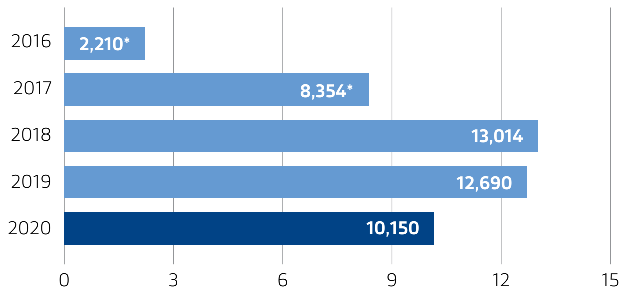


**TOTAL REVENUE**
**$178.1**
**MILLION**

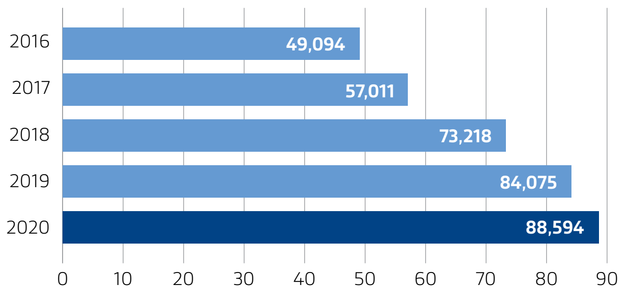
## Revenue – $'000



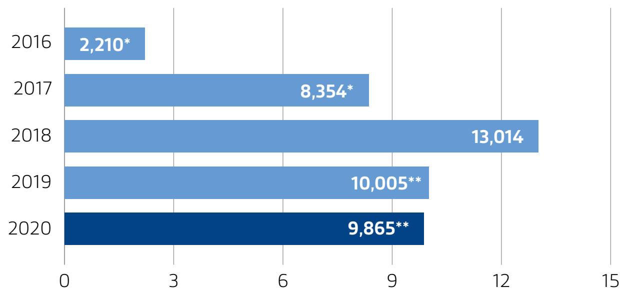

## Net Profit Before Tax – $'000



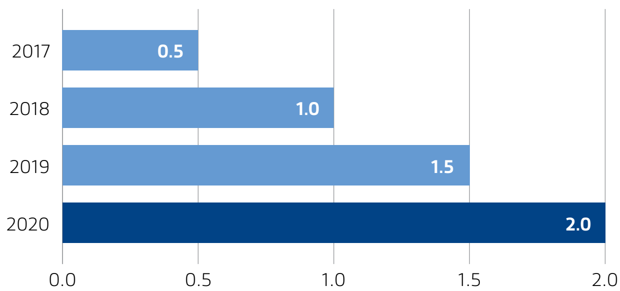

## Net Assets – $'000



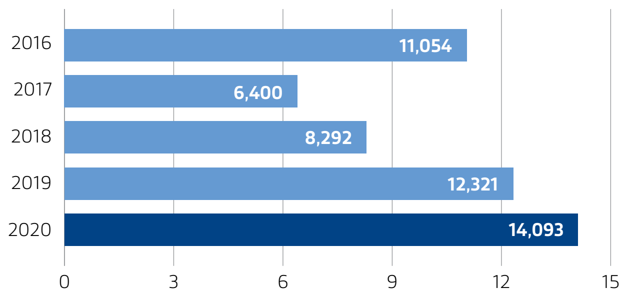

## Net Profit Before Tax (Adjusted) – $'000




## Total Dividends – Cents




## Operating Cash Flow – $'000




* 2016 and 2017 figures for Revenue, Net Profit Before Tax and Basic Earnings Per Share are from continuing operations.

** Adjusted for gains on capital Wagon sales.

# Chairman's Report

**Vince De Santis**

In our 2019 Annual Report, we mentioned the need to deal with the ever present risks that external shocks pose, some "on the radar" and others completely unforeseeable.

COVID-19 was definitely not on our radar!

> "We however are enormously proud of our people throughout the Engenco Group for their hard work, resilience and leadership, especially during the final months of the year. It is off the back of their efforts that we were able to deliver a commendable financial performance in FY20 comparable with the previous year."

Notwithstanding the many challenges which arose in the most unprecedented and trying circumstances most of us have ever encountered, Engenco has also been very fortunate to predominantly operate in sectors which to date, have been classified as essential service providers.

## Balance Sheet & Capital Management

We have spent the past few years firstly rebuilding the company's balance sheet and then positioning the same for the investments we wanted to make to expand the Group's capacity and capability.

Our end of year cash balance was a healthy $14.1 million. While this was lower than the $23.4 million held at the beginning of the year, we once again increased the dividends paid to our shareholders, and also managed a reasonably significant level of investment as we embarked on a number of major capital expenditure projects.

Our $10 million NAB line of credit facility remained undrawn throughout the entire year. Since entering the current financial year, we have extended the maturity date of our NAB facilities by a further 2 years until 31 October 2023 and doubled our line of credit facility limit to $20 million.

With no debt, cash in the bank and a $20 million undrawn loan facility, our balance sheet is robust which is entirely appropriate, and we believe an enviable position to be in during the current period of uncertainty and extreme volatility. It also provides the company with a great foundation from which it can continue to grow through a mix of organic and potential acquisition opportunities that may arise.

## Dividends

During the year, Australian and global interest rates continued to reach new depths never seen in our lifetimes.

We were therefore very pleased to once again, pay an income to our shareholders with an interim dividend of 0.5 cents per share (fully franked), and a final dividend of 1.5 cents per share (also fully franked). These dividends were one third higher than the 1.5 cents final dividend (fully franked) which we had previously declared in respect of the 2019 financial year.

## People

Over the past year we have been able to keep building and developing the capability of our people with the focus on our multi-year "people and culture" initiatives which continue to permeate deeper into the business from one year to the next. We are seeing the benefits of our investment and patience. We remain committed with the Board no longer remaining as just an observer but also becoming an active participant in such programs during which we have also been working to improve our own performance.

During the year, the company formed the Workforce Solutions division comprising of the CERT Training and Momentum Rail operations. We successfully recruited a new Executive General Manager role which was created to lead and grow the business. Notwithstanding the challenges created by COVID-19, we

remain very optimistic about the longer-term prospects for Workforce Solutions.

Since the end of the year we have been able to further increase the Board's capability with the appointment of Scott Cameron as a director of the company with effect from 1 September 2020. Scott arrives at Engenco with a wealth of relevant experience gained from his many years in senior executive leadership roles.

## What's ahead

Only a few months ago, most of us were simply getting on with our lives unaware of the challenges we were about to face brought on by COVID-19. We're told that "it will end", but no-one really knows when this will occur or what "the end" might look like.

> "However, we believe the company is as well positioned as it can be and it's also pleasing to have entered the new financial year carrying some of the momentum with which we ended the last."

While the company's financial stability is of great value, we are most grateful for the enormous effort and contribution made by our people as they come to work (or work from home) each day, and for the support of our valued customers particularly over these past few months which have been extremely testing for everyone.

And to our shareholders, we again thank you for the confidence you have placed in us as custodians of your investment. We will endeavour to reciprocate and continue building an organisation for whom people wish to work – as an employer of choice, with whom customers want to deal – and receive superior value, and in whom investors entrust their capital – to secure superior returns.

**Vince De Santis**
Chairman

## Group Overview

# Business Unit Overview

## Rail and Road

### GEMCORAIL

**47.9%** of total revenue

**Revenue** $'000

| | |
|---|---|
| FY19 | $68,009 |
| FY20 | $87,241 |

**Net Profit Before Tax** $'000

| | |
|---|---|
| FY19 | $10,313 |
| FY20 | $11,938 |

### Key Operations

- Rollingstock maintenance, refurbishment and technology upgrades.
- Wheelset, bearing and bogie rotable maintenance and overhaul services.
- Technical expertise including engineering design, product reliability and manufacturing services.

### Achievements

- Positive market share gain in the maintenance of rollingstock and related rotables in the major rail commodity markets of Western Australia, Queensland and New South Wales.
- Improved operating leverage by extending the use of core products and services and leveraging OEM partner technologies into new customers particularly in our east coast operations.
- Building our People and Culture strategy into a high trust organisation with exemplary leadership and a highly engaged workforce.

### Outlook

Further penetration into the "tier 1" rail operators driven by our disciplined, customer facing and skilled operational teams. Driving for high quality, innovative solutions is expected to continue Gemco's growth.

## Power and Propulsion

### Drivetrain

**25.3%** of total revenue

**Revenue** $'000

| | |
|---|---|
| FY19 | $47,902 |
| FY20 | $46,001 |

**Net Profit Before Tax** $'000

| | |
|---|---|
| FY19 | $5,158 |
| FY20 | $4,181 |

### Key Operations

- Maintenance, repair and overhaul of driveline components.
- National branch footprint encompassing workshop capability and strategic inventory support with genuine components and spare parts.
- Supporting quality global OEM brands in the mining, transport, energy and defence industries.

### Achievements

- Refined branch network to align with "customer first" approach.
- Development and implementation of new products and services.
- Invested in the development of the People and Culture Plan.

### Outlook

Growth prospects include, mid-life component overhaul projects, capital equipment installation and through-life support, and ongoing support for the Collins Class Submarine life-extension program.

## Workforce Solutions

### Momentum Rail Workforce Solutions

**7.9%** of total revenue

**Revenue** $'000

| | |
|---|---|
| FY19 | $23,685 |
| FY20 | $14,419 |

**Net Profit Before Tax** $'000

| | |
|---|---|
| FY19 | $2,808 |
| FY20 | $1,518 |

### Key Operations

- Highly skilled rail operators including trainer assessors and workplace mentors.
- Onboarding safe working / infrastructure programs and career pathways.
- Customised workforce solutions.

### Achievements

- Establishment of customised and Government funded onboarding programs and talent pipelines into the infrastructure industry.
- Further expansion of east coast infrastructure workforce solution into new "tier 1" clients.
- Further development of Government funded onboarding programs and talent pipelines to support Momentum Rail's growth in the rail industry.

### Outlook

With the continued industry growth, Momentum Rail is well positioned to supply workforce solutions to nation-building projects, working closely with "tier 1" infrastructure customers and rail operators.

CONVAIR

**8.1%** of total revenue

**Revenue** $'000


**Net Profit Before Tax** $'000


## Key Operations

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

## Achievements

- New innovative production design utilising the latest technology.
- Continuous evolution of production processes utilising lean principles, resulting in improved efficiency and standards.

## Outlook

New opportunities from engineering innovation, further development of the production processes and future increases in market activity.

HEDEMORA TURBO & DIESEL

**5.2%** of total revenue

**Revenue** $'000


**Net Profit Before Tax** $'000


## Key Operations

- Maintenance, repair and overhaul of Hedemora Diesel engines.
- Original manufacturer, installation and retrofit of turbochargers.
- Maintenance, and spare parts services for global customers.

## Achievements

- Proven efficiency benefits from installation of turbochargers.
- Development and implementation of new products and services.
- Continued support for global customers utilising Hedemora Diesel engines.

## Outlook

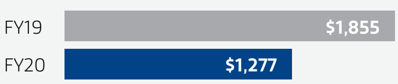
Growth prospects include, increasing market share of turbochargers in Europe and the United States and ongoing support for the Collins Class Submarine life-extension program and other diesel engine applications.

CERT TRAINING

**5.6%** of total revenue

**Revenue** $'000


**Net Profit Before Tax** $'000




## Key Operations

- Registered Training Organisation (RTO).
- Delivering Australian Government accredited and funded national training programs.
- Accredited and contracted to deliver industry induction, training and refresher programs to the rail industry.

## Achievements

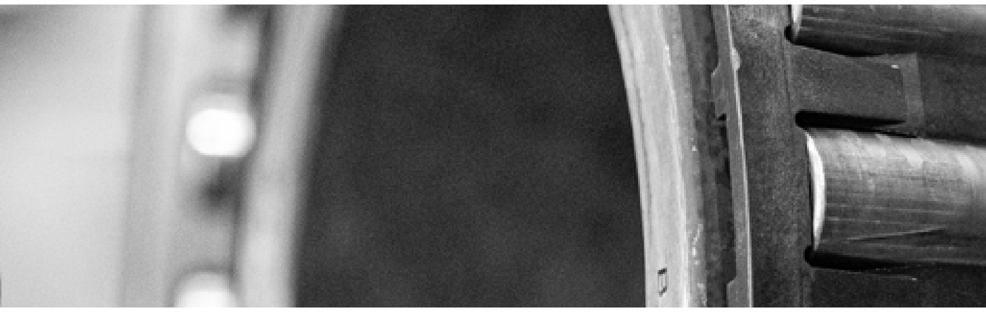
- Further embracing new technology through offering industry training programs "online" including training and assessment, across metro, regional and remote areas.
- Participating in Government funded training initiatives to upskill and reskill new entrants and existing workers.
- Successfully transitioning to a new learning management system to automate student enrolment processes.

## Outlook

Growing demand for skilled workers in response to Government investment into long-term national rail and infrastructure projects.

# Managing Director and CEO's Report

**Kevin Pallas**



## With another successful year behind us, Engenco is again looking forward to growth opportunities across the industries we serve.

Last year, we realised further benefits of medium-term investment projects commenced in previous years. We are now reinvesting those returns to boost further growth and to drive productivity. This multi-year investment strategy is building increased scale, and enabling the company to attract longer-term, more sustained projects and contracts. As revenue increases, so does our appetite for growth, which in turn is driving investments in people, products and services. As we invest, grow and consider additional potential acquisitions, we continue the focus on our core technical expertise and customer service.

> "We achieved consolidated revenue of $178.1m for the year, representing a 1.84% increase over the previous year, and a Compound Annual Growth Rate (CAGR) of 7.1% over a four-year period. Consolidated Group earnings before tax (NPBT), adjusted for gains on capital Wagon sales, was $9.9m, down from $10.0m in the prior year."

This is a solid result, considering investments made in the business during the first half, which contributed to the strong returns in the second half and the COVID-19-related slowdown in our people-focused businesses, and some supply chain delays at Hedemora in Europe and at Convair.

We continued to generate healthy operational cash flows with net cash flow from operations of $14.1m, up from $12.3m last year. As part of our growth and sustainment strategy, we substantially increased re-investment, and capital expenditure and commitments was $13.8m compared to $3.1m the previous year. This was driven by the acquisition of productivity enhancing growth assets, such as completing capacity build phases in Gladstone, and securing strategic land in Western Australia. The year ended with a healthy cash balance of $14.1m, and the banking facility remained undrawn.

The AUD/USD exchange rate ranged from circa 0.71 cents to 0.57 cents during the year, while the AUD/EUR rate also traded in a lower range, and this adversely affected the importation of components in Drivetrain, Convair and Gemco. These volatile exchange rates had the effect of squeezing profit margins due to the lag effect of customer price adjustments.

## Rail and Road

The growth of the Gemco Rail business demonstrates the success of our long-term strategy of building a sustainable platform, which is now receiving strong customer support and generating greater value. This division is the most advanced in terms of the Group's plans to build greater scale and continues to provide a growth model for our other businesses.

In January, we commenced revenue-generating operations at the Gladstone workshop after several months of development and commissioning activities. The focus is to service bulk-freight operators in Central Queensland and follows the successful opening of the Telarah workshop in the Hunter Valley in early FY19. Telarah has been instrumental in the delivery of rollingstock services – allowing us to offer a mix of functions and products. While Gladstone is in the initial phase of development, it is now operating as planned, delivering rollingstock maintenance services to the nearby mining industry. We will look to emulate this model in other locations which demonstrate growth potential.

The Inland Rail project, which will allow greater volumes of freight to be moved by rail, is a potentially lucrative growth opportunity for our rail-focused businesses. While details on terminal locations have not yet been revealed, we are monitoring the project and are ready to expand our operations to capture the growth opportunities as the national track footprint expands.

Convair recorded lower revenue and earnings compared to last year, mainly due to supply disruptions. The pandemic's effect on the global shipping industry slowed the importation of aluminium tankers from Germany for which Convair holds customer orders, which will now be delivered in FY21. For locally manufactured steel tankers the business unit cut tanker production by one quarter as the pandemic took hold in March. The business continues to focus on production efficiency improvements and on developing innovative bulk transport equipment, including a more efficient tanker design.

## Power and Propulsion

Drivetrain's branch structure was further optimised during the year, with the closure of poorly utilised sites in Sydney, Brisbane and New Zealand. Customers in those regions are being serviced through our National branch network, and mainly from our recently established centralised service and logistics centre in Thornton, NSW. We have commenced an expansion project for this facility to cater for the increased throughput. In terms of capacity expansion, the newly established Adelaide workshop provides greater opportunity to address demand as we commence a maintenance programme for a major mining contractor in South Australia. The optimisation projects added about $1m in labour and other associated non-recurring costs.

Hedemora Turbo & Diesel's continued push into the diesel turbocharger market was encouraging, with customers responding positively to our HS Turbocharger technology

around the world. We deployed a sales team in the United States to help market the HS Turbocharger range and we are in the process of gaining U.S. Environmental Protection Agency certification to allow our products to be used on the major Class I Railroad and in other sectors within North America.

Hedemora and Drivetrain benefited from the life-extension of the Collins Class submarine fleet, although this requires the company to maintain stocks of ageing parts. The COVID-19 pandemic impacted operations in Sweden, and we temporarily reduced the workforce due to supply chain disruptions from European partners. We also experienced some delays and deferrals in capital purchasing commitments and new projects.

## Workforce Solutions

Over the last few years, we have streamlined our businesses with the creation of divisions that focus on our core expertise, namely Power and Propulsion and Rail and Road. The people-focused Workforce Solutions division was established with this in mind, housing CERT Training and Momentum Rail. With the appointment of a highly experienced Executive General Manager, we are actively driving the benefits of the synergies not previously realised. This is expected to open further opportunities for growth in the mining and resources, logistics and other industry sectors.

CERT Training experienced lower demand for classroom sessions because of pandemic restrictions, particularly those relating to social distancing. Our team was quick to pivot to online learning channels as governments and clients introduced restrictions. While there was an increase in willingness to complete training online, this has initially been a small but important contributor to revenue.

On a positive note, the pandemic alleviated some customer hesitation around online services, and we expect the share of courses delivered in this way to increase. We were able to take advantage of the JobKeeper support payments for the CERT Training team, which allowed the business to stay engaged with its people, enabling a rapid return to growth once the pandemic abates.

Momentum Rail revenue decreased after completion of a major South Australian rail upgrade project in the first half. While the business has become a prime provider of supplementary rail personnel, opportunities can be cyclical, and we were unable to immediately replace large contracts due to timing of future opportunities. We are confident that Momentum Rail will continue to build on its reputation as a reliable supplier of skilled rail personnel, especially going into a period of investment in the rail infrastructure industry.

## People & Safety

The company continued to invest in its people, further cultivating a high-performance work culture. We are growing our future workforce, training more apprentices and employing more young people than ever and we are doing this from a diverse talent pool.

Building on FY19's Group People and Culture Plan, we maintained our well-supported training and development of leadership teams. We are elevating our workforce into one that is more accountable, with greater responsibility for their decisions. Engenco recognises that to grow sustainably, high-performance teams are a vital ingredient.

Safety is of paramount importance and we are continually looking for innovative ways to improve our performance. Our centralised health, safety, environment and quality team "Make Safe" help set policy, audit each site on a rotating basis and make recommendations on best practices via regularly updated work methodology statements.

We also introduced incentives to encourage better safety practices, aimed at driving our employees to take greater personal responsibility, and we rolled out an internally developed "Take 5" mobile application across the company. This software is designed to monitor safety, providing our people with an easy way to record risk assessments, vehicle and equipment statuses, pre-start and safety checks, as well as incident and hazard reporting. With the availability of this data, we can look at more focused ways to improve our safety record.

The Group Lost Time Injury Frequency Rate decreased from 3.11 to 2.38, a year-on-year reduction of 30.7%. While this is a pleasing result, we have decided to now focus on improving Total Recordable Injury Frequency Rate in our next phase of driving safety excellence.

## COVID-19 Pandemic Response

Despite the heightened levels of market uncertainty, Engenco is continuing to trade soundly during the various stages of COVID-19 restrictions, with the exception of our people-focused Workforce Solutions division.

At the outset of the pandemic, we responded in line with advice from the Federal and State Governments, and other health authorities. This included working closely with customers to ensure all health requirements were met and developing an action plan to protect our people and manage the impacts. Where necessary, we implemented a work from home programme, very ably supported by our IT team and utilising our world-class, highly secure network platforms in which we have invested over the years. Our aim has been to ensure business continuity in what we call "business unusual" times.

## Summary

After several successful years, Engenco is well positioned to take advantage of future growth opportunities, particularly after COVID-19 restrictions are progressively eased and the broader economy begins to recover. This recovery is expected to be accentuated by rationalisation of the Australian industrial relations landscape, and the roll-out of industry stimulus packages likely to benefit our businesses. Our multi-year investment strategy has delivered growth and we are building increased scale, enabling us to take on longer-term, more sustained projects. Investment in new facilities continues and we are expecting strengthening contributions from these in the future. We are now in a position to seek out vertical and horizontal integration opportunities and sensible acquisitions which complement our expertise.

Engenco is dedicated to ensuring continuity of service and supply to our customers who operate within the transport, logistics, resources and defence industries. We are monitoring the pandemic actively so we can respond appropriately if the impact on our operations intensifies.

I would like to take this opportunity to thank all our customers, suppliers, shareholders and the communities in which we operate who have supported us through this challenging, yet successful financial year.

Our staff have proven themselves enthusiastic, dedicated and professional in the face of this pandemic. With the ongoing encouragement of a deeply supportive board of directors, I am honoured to lead such a talented and skilled team who are the backbone of our future.

**Kevin Pallas**
Managing Director and CEO

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.

## Gladstone Rollingstock Maintenance Facility

Gemco Rail's new Gladstone Rollingstock Maintenance Facility commenced operations in January 2020. Over the ensuing months, the facility has increased its production output and capabilities to include wheelset reprofiling, manufacture of new wheelset assemblies, refurbishment of wheelset bearing assemblies and in more recent times, commenced scheduled maintenance examinations of rollingstock.

Over the first 6 months of operations, the site has grown to a team of 25 multidisciplined technicians and support staff and further investment is expected in future periods both in terms of human capital and machinery capabilities with the committed installation of a new underfloor wheel lathe expected to be commissioned by December 2020.

With this further investment, the site will be well positioned to capture an increasing percentage of the rollingstock maintenance market in the Central Queensland region.

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.

## Dry Bulk Tanker Operation Training

By having a comprehensive understanding of their customer's needs Convair have identified an opportunity to provide bulk tanker operation training, in addition to the supply of purpose built, industry leading dry bulk tankers. Through extensive industry knowledge Convair was aware of the possible hazards involved in tanker operation. In collaboration with fluid mechanics specialists, engineers, tanker operators and specialist maintenance staff developed a tailored training program covering safety, componentry, maintenance, efficiency and best practice to maximise the life of the tanker.

This employee lead initiative has led to greater employee engagement and process efficiencies.

With the ability to deliver this one of a kind training both in person and by webinar-style online sessions, Convair is entrenching itself as the industry leader, and paving the way for highly efficient tanker operations, for our customers.

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, and equipment life extension.

## South Australian Expansion

Drivetrain continues to work closely with our customers that depend on quality local customer support.

Through effective customer relationship management key mining customers have provided a forecast of planned large fleet component replacement over the coming years. In understanding these requirements, Drivetrain has relocated its South Australian operations to a larger fit-for-purpose facility in Wingfield, Adelaide. This new branch provides the workshop and warehouse capacity to sufficiently support this growth in the region. Additionally, an investment in new service exchange components was actioned providing our customers the reassurance of delivery in full and on time during the programs.

Drivetrain is experiencing a significant increase in activity since relocating and will continue to work closely with its customers to understand how Drivetrain can strengthen its value to be part of their success and support the position for continuous growth in FY21.


Penetrate Major Customer Base


Driving Efficiencies

Penetrate Major Customer Base

Hedemora Turbo and Diesel is the original manufacturer of Hedemora Turbochargers and Hedemora Diesel Engines. Hedemora Diesel is a well-known brand of engines used in a wide range of applications. The turbocharger solutions for engines with power output of 720-4200kw, can be retrofitted to gain higher performance. Operating out of Sweden, Hedemora Turbo and Diesel provide full maintenance, development and spare parts services for customers in all parts of the world.

## Locomotive Turbochargers Retrofit Solution

Through collaboration and communication with its long-standing customer Ulan-Bator Railways' (UBZD), Hedemora Turbo & Diesel was able to understand their requirements and successfully tailor a technical solution for their needs.

Due to operating conditions in Mongolia UBZD has been experiencing reliability issues with the original installed turbochargers, predominantly diffuser issues, rotor and turbine wheel cracks. Hedemora offered the HS5800 turbocharger as a reliable and highly efficient fuel optimising solution. Trialing commenced in 2014 and the turbochargers were retrofitted to locomotives. Upon completion an increase in fuel efficiency of 5% was identified and subsequently Hedemora was nominated as a preferred supplier.

In 2020 the contract was signed for 12 x HS5800 units, inclusive of installation kits, with delivery to be fulfilled by end of 2020. This is just the start of an on-going relationship with UBZD which will see further requirements for this solution over the coming years.

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, Wingfield, Thornton and Port Melbourne, Momentum Rail's strategic presence is well placed to service the rail and resource sectors.

## Workforce Solution for South Australia

In response to the ever changing labour market Momentum, in collaboration with CERT Training (CERT), have partnered with Job Prospects to offer off and on job Rail Industry training to those currently out of the workforce.

This initiative gives jobseekers an opportunity to participate in CERT's Nationally Recognised training followed by practical work-experience alongside Momentum's experienced team of Safeworking subject matter experts.

Momentum has leveraged its extensive industry experience and has drawn on CERT's intricate knowledge of Australian Training requirements, and ability to access available government funding to develop this holistic Workforce Solution.

With proven success the program is now working with it's third group of job seekers, and is playing an integral part in providing local skilled workers to the Australian labour market.

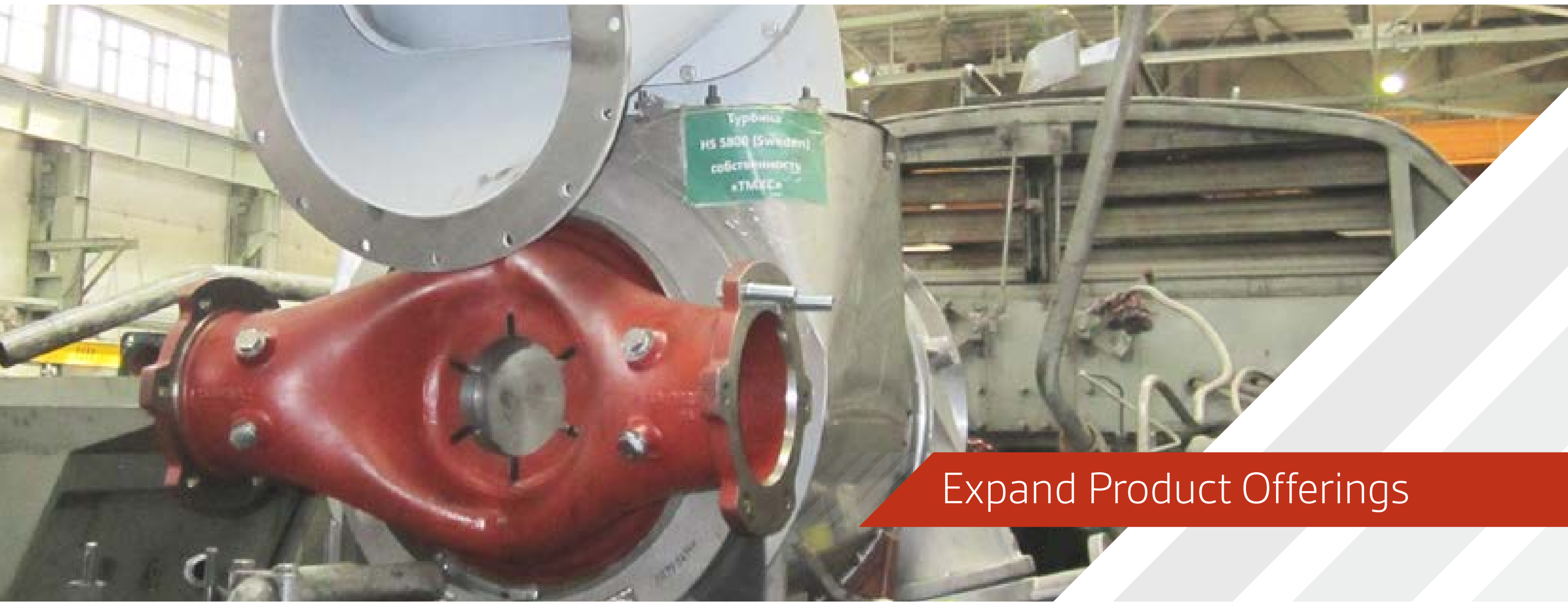
CERT Training (CERT) is a registered training organisation (RTO) that provides responsive, flexible and innovative training, assessment and recertification services to the Australian rail industry. CERT delivers nationally accredited and industry-based training programs on a regular basis, and provides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

## CERT Responds to Industry Needs with Online Training

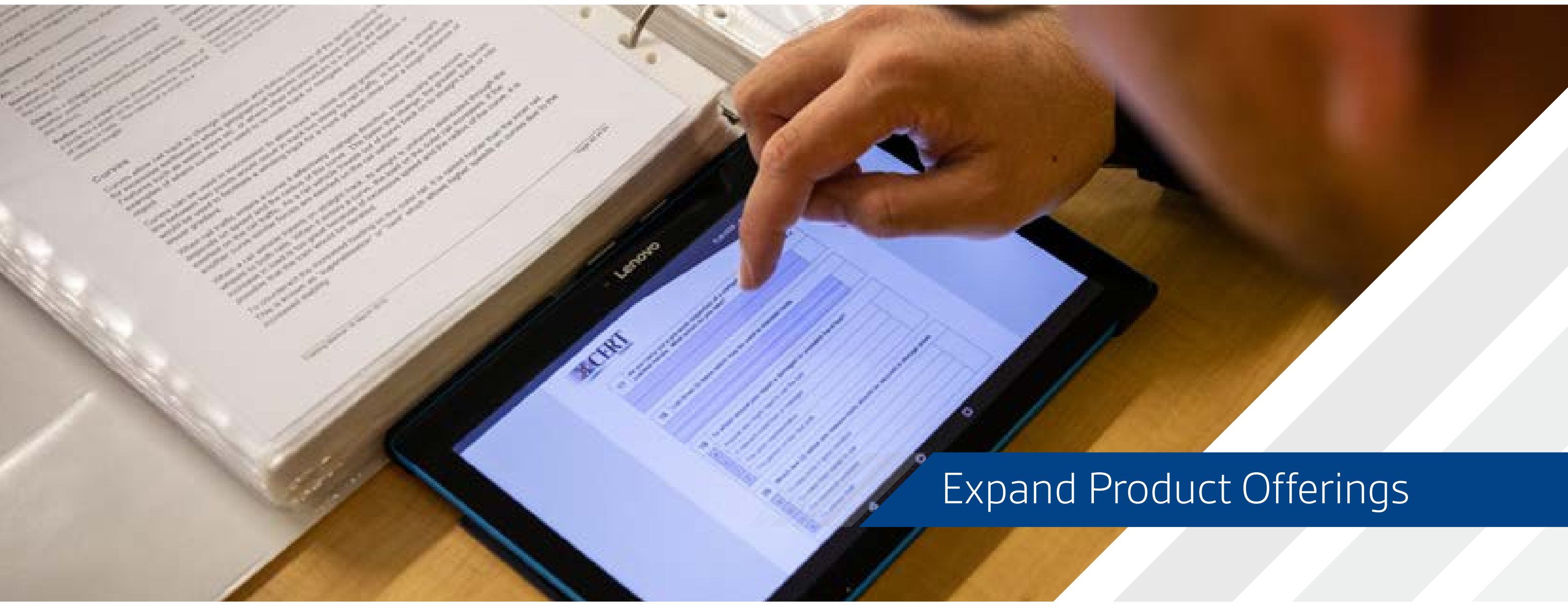
Leveraging a recent investment in a new Student Management System, aXcelerate, COVID-19 restrictions have accelerated CERT's development of online training. The initial focus was the main course offering in each state, and for QLD it was QR3.2 – Safely Access the Rail Corridor, which accounts for approximately 40 classes and over 300 students per month.

April saw the first trial for this popular 1-day program. In consultation with the customer, the trial was modified and extended, ultimately receiving approval.

With the rail industry proceeding with scheduled projects, online training is gaining traction within many companies. Having training accessible at their fingertips, CERT's online, interactive, facilitator led training has proven to be a great success.


Expand Product Offerings


Driving Efficiences


Expand Product Offerings

# Directors' Report

The directors present their report, together with the consolidated financial statements of the Group, comprising of Engenco Limited ("the Company") and its controlled entities, for the financial year ended 30 June 2020 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 time, 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 Tasmanian Development 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.

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

### Dale Elphinstone AO

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, a member of the Tasmanian Premier's Economic and Social Recovery Advisory 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 Chiropractic 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.

## 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 are:

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

# Directors' Report (continued)

## Directors' Shareholdings

The directors' shareholding of ordinary shares as at 30 June 2020 are:

| | Ordinary Shares |
|---|---|
| Vincent De Santis | 378,951 |
| Kevin Pallas | 87,632 |
| Dale Elphinstone | 208,233,656 |
| Alison von Bibra | 34,793 |
| Ross Dunning | 182,948 |

## Company Secretaries

### 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.

### Meredith Rhimes

BA, LLB

**COMPANY SECRETARY SINCE 30 MARCH 2020.**

Meredith is a lawyer with over 14 years' experience, including working in private practice and in-house for a multinational corporation. Meredith holds a Bachelor of Arts from Queen's University (Canada) and a Bachelor of Laws from Western University (Canada) and has practiced law in Canada, the United Arab Emirates and Australia.

### Andrew Nightingale

BCom, LLB

**COMPANY SECRETARY FROM 1 AUGUST 2018 TO 10 JANUARY 2020.**

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 three business streams: Rail and Road, Power and Propulsion and Workforce Solutions. 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 500 people (full-time equivalent) in over twenty locations in three countries.

## Group Overview


# Operating and Financial Review

### Operating Results

The Group reported a net profit after tax, including non-controlling interests, of $13,423,000 for the year ended 30 June 2020. The consolidated result for the year is summarised as follows:

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Revenue | **178,063** | 174,850 |
| EBIT[1] | **11,596** | 13,012 |
| Net profit / (loss) before tax | **10,150** | 12,690 |
| Net profit / (loss) before tax (adjusted)[2] | **9,865** | 10,005 |
| Profit / (loss) after tax | **13,423** | 14,227 |
| Net operating cash flow | **14,093** | 12,321 |
| Net assets | **88,594** | 84,075 |
| Net cash / (debt) | **14,134** | 23,408 |

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

2 Adjusted for gains on capital Wagon sales.

Note – EBIT is a non-IFRS financial measure, which has not been subject to review or audit by the Group's external auditors. This measure is 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 section 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 1.5 cents per ordinary share (fully franked) on 21 August 2019 and subsequently paid the dividend on 26 September 2019.

On 20 February 2020, the Board resolved to declare an interim dividend of 0.5 cents per share (fully franked) and subsequently paid this dividend on 20 March 2020.

On 19 August 2020, 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 29 September 2020.

# Events Subsequent to Reporting Date

As at 30 June 2020, the Group had entered into a contractual commitment for the development of improvements to freehold land of $2,341,000 which was subsequently completed on 4 August 2020.

On 18 August 2020, the Group increased its debt facilities with National Australia Bank (NAB) to $27,100,000. The NAB facility comprises a $20,000,000 revolving credit facility, a $6,000,000 bank guarantee facility, a $600,000 corporate card facility, and a $500,000 operation account overdraft facility. The revolving credit facility expires 31 October 2023, with the other facilities renewed annually.

On 18 August 2020, Scott Cameron was appointed to the Board as an Independent Non-Executive Director, effective from 1 September 2020.

On 19 August 2020, 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 29 September 2020.

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 2020.

## 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:

| | **2020 $** |
|---|---|
| **SERVICES OTHER THAN AUDIT AND REVIEW OF FINANCIAL STATEMENTS:** | |
| **Other Services** | |
| Taxation compliance services | 7,078 |
| | **7,078** |
| **AUDIT AND REVIEW OF FINANCIAL STATEMENTS** | **320,965** |
| **TOTAL PAID TO KPMG** | **328,043** |

## Lead Auditor's Independence Declaration

The lead auditor's independence declaration is set out on page 24 and forms part of the Directors' Report for the financial year ended 30 June 2020.

## 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, including net profit after tax 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. 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

The short-term performance benefit awarded in the year related to the achievement of targets established within the FY20 Short-Term Incentive Plan for safety and Board approved budget targets.

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.

| | 2016<br>$ | 2017<br>$ | 2018<br>$ | 2019<br>$ | 2020<br>$ |
|---|---|---|---|---|---|
| Revenue | 135,318,000 | 129,399,000 | 157,336,000 | 174,850,000 | **178,063,000** |
| NPAT attributable to members | 3,828,000 | 8,309,000 | 18,003,000 | 14,227,000 | **13,423,000** |
| EBIT | 5,503,000 | 9,117,000 | 13,490,000 | 13,012,000 | **11,596,000** |
| Operating income growth[1] | n/a | 66% | 48% | (4%) | **(11%)** |
| Share price at year-end | $0.10 | $0.21 | $0.49 | $0.42 | **$0.45** |
| % Change in share price | n/a | 121% | 133% | (14%) | **7%** |
| Capital employed[2] | 49,988,000 | 57,565,000 | 74,400,000 | 85,145,000 | **111,497,000** |
| Return on capital employed[3] | 11% | 16% | 18% | 15% | **10%** |
| Dividends paid | – | – | 1,567,000 | 3,134,000 | **6,268,000** |

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 2019 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).

## Directors' and Key Executive Officers' Remuneration Details for Year Ended 30 June 2020

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 | Long-Term | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Salary and Fees $ | Non-monetary $ | Performance Benefit* $ | Sub-Total $ | Super-annuation Benefit $ | Long Service Leave $ | Termination Benefits $ | Total $ | % Remun-eration Performance Related |
| **DIRECTORS** | | | | | | | | | | |
| **NON–EXECUTIVE DIRECTORS** | | | | | | | | | | |
| V De Santis[1] | **2020** | **166,000** | **–** | **–** | **166,000** | **15,770** | **–** | **–** | **181,770** | **–** |
| *Chairman* | 2019 | 166,000 | – | – | 166,000 | 15,770 | – | – | 181,770 | – |
| D Elphinstone[2] | **2020** | **80,000** | **–** | **–** | **80,000** | **7,600** | **–** | **–** | **87,600** | **–** |
| | 2019 | 80,000 | – | – | 80,000 | 7,600 | – | – | 87,600 | – |
| R Dunning | **2020** | **92,000** | **–** | **–** | **92,000** | **8,740** | **–** | **–** | **100,740** | **–** |
| | 2019 | 92,000 | – | – | 92,000 | 8,740 | – | – | 100,740 | – |
| A von Bibra | **2020** | **86,000** | **–** | **–** | **86,000** | **8,170** | **–** | **–** | **94,170** | **–** |
| | 2019 | 86,000 | – | – | 86,000 | 8,170 | – | – | 94,170 | – |
| SUB – TOTAL NON-EXECUTIVE DIRECTORS' REMUNERATION | **2020** | **424,000** | **–** | **–** | **424,000** | **40,280** | **–** | **–** | **464,280** | **–** |
| | 2019 | 424,000 | – | – | 424,000 | 40,280 | – | – | 464,280 | – |

| | | Short-Term | | | | Post-Employment | Long-Term | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Salary and Fees $ | Non-monetary $ | Performance Benefit* $ | Sub-Total $ | Super-annuation Benefit $ | Long Service Leave $ | Termination Benefits $ | Total $ | % Remun-eration Performance Related |
| **EXECUTIVE DIRECTORS** | | | | | | | | | | |
| K Pallas | **2020** | **451,203** | **–** | **146,082** | **597,285** | **46,329** | **14,254** | **–** | **657,868** | **22.2%** |
| *Managing Director & CEO* | 2019 | 410,520 | – | 45,662 | 456,182 | 43,337 | 13,302 | – | 512,821 | 8.9% |
| SUB – TOTAL EXECUTIVE DIRECTORS' REMUNERATION | **2020** | **451,203** | **–** | **146,082** | **597,285** | **46,329** | **14,254** | **–** | **657,868** | **22.2,%** |
| | 2019 | 410,520 | – | 45,662 | 456,182 | 43,337 | 13,302 | – | 512,821 | 8.9% |
| TOTAL DIRECTORS' REMUNERATION | **2020** | **875,203** | **–** | **146,082** | **1,021,285** | **86,609** | **14,254** | **–** | **1,122,148** | **13.0%** |
| | 2019 | 834,520 | – | 45,662 | 880,182 | 83,617 | 13,302 | – | 977,101 | 4.7% |
| **EXECUTIVES** | | | | | | | | | | |
| P Burrows[3] | **2020** | **267,599** | **–** | **50,864** | **318,463** | **30,254** | **–** | **–** | **348,717** | **14.6%** |
| *Chief Financial Officer & Company Secretary* | 2019 | 142,000 | – | 6,849 | 148,849 | 14,141 | – | – | 162,990 | 4.2% |
| **FORMER** | | | | | | | | | | |
| L Dillion[4] | **2020** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| *Chief Financial Officer & Company Secretary* | 2019 | 51,619 | – | – | 51,619 | 9,880 | – | 80,000 | 141,499 | – |
| TOTAL EXECUTIVE OFFICERS' REMUNERATION | **2020** | **267,599** | **–** | **50,864** | **318,463** | **30,254** | **–** | **–** | **348,717** | **14.6%** |
| | 2019 | 193,619 | – | 6,849 | 200,468 | 24,021 | – | 80,000 | 304,489 | 2.2% |
| TOTAL DIRECTORS' AND EXECUTIVE OFFICERS' REMUNERATION | **2020** | **1,142,802** | **–** | **196,946** | **1,339,748** | **116,863** | **14,254** | **–** | **1,470,865** | **13.4%** |
| | 2019 | 1,028,139 | – | 52,511 | 1,080,650 | 107,638 | 13,302 | 80,000 | 1,281,590 | 4.1% |

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 P Burrows was appointed 10 December 2018.

4 L Dillon resigned 1 August 2018.

*2019 performance benefit was at the discretion of the Board.

# Directors' Report (continued)
## Remuneration Report (continued)

### 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 2020 is $NIL (2019: $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 |

### Options and Rights Over Equity Instruments Granted

In the 2019 and 2020 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 non-material 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:

| 2020 | Balance 1 July 2020 | Received as compensation | Other changes* | Balance 30 June 2020 |
|---|---|---|---|---|
| V De Santis | 378,951 | – | – | 378,951 |
| K Pallas | 72,632 | – | 15,000 | 87,632 |
| D Elphinstone | 202,406,914 | – | 5,826,742 | 208,233,656 |
| A von Bibra | 34,793 | – | – | 34,793 |
| R Dunning | 182,948 | – | – | 182,948 |
| P Burrows | – | – | – | – |

*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 19 August 2020

# 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 30 to 69 and the Remuneration Report on pages 19 to 22 in the Directors' Report, are in accordance with the *Corporations Act 2001*, including:

        i. giving a true and fair view of the Group's financial position as at 30 June 2020 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 2020.

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:

V De Santis

**Vincent De Santis**

Chairman

Dated 19 August 2020

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 2020 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
19 August 2020

KPMG

# Independent Auditor's Report

## To the shareholders of Engenco Limited

## Report on the audit of the Financial Report

### Opinion

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

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

- giving a true and fair view of the ***Group***'s financial position as at 30 June 2020 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 2020;
- 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 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 (including Independence Standards)* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

KPMG

## Key Audit Matters

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.

<table>
<tr><th colspan="2">Revenue Recognition from Rendering of Services ($42,165k) and Construction Contracts ($75,711k)</th></tr>
<tr><td colspan="2">Refer to Note 4 to the Financial Report</td></tr>
<tr><td>The key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>Revenue recognition from Rendering of Services and Construction Contracts is a key audit matter due to the financial significance to the Group's financial results and the significant audit effort we applied.<br><br>Significant audit effort was driven from the judgement we applied to assess the Group's over time recognition of services and construction contract revenue using an estimation of costs to complete. In particular, we focussed on the high degree of estimation uncertainty in relation to key estimates such as expected labour hours and material costs due to the bespoke nature of the Group's business and customer contracts.<br><br>These assessments can be inherently subjective, therefore we involved our senior audit team members in assessing this key audit matter.</td><td>Our procedures included:<br><br>• We evaluated the Group's accounting policy for the recognition of services and construction contract revenue against the requirements of the accounting standards.<br><br>• We obtained an understanding of the Group's processes regarding recognition of services and construction contract revenue. We tested key controls such as the automated matching and approval of revenue entered into the Group's IT system, involving our IT specialists; and management's review of the recoverability of costs of incomplete revenue contracts.<br><br>• To assess the Group's over time recognition of services and construction contract revenue, for a sample of contracts not completed at reporting date, we:<br><br>- Inspected relevant features and key terms of revenue contracts, including pricing, deliverables and the timetable;<br><br>- Compared the actual costs incurred during the reporting period to underlying documents such as supplier invoices and employee timesheet records;<br><br>- Challenged the Group's estimate of the expected labour hours and material costs remaining with relevant historical data such as actual costs incurred on similar service orders and construction contracts during the current and previous reporting periods; and<br><br>- We compared past estimates of costs to complete to actual results to identify those</td></tr>
</table>

| | |
|---|---|
| | assumptions at higher risk of bias, unpredictability or inconsistency in application.<br>• Involving our data analytics specialists, we checked a sample of revenue from rendering of services and construction contracts throughout the year to the invoice and the Group's cash receipts from customers on an individual transaction basis.<br>• We assessed the revenue disclosures in the financial report using our understanding obtained from our testing and against the requirements of accounting standards. |

## Other Information

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

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not 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 and Company'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.

KPMG

## 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: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.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 2020, 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 19 to 22 of the Directors' report for the year ended 30 June 2020.

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

KPMG

KPMG

S E Bell

Suzanne Bell

*Partner*

Melbourne

19 August 2020

# Consolidated Financial Statements Table of Contents

for the year ended 30 June 2020

## Contents

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 30 June 2020

| | Note | Consolidated Group 2020 $'000 | 2019* $'000 |
|---|---|---|---|
| Revenue | 4 | **178,063** | 174,850 |
| Other income | 4 | **2,915** | 2,869 |
| Changes in inventories of finished goods and work in progress | | **5,269** | 2,630 |
| Raw materials and consumables used | | **(88,238)** | (81,805) |
| Employee benefits expense | 5 | **(63,175)** | (63,822) |
| Depreciation and amortisation expense | | **(6,937)** | (3,615) |
| Impairment of inventory | | **(139)** | (571) |
| Finance costs | 5 | **(1,446)** | (322) |
| Subcontract freight | | **(1,189)** | (765) |
| Repairs and maintenance | | **(1,437)** | (1,072) |
| Insurances | | **(1,174)** | (1,276) |
| Rent and outgoings | | **(3,139)** | (6,900) |
| Foreign exchange movements | | **(1)** | (22) |
| Other expenses | | **(9,222)** | (7,489) |
| **PROFIT / (LOSS) BEFORE INCOME TAX** | | **10,150** | 12,690 |
| Income tax benefit / (expense) | 6 | **3,273** | 1,537 |
| **TOTAL PROFIT / (LOSS) FOR THE PERIOD** | | **13,423** | 14,227 |
| *Profit / (loss) attributable to:* | | | |
| Owners of the Company | | **13,423** | 14,227 |
| Non-controlling interest | | **–** | – |
| | | **13,423** | 14,227 |
| **OTHER COMPREHENSIVE INCOME** | | | |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| Exchange differences on translation of overseas subsidiaries | | **459** | 409 |
| Other comprehensive income for the period, net of tax | | **459** | 409 |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | | **13,882** | 14,636 |
| *Total comprehensive income attributable to:* | | | |
| Owners of the Company | | **13,882** | 14,636 |
| Non-controlling interest | | **–** | – |
| | | **13,882** | 14,636 |
| **EARNINGS PER SHARE** | | **Cents** | **Cents** |
| Basic & Diluted earnings per share (cents per share) | 7 | **4.28** | 4.54 |

* The Group has initially applied AASB 16: *Leases* from 1 July 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying AASB 16 is recognised in retained earnings at the date of initial application. See Note 11.

The notes on pages 34 to 69 are an integral part of the consolidated financial statements.

# Consolidated Statement of Financial Position

as at 30 June 2020

| | Note | Consolidated Group 2020 $'000 | 2019* $'000 |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | 8 | **14,447** | 23,702 |
| Trade and other receivables | 9 | **26,369** | 27,437 |
| Contract assets** | 4 | **4,897** | 2,875 |
| Inventories | 10 | **41,843** | 36,574 |
| Current tax asset | 6 | **56** | 30 |
| Financial assets | | **658** | – |
| Other current assets | 12 | **3,960** | 2,026 |
| **TOTAL CURRENT ASSETS** | | **92,230** | 92,644 |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 13 | **18,837** | 11,732 |
| Right-of-use assets | 11 | **20,246** | – |
| Deferred tax assets | 6 | **12,159** | 7,366 |
| Intangible assets | 15 | **127** | 200 |
| **TOTAL NON-CURRENT ASSETS** | | **51,369** | 19,298 |
| **TOTAL ASSETS** | | **143,599** | 111,942 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 16 | **17,227** | 18,257 |
| Contract liabilities** | 4 | **2,690** | 1,151 |
| Financial liabilities | 17 | **971** | 294 |
| Current tax liabilities | 6 | **–** | 25 |
| Lease liabilities | 11 | **3,338** | – |
| Provisions | 18 | **7,876** | 7,070 |
| **TOTAL CURRENT LIABILITIES** | | **32,102** | 26,797 |
| **NON-CURRENT LIABILITIES** | | | |
| Lease liabilities | 11 | **18,414** | – |
| Provisions | 18 | **4,042** | 523 |
| Deferred tax liabilities | 6 | **447** | 547 |
| **TOTAL NON-CURRENT LIABILITIES** | | **22,903** | 1,070 |
| **TOTAL LIABILITIES** | | **55,005** | 27,867 |
| **NET ASSETS** | | **88,594** | 84,075 |
| **EQUITY** | | | |
| Issued capital | 20 | **302,719** | 302,719 |
| Reserves | | **517** | 58 |
| Profit reserve | | **10,165** | 2,433 |
| Accumulated losses | | **(218,978)** | (215,306) |
| **TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY** | | **94,423** | 89,904 |
| Non-controlling interest | | **(5,829)** | (5,829) |
| **TOTAL EQUITY** | | **88,594** | 84,075 |

* The Group has initially applied AASB 16: *Leases* from 1 July 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying AASB 16 is recognised in retained earnings at the date of initial application. See Note 11.

** During the year, the Group modified the presentation of Contract assets and liabilities. Contract assets ($2,875,000 at 30 June 2019) were previously disclosed as part of Trade and other receivables. Contract liabilities ($1,151,000 at 30 June 2019) were previously disclosed as part of Trade and other payables. See Note 1(g).

The notes on pages 34 to 69 are an integral part of the consolidated financial statements.

# Consolidated Statement of Changes in Equity

for the year ended 30 June 2020

| Consolidated Group | Share Capital $'000 | Accumu-lated Losses* $'000 | Profit Reserve $'000 | Foreign Currency Translation Reserve $'000 | Sub-Total $'000 | Non-controlling Interest $'000 | Total Equity $'000 |
|---|---|---|---|---|---|---|---|
| **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** |

| Consolidated Group | Share Capital $'000 | Accumu-lated Losses* $'000 | Profit Reserve $'000 | Foreign Currency Translation Reserve $'000 | Sub-Total $'000 | Non-controlling Interest $'000 | Total Equity $'000 |
|---|---|---|---|---|---|---|---|
| **BALANCE AT 1 JULY 2019** | **302,719** | **(215,306)** | **2,433** | **58** | **89,904** | **(5,829)** | **84,075** |
| Adjustments from adoption of AASB 16 | – | (3,095) | – | – | (3,095) | – | (3,095) |
| **ADJUSTED BALANCE AT 1 JULY 2019** | **302,719** | **(218,401)** | **2,433** | **58** | **86,809** | **(5,829)** | **80,980** |
| **COMPREHENSIVE INCOME** | | | | | | | |
| Profit / (loss) | – | (577) | 14,000 | – | 13,423 | – | 13,423 |
| Other comprehensive income, net of tax | – | – | – | 459 | 459 | – | 459 |
| **TOTAL COMPREHENSIVE INCOME** | **–** | **(577)** | **14,000** | **459** | **13,882** | **–** | **13,882** |
| **TRANSACTIONS WITH OWNERS OF THE COMPANY** | | | | | | | |
| *Contributions and Distributions:* | | | | | | | |
| Dividends paid | – | – | (6,268) | – | (6,268) | – | (6,268) |
| **TOTAL CONTRIBUTIONS AND DISTRIBUTIONS** | **–** | **–** | **(6,268)** | **–** | **(6,268)** | **–** | **(6,268)** |
| **BALANCE AT 30 JUNE 2020** | **302,719** | **(218,978)** | **10,165** | **517** | **94,423** | **(5,829)** | **88,594** |

* The Group has initially applied AASB 16: *Leases* from 1 July 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying AASB 16 is recognised in retained earnings at the date of initial application. See Note 11.

The notes on pages 34 to 69 are an integral part of the consolidated financial statements.

# Consolidated Statement of Cash Flows

for the year ended 30 June 2020

| | Note | Consolidated Group 2020 $'000 | 2019* $'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Receipts from customers | | **198,138** | 189,462 |
| Payments to suppliers and employees | | **(183,657)** | (176,355) |
| Interest received | | **72** | 74 |
| Finance costs | | **(112)** | (322) |
| Income tax paid | | **(348)** | (538) |
| **NET CASH FROM / (USED IN) OPERATING ACTIVITIES** | 22(b) | **14,093** | 12,321 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Proceeds from sale of non-current assets | | **1,140** | 7,301 |
| Purchase of non-current assets | | **(11,475)** | (3,076) |
| Payment for purchase of non-current asset held in escrow | | **(2,341)** | – |
| **NET CASH FROM / (USED IN) INVESTING ACTIVITIES** | | **(12,676)** | 4,225 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Dividends paid | | **(6,268)** | (3,134) |
| Release of funds on deposit | | **–** | 1,678 |
| Payment of lease liabilities | | **(4,423)** | – |
| **NET CASH FROM / (USED IN) FINANCING ACTIVITIES** | | **(10,691)** | (1,456) |
| Net increase / (decrease) in cash and cash equivalents | | **(9,274)** | 15,090 |
| Cash (net of bank overdrafts) at beginning of financial year | | **23,408** | 8,318 |
| **CASH (NET OF BANK OVERDRAFTS) AT END OF FINANCIAL YEAR** | 22(a) | **14,134** | 23,408 |

* The Group has initially applied AASB 16: *Leases* from 1 July 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying AASB 16 is recognised in retained earnings at the date of initial application. See Note 11.

The notes on pages 34 to 69 are an integral part of the consolidated financial statements.

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2020

## 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 19 August 2020.

#### 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 2020 is included in the following notes:

- Note 4 – Revenue and Other Income
- Note 6 – Tax
- Note 9 – Trade and Other Receivables
- Note 10 – Inventories
- Note 11 – Leases and Commitments

#### COVID-19 Considerations

The ongoing COVID-19 global pandemic has increased the estimation uncertainty in the preparation of financial statements, generally, due to the impact of the following key factors:

- the extent and duration of restrictive actions put in place by governments as a response to the health emergency and to contain the spread of the virus, and the follow-on effects this has on industries, businesses and consumers;
- the extent and duration of the expected economic downturn. This includes uncertainty relating to potential disruption to capital markets, a deteriorating credit environment, higher unemployment, heightened geo-political tensions, and changes in consumer discretionary spending behaviours; and
- the effectiveness of government measures that have and will be put in place to support businesses and consumers through the changeable conditions, social disruption and economic downturn.

During FY20, the Group experienced the following key impacts on its operations and financial statements as a result of the COVID-19 global pandemic environmental factors:

- Governments took varying approaches to containment of the virus in Australia and Europe, being Engenco's key markets.
- In general, transportation, defence and mining activities, and the support services thereto that Engenco provides, have been considered an essential service and have continued without a significant impact on Engenco's main operations.
- Business operations that have been impacted to some degree include CERT Training, whom provide training to the rail industry in a classroom environment; and some disruption in the European supply chain supporting Hedemora Turbo & Diesel in Sweden.
- In Engenco's key markets, governments put in place fiscal and economic stimulus packages of varying natures, the majority of which remain in place at 30 June 2020, and at the date of this report.

In respect of these financial statements, the impact of the COVID-19 pandemic is primarily relevant to estimates of future performance which is in turn relevant to the areas of recoverability of receivables (Note 9), net realisable value of inventory (Note 10), impairment of non-financial assets (right-of-use assets, Note 11 and property, plant and equipment, Note 13) and recoverability of income tax losses (Note 6).

In making estimates of future performance, the following assumptions and judgements in relation to the potential impact of COVID-19 have been applied by the Group. Actual results may differ from these estimates under different assumptions and conditions.

- Engenco's operations are nationally diverse across the Australian states and regions, with material operations separated across all of the major states.
- It is expected that States will continue to be operating with differing degrees of COVID-19 impacts and restrictions and our diversity of operations will assist our continued operation as COVID-19 responses change.
- The services the Group provides and the industries served continue to be considered essential services, and sites continue operating with strict COVID-19 safety plans in place. Operations are expected to continue on a similar basis to those that have been in place from the outset of the pandemic, which include a degree of COVID-19 disruption, into the future. Government fiscal and economic stimulus packages are expected to be maintained or extended, but are phased out as economies return to historical output levels in future periods.

### 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.

#### 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

## Note 1 – Significant Accounting Policies (continued)

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.

During 2019, the Group adopted AASB 15: *Revenue from Contracts with Customers* that requires contract assets and contract liabilities to be presented in the financial statements and accompanying notes. The Group modified the presentation of accrued income and deferred income to contract assets and liabilities to reflect more appropriately the distinction from trade and other receivables and trade and other payables, respectively.

### (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:

- AASB 16: *Leases*
- IFRIC 23 *Uncertainty over Income Tax Treatments*
- *Prepayment Features with Negative Compensation* (AASB 9)
- *Long term Interest in Associates and Joint Ventures* (AASB 128)
- *Plan Amendment, Curtailment or settlement* (AASB 119)
- *Annual Improvements to IFRS's 2015-2017 Cycle – various standards*

Aside from the impact of AASB 16, discussed in Note 11, the other new standards adopted did not have an impact to the Group.

### STANDARDS ISSUED BUT NOT YET EFFECTIVE

#### Other Accounting Standards

A number of new standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Group has not early adopted the new or amended statements in preparing these consolidated financial statements.

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

- *Amendments to References to the Conceptual Framework in IFRS Standards*
- *Definition of a Material* (Amendments to AASB 101 and AASB 108)
- *Definition of a Business* (Amendments to AASB 3)
- *Sale or Contribution of Assets between an investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS28)*

## Note 2 – Controlled Entities

| **Note:** Subsidiaries are indented beneath their parent entity | Country of Incorporation | Date of Control | Percentage Owned 2020 | Percentage Owned 2019 |
|---|---|---|---|---|
| • **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 |
| – – – Turbochargers USA (formerly 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) 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 wheelset, 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.

### (b) 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.

### (c) 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.

### (d) 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) 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.

### (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

Assets are allocated to segments where there is a nexus between control and ownership of the asset and the operations of the business. Segment assets are disclosed at the net of capital expenditure, investments and intangibles. 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.

### 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.

## Note 3 – Operating Segments (continued)

### (i) Segment Performance

Year ended 30 June 2020

| Reportable Segments | Gemco Rail $'000 | Convair $'000 | Drivetrain $'000 | Momentum Rail $'000 | CERT $'000 | All Other $'000 | Group $'000 |
|---|---|---|---|---|---|---|---|
| **REVENUE** | | | | | | | |
| External revenue | **87,239** | **14,817** | **45,807** | **14,135** | **10,119** | **5,874** | **177,991** |
| Inter-segment revenue | **2** | **–** | **179** | **284** | **96** | **3,497** | **4,058** |
| Interest revenue | **–** | **–** | **15** | **–** | **–** | **57** | **72** |
| **TOTAL SEGMENT REVENUE** | **87,241** | **14,817** | **46,001** | **14,419** | **10,215** | **9,428** | **182,121** |
| *Reconciliation of segment revenue to Group revenue:* | | | | | | | |
| Inter-segment eliminations | **–** | **–** | **–** | **–** | **–** | **(4,058)** | **(4,058)** |
| **TOTAL GROUP REVENUE** | **87,241** | **14,817** | **46,001** | **14,419** | **10,215** | **5,370** | **178,063** |
| **SEGMENT EBITDA** | **16,933** | **1,564** | **5,531** | **1,552** | **1,528** | **(8,575)** | **18,533** |
| *Reconciliation of segment EBITDA to Group net profit / (loss) before tax:* | | | | | | | |
| Depreciation and amortisation | **(4,160)** | **(520)** | **(1,155)** | **(23)** | **(207)** | **(872)** | **(6,937)** |
| Finance costs | **(835)** | **(98)** | **(195)** | **(11)** | **(44)** | **(263)** | **(1,446)** |
| **NET PROFIT / (LOSS) BEFORE TAX** | **11,938** | **946** | **4,181** | **1,518** | **1,277** | **(9,710)** | **10,150** |

Year ended 30 June 2019

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

### (ii) Segment Assets

As at 30 June 2020

| Reportable Segments | Gemco Rail $'000 | Convair $'000 | Drivetrain $'000 | Momentum Rail $'000 | CERT $'000 | All Other $'000 | Group $'000 |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| Segment assets | **55,661** | **12,962** | **40,767** | **7,973** | **11,478** | **(4,139)** | **124,702** |
| Capital expenditure | **7,736** | **391** | **155** | **–** | **55** | **2,778** | **11,115** |
| Intangibles | **–** | **–** | **–** | **–** | **–** | **127** | **127** |
| *Reconciliation of segment assets to Group assets:* | | | | | | | |
| Inter-segment eliminations | **–** | **–** | **–** | **–** | **–** | **–** | **(4,504)** |
| *Unallocated items:* | | | | | | | |
| Deferred tax assets | **–** | **–** | **–** | **–** | **–** | **–** | **12,159** |
| **TOTAL ASSETS** | **63,397** | **13,353** | **40,922** | **7,973** | **11,533** | **(1,234)** | **143,599** |

As at 30 June 2019*

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

* The Group has initially applied AASB 16: *Leases* from 1 July 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying AASB 16 is recognised in retained earnings at the date of initial application. See Note 11.

## Note 3 – Operating Segments (continued)

### (iii) Segment Liabilities

As at 30 June 2020

| Reportable Segments | Gemco Rail $'000 | Convair $'000 | Drivetrain $'000 | Momentum Rail $'000 | CERT $'000 | All Other $'000 | Group $'000 |
|---|---|---|---|---|---|---|---|
| **LIABILITIES** | | | | | | | |
| Segment liabilities | **52,755** | **8,410** | **49,598** | **3,947** | **6,991** | **(62,639)** | **59,062** |
| *Reconciliation of segment liabilities to Group liabilities:* | | | | | | | |
| Inter-segment eliminations | **–** | **–** | **–** | **–** | **–** | **–** | **(4,504)** |
| *Unallocated items:* | | | | | | | |
| Deferred tax liabilities | **–** | **–** | **–** | **–** | **–** | **–** | **447** |
| **TOTAL LIABILITIES** | **52,755** | **8,410** | **49,598** | **3,947** | **6,991** | **(62,639)** | **55,005** |

As at 30 June 2019*

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

* The Group has initially applied AASB 16: *Leases* from 1 July 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying AASB 16 is recognised in retained earnings at the date of initial application. See Note 11.

### (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 | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Australasia | **168,662** | 164,572 |
| Europe | **9,401** | 10,278 |
| United States of America | **–** | – |
| **TOTAL REVENUE** | **178,063** | 174,850 |

| Assets | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Australasia | **134,845** | 100,016 |
| Europe | **8,733** | 11,900 |
| United States of America | **21** | 26 |
| **TOTAL ASSETS** | **143,599** | 111,942 |

### (v) Major Customers

During the year, the Group did not have any major customers with revenue of greater than 10%.

## 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. Revenue is 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.

### Sale of Goods

The Group engages in the sale of spare parts and components for various rail, road, powertrain and gas compression industry sectors. 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

The Group performs a number of services to various industry sectors, including maintenance, repairs and overhauls. 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

The Group is involved in the manufacture of wagons, carriages, rail equipment and dry bulk tankers. 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

The Group's RTO entity (CERT Training) delivers nationally accredited and industry-based training courses. Revenue is recognised at the point in time when the performance obligation is satisfied.

### Lease Rental Income

The Group leases out its fleet of rollingstock and certain items of property, plant and equipment to customers in the form of operating lease arrangements. 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.

| | 2020<br>$'000 | 2019<br>$'000 |
|---|---|---|
| **SALES REVENUE** | | |
| Sales of goods and services | **176,993** | 173,022 |
| Lease rental income | **998** | 1,754 |
| **TOTAL SALES REVENUE** | **177,991** | 174,776 |
| **OTHER REVENUE** | | |
| Interest received – external | **72** | 74 |
| **TOTAL OTHER REVENUE** | **72** | 74 |
| **TOTAL REVENUE** | **178,063** | 174,850 |
| **OTHER INCOME** | | |
| Gain on disposal of property, plant and equipment | **396** | 2,656 |
| Other gains | **2,519** | 213 |
| **TOTAL OTHER INCOME** | **2,915** | 2,869 |

## Note 4 – Revenue and Other Income (continued)

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

| Revenue Stream | Revenue Recognition | 2020 $'000 | 2019 $'000 |
|---|---|---|---|
| Sale of goods | Point in time | **48,902** | 53,342 |
| Rendering of services | Over time | **42,165** | 48,555 |
| Construction contracts | Over time | **75,711** | 59,650 |
| RTO training | Point in time | **10,215** | 11,475 |
| Lease rental income | Over time | **998** | 1,754 |
| **TOTAL SALES REVENUE** | | **177,991** | 174,776 |

### Contract Assets and Liabilities

Contract assets are recognised as the right to consideration in exchange for work completed on construction contracts and services rendered but not billed on the reporting date. Contract liabilities are recognised when the Group has an obligation to transfer goods or services to a customer for which the entity has received consideration from the customer.

Contract assets ($2,875,000 at 30 June 2019) were previously disclosed as part of Trade and other receivables. Contract liabilities ($1,151,000 at 30 June 2019) were previously disclosed as part of Trade and other payables.

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Contract assets | **4,897** | 2,875 |
| Contract liabilities | **2,690** | 1,151 |

## Note 5 – Expenses

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| **FINANCE COSTS** | | |
| Finance costs – leases | **1,236** | – |
| Other finance costs | **210** | 322 |
| **TOTAL FINANCE COSTS** | **1,446** | 322 |
| **EMPLOYEE BENEFITS EXPENSE** | | |
| Wages and salaries | **55,279** | 56,793 |
| Annual leave expense | **2,608** | 2,364 |
| Long service leave expense | **417** | 454 |
| Restructuring | **512** | – |
| Defined contribution plan | **4,359** | 4,211 |
| **TOTAL EMPLOYEE BENEFITS EXPENSE** | **63,175** | 63,822 |
| **RENTAL EXPENSE ON OPERATING LEASES** | | |
| Operating lease payments* | **1,508** | 5,013 |
| **TOTAL RENTAL EXPENSE ON OPERATING LEASES** | **1,508** | 5,013 |

* The Group adopted AASB 16: *Leases* on 1 July 2019 and for the year ended 30 June 2020, operating lease payments expense disclosed above relates to outgoings, short term and low value leases (all of which are not lease accounted or contained within Note 11).

# 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.

### Estimates and Judgements

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.

### Current Tax

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

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

### Deferred Tax

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

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

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

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

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

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

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

## Note 6 – Tax (continued)

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| **CURRENT** | | |
| Income tax receivable / (payable) | **56** | 5 |
| **TOTAL CURRENT TAX INCOME** | **56** | 5 |

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| **(a) The components of tax expense / (benefit) comprise:** | | |
| Current income tax expense / (benefit) | | |
| – Current income tax expense / (benefit) | **190** | 220 |
| Deferred income tax expense / (benefit) | | |
| – Origination and reversal of temporary differences | **(3,463)** | (1,757) |
| Income tax expense / (benefit) reported in the Statement of Profit or Loss and OCI | **(3,273)** | (1,537) |
| **(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 | **10,150** | 12,690 |
| At the Company's statutory domestic income tax rate of 30% (2019: 30%) | **3,045** | 3,807 |
| *Add / (Less) tax effect of:* | | |
| – Foreign tax rate adjustment | **45** | (49) |
| – Utilisation of tax losses – Australia | **(2,931)** | (3,967) |
| – Losses for which no deferred tax asset is recognised | **16** | – |
| – Utilisation of tax losses not previously recognised | **–** | 106 |
| – Other non-allowable items | **15** | 396 |
| – Movements in recognised temporary differences | **185** | (73) |
| – Other (deferred tax asset partial recognition of prior year losses) | **(3,648)** | (1,757) |
| **INCOME TAX EXPENSE / (BENEFIT)** | **(3,273)** | (1,537) |

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 | Charges in Tax Rate $'000 | Exchange Differences $'000 | Other $'000 | Closing Balance $'000 |
| **NON-CURRENT** | | | | | | | | |
| *Deferred tax liabilities:* | | | | | | | | |
| Other | 694 | – | (147) | – | – | – | – | 547 |
| **BALANCE AT 30 JUNE 2019** | **694** | **–** | **(147)** | **–** | **–** | **–** | **–** | **547** |
| Other | 547 | – | (100) | – | – | – | – | 447 |
| **BALANCE AT 30 JUNE 2020** | **547** | **–** | **(100)** | **–** | **–** | **–** | **–** | **447** |
| *Deferred tax assets:* | | | | | | | | |
| 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** |
| Provisions | 1,156 | – | (285) | 1,322 | – | – | 108 | 2,301 |
| Accruals | – | – | – | – | – | – | – | – |
| Losses | 6,210 | – | 3,648 | – | – | – | – | 9,858 |
| **BALANCE AT 30 JUNE 2020** | **7,366** | **–** | **3,363** | **1,322** | **–** | **–** | **108** | **12,159** |

The Company has estimated Australian carry forward operating tax losses of $69,548,820 at June 2020 (2019: $79,142,794) 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 $3,647,810 was partially recognised in 2020 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.

Upon transition of AASB 16: *Leases* a deferred tax asset of $1,322,000 was recognised on 1 July 2019. See Note 11.

## 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.

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| **(a) RECONCILIATION OF EARNINGS TO PROFIT OR LOSS** | | |
| Profit / (loss) for the year | **13,423** | 14,227 |
| (Profit) / loss for the year, attributable to non-controlling interest | **–** | – |
| Earnings used to calculate basic EPS | **13,423** | 14,227 |
| Earnings used in the calculation of dilutive EPS | **13,423** | 14,227 |
| | **No. '000** | **No. '000** |
| **(b) 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.

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| CASH AT BANK AND IN HAND | **14,447** | 23,702 |
| | **14,447** | 23,702 |

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 $24,539,135 (2019: $21,782,819) against cash and cash equivalents of $33,399,238 (2019: $28,845,402) resulting in a net positive cash position for these accounts of $8,860,103 (2019: $7,062,583).

## Note 9 – Trade and Other Receivables

| | 2020 $'000 | 2019* $'000 |
|---|---|---|
| **CURRENT** | | |
| Trade receivables | **26,586** | 28,045 |
| Provision for impairment of receivables | **(365)** | (846) |
| **TOTAL TRADE RECEIVABLES** | **26,221** | 27,199 |
| Sundry receivables | **148** | 238 |
| **TOTAL OTHER RECEIVABLES** | **148** | 238 |
| **TOTAL CURRENT TRADE AND OTHER RECEIVABLES** | **26,369** | 27,437 |

* Accrued income of $2,875,000 at 30 June 2019 is now classified as a Contract Asset and disclosed in Note 4.

### (a) Expected Credit Loss Provision for Impairment of Receivables

The Group has 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 (ECL) 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.

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.

| | 2020 | | | 2019 | | | |
|---|---|---|---|---|---|---|---|
| | Weighted average loss rate % | Gross carrying amount $'000 | Loss allowance $'000 | Weighted average loss rate % | Gross carrying amount $'000 | Loss allowance $'000 | Credit impaired |
| Current (not past due) | **0.26%** | **24,574** | **64** | 0.47% | 23,676 | 112 | No |
| 1 – 30 days past due | **2.82%** | **965** | **27** | 2.99% | 2,434 | 73 | No |
| 31 – 60 days past due | **9.66%** | **3** | **–** | 8.11% | 210 | 17 | No |
| 61 – 90 days past due | **12.24%** | **672** | **82** | 15.96% | 675 | 108 | No |
| More than 90 days past due | **41.63%** | **308** | **128** | 36.82% | 813 | 299 | Yes |
| **TOTAL ECL PROVISION** | | **26,522** | **301** | | 27,808 | 609 | |
| Specific Provision | | **64** | **64** | | 237 | 237 | Yes |
| **TOTAL PROVISION** | | **26,586** | **365** | | 28,045 | 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.

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| **CURRENT** | | |
| *At cost:* | | |
| – Work in progress | **4,395** | 4,789 |
| – Finished goods | **27,796** | 21,480 |
| | **32,191** | 26,269 |
| *At net realisable value:* | | |
| – Work in progress | **–** | – |
| – Finished goods | **9,652** | 10,305 |
| | **9,652** | 10,305 |
| **TOTAL INVENTORY** | **41,843** | 36,574 |

The Group has completed a comprehensive review of the carrying value of inventory, taking into consideration microeconomic factors. As a result of the review, inventory was impaired by $139,000 (2019: $571,000).

## Note 11 – Leases and Commitments

### Leasing Activities and Accounting Policy

Engenco leases various properties and equipment. Property leases typically are for a period of 3 to 10 years and often have extension options and equipment leases are typically for a period of 3 to 5 years. The Group accounts for these leases under AASB 16: *Leases* which replaced AASB 117: *Leases* from 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 previous operating/finance lease dual accounting model for leases. Instead, there is a single, on balance sheet accounting model, similar to previous 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.

During the year, the Group elected to apply the practical expedient for rent concession relating to COVID-19, which had an immaterial impact on the Group. The Group applied the IFRIC decision on lease term issued in November 2019 retrospectively, which resulted in the following adjustment to the Group's transition impact:

- right-of-use assets increased by $2,202,000
- lease liabilities increased by $2,624,000
- makegood provisions decreased by $165,000
- deferred tax assets increased by $77,000
- opening retained earnings decreased by $180,000

## Judgements and Estimates

The Group applied judgement to determine the lease term for some contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts on the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension term. Extension options are only included in the lease term if the lease is reasonably certain to be extended. The assessment is reviewed if a significant event or change in circumstance occurs which affects this assessment and that is within the control of the lessee.

## Transition

The Group transitioned to AASB 16 from 1 July 2019, using the "modified retrospective" transition method whereby the right-of-use asset has been calculated at its carrying amount as if AASB 16 had been applied since the lease commencement date, discounted using the Group's weighted average incremental borrowing rate of 5.3% at 1 July 2019.

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

On transition the Group elected to apply the practical expedient 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 after the date of initial application.

In applying the modified retrospective approach to leases previously classified as operating leases under AASB 117, the Group has elected, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. Engenco has applied 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;
- 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;
- Utilising previous assessments of onerous leases;
- The use of hindsight in determining the lease term.

Another practical expedient that was available to the 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 did not elect to combine lease and non-lease components for its property leases. As such, the calculated lease liability excludes an estimate of the stand-alone price of the non-lease component.

### (a) Reconciliation of Operating Lease Commitments

The recognition of the lease liability can be reconciled to the operating lease commitments disclosed at 30 June 2019 as follows:

| | $'000 |
|---|---|
| Operating lease commitments disclosed as at 30 June 2019 | 16,218 |
| Discounted using the Groups weighted average incremental borrowing rate of 5.3% | (5,165) |
| (Less): short term leases and low value leases recognised on a straight-line basis as an expense | (1,531) |
| Add: adjustments as a result of different treatment of extension and termination options | 11,604 |
| **LEASE LIABILITY RECOGNISED AS AT 1 JULY 2019 UNDER AASB 16** | **21,126** |

## Note 11 – Leases and Commitments (continued)

### (b) Impact on Retained Earnings at Transition

On transition to AASB 16, the Group recognised additional right-of-use assets and lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised below.

| | $'000 |
|---|---|
| **RIGHT-OF-USE ASSETS** | |
| – Property | 19,156 |
| – Equipment | 411 |
| **TOTAL RIGHT-OF-USE ASSETS** | 19,567 |
| **LEASE LIABILITIES** | |
| – Current lease liabilities | (3,012) |
| – Non-current lease liabilities | (18,114) |
| **TOTAL LEASE LIABILITIES** | (21,126) |
| Deferred tax assets | 1,322 |
| Makegood provision | (2,858) |
| **TRANSITION IMPACT FOR AASB 16 RECOGNISED IN OPENING RETAINED EARNINGS / (ACCUMULATED LOSSES)** | **(3,095)** |

| | $'000 |
|---|---|
| Retained earnings / (Accumulated losses) as at 30 June 2019 | (215,306) |
| Transition impact for AASB 16 | (3,095) |
| **RESTATED RETAINED EARNINGS / (ACCUMULATED LOSSES) AS AT 1 JULY 2019 UNDER AASB 16** | **(218,401)** |

### (c) Movements in the Period

| | 1 Jul 2019 $'000 | Additions $'000 | Depreciation $'000 | De-recognition $'000 | 30 Jun 2020 $'000 |
|---|---|---|---|---|---|
| **RIGHT-OF-USE ASSETS** | | | | | |
| Property | 19,156 | 4,328 | (3,534) | (18) | **19,932** |
| Equipment | 411 | 136 | (205) | (28) | **314** |
| **TOTAL RIGHT-OF-USE ASSETS** | **19,567** | **4,464** | **(3,739)** | **(46)** | **20,246** |

| | 1 Jul 2019 $'000 | Additions $'000 | Payments $'000 | De-recognition $'000 | 30 Jun 2020 $'000 |
|---|---|---|---|---|---|
| **LEASE LIABILITIES** | | | | | |
| Property | 20,688 | 3,652 | (2,967) | 55 | **21,428** |
| Equipment | 438 | 125 | (221) | (18) | **324** |
| **TOTAL LEASE LIABILITIES** | **21,126** | **3,777** | **(3,188)** | **37** | **21,752** |
| Current lease liabilities | 3,012 | | | | 3,338 |
| Non-current lease liabilities | 18,114 | | | | 18,414 |

### (d) Operating Lease Commitments

In accordance with AASB 117, payments made under operating leases were previously recognised in the profit or loss on a straight-line basis over the lease of the term. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease. Minimum lease payments made under finance leases were apportioned between the finance expense and the reduction of the outstanding liability.

| | 2019 $'000 |
|---|---|
| **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 |
| – between 12 months and 5 years | 9,440 |
| – greater than 5 years | 2,528 |
| | 16,218 |

### (e) Leases as a Lessor

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 which are receivable are shown below.

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| **OPERATING LEASE RECEIVABLES** | | |
| *Receivable – minimum lease payments:* | | |
| – not later than 12 months | **503** | 630 |
| – between 12 months and 5 years | **486** | 687 |
| – greater than 5 years | **65** | 193 |
| | **1,054** | 1,510 |

## Note 12 – Other Assets

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| **CURRENT** | | |
| Other current assets | **2,691** | 517 |
| Prepayments | **1,269** | 1,509 |
| **TOTAL CURRENT OTHER ASSETS** | **3,960** | 2,026 |

## Note 13 – 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 |
|---|---|
| Buildings | 2.5% |
| Leasehold improvements | 10%-100% |
| Plant and equipment | 5%-67% |

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

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| **LAND AND BUILDINGS** | | |
| *Freehold land:* | | |
| – At cost | **2,578** | 53 |
| **TOTAL LAND** | **2,578** | 53 |
| *Buildings:* | | |
| – At cost | **806** | 806 |
| – Less accumulated depreciation | **(668)** | (652) |
| **TOTAL BUILDINGS** | **138** | 154 |
| **TOTAL LAND AND BUILDINGS** | **2,716** | 207 |
| **PLANT AND EQUIPMENT** | | |
| – At cost | **85,436** | 80,933 |
| – Accumulated depreciation and impairment | **(72,145)** | (69,697) |
| **TOTAL PLANT AND EQUIPMENT** | **13,291** | 11,236 |
| **LEASEHOLD IMPROVEMENTS** | | |
| – At cost | **6,726** | 3,557 |
| – Accumulated depreciation | **(3,896)** | (3,268) |
| **TOTAL LEASEHOLD IMPROVEMENTS** | **2,830** | 289 |
| **TOTAL PROPERTY, PLANT AND EQUIPMENT** | **18,837** | 11,732 |

### (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 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** |
| Additions | 2,525 | – | 3,170 | 5,420 | 11,115 |
| Disposals | – | – | – | (722) | (722) |
| Impairment | – | – | – | (195) | (195) |
| Depreciation expense | – | (16) | (629) | (2,448) | (3,093) |
| **BALANCE AT 30 JUNE 2020** | **2,578** | **138** | **2,830** | **13,291** | **18,837** |

### Contractual Commitments

At 30 June 2020, the Group had entered into a contractual commitment for the development of improvements to freehold land of $2,341,000 which was subsequently completed on 4 August 2020. Refer to Note 26.

## Note 14 – Net Tangible Assets

The Group's Net Tangible Assets (NTA) is calculated as the net of net assets (excluding net deferred tax, non-controlling interest and intangible assets) over fully paid ordinary shares. There was no change to the Group's approach to calculating NTA.

| | 2020 Cents | 2019 Cents |
|---|---|---|
| Net tangible assets per ordinary share: 313,380,943 shares (2019: 313,380,943 shares) | **26.2** | 26.5 |

## Note 15 – 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.

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| **OTHER IDENTIFIABLE INTANGIBLES** | | |
| *Cost:* | | |
| Opening balance | **13,078** | 12,993 |
| Additions | **32** | 85 |
| **Closing balance** | **13,110** | 13,078 |
| *Accumulated amortisation and impairment:* | | |
| Opening balance | **(12,878)** | (12,745) |
| Amortisation for the year | **(105)** | (133) |
| **Closing balance** | **(12,983)** | (12,878) |
| **NET BOOK VALUE** | **127** | 200 |
| **TOTAL INTANGIBLE ASSETS** | | |
| At cost | **13,110** | 13,078 |
| Accumulated amortisation and impairment | **(12,983)** | (12,878) |
| **NET BOOK VALUE** | **127** | 200 |

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 16 – 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.

| | 2020 $'000 | 2019* $'000 |
|---|---|---|
| **CURRENT** | | |
| *Unsecured liabilities:* | | |
| Trade payables | **14,390** | 15,571 |
| Sundry payables and accrued expenses | **2,837** | 2,686 |
| **TOTAL TRADE AND OTHER PAYABLES** | **17,227** | 18,257 |

* Deferred income of $1,151,000 as at 30 June 2019 is now classified as a Contract Liability and disclosed in Note 4.

## Note 17 – Financial Liabilities

### Non-Derivative Financial Liabilities – Measurement

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

### Non-Derivative Financial Liabilities – Recognition and Derecognition

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

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

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

| | Note | 2020 $'000 | 2019 $'000 |
|---|---|---|---|
| **CURRENT** | | | |
| *Secured liabilities:* | | | |
| Bank overdrafts | 22(a) | **313** | 294 |
| Forward contract | | **658** | – |
| **TOTAL CURRENT FINANCIAL LIABILITIES** | | **971** | 294 |

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

As at 30 June 2020, the bank facility with the National Australia Bank (NAB) was comprised of a $10,000,000 Revolving Credit Facility, $6,000,000 Bank Guarantee Facility, $600,000 Credit Card Facility and $500,000 Set off Facility. These facilities are secured against the Australian assets of the Group. The facility expires on 20 November 2021.

On 18 August 2020, the Group increased its debt facilities with NAB to $27,100,000. The NAB facility comprises a $20,000,000 revolving credit facility, a $6,000,000 bank guarantee facility, a $600,000 corporate card facility, and a $500,000 operation account overdraft facility. The revolving credit facility expires 31 October 2023, with the other facilities renewed annually.

## Note 17 – Financial Liabilities (continued)

### Defaults and breaches

There were no defaults or breaches during the year ended 30 June 2020 on any of the above mentioned facilities.

### (b) Debt Facilities and Credit Standby Arrangements

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

| | Facility Available 2020 $'000 | Facility Used 2020 $'000 | Maturity Dates 2020 | Facility Available 2019 $'000 | Facility Used 2019 $'000 | Maturity Dates 2019 | Interest Basis |
|---|---|---|---|---|---|---|---|
| – NAB Revolving Credit Facility* | **16,600** | **–** | **Nov-21** | 16,600 | – | Nov-21 | Floating |
| – Swedish Overdraft Facility (SEK)** | **935** | **–** | **Dec-20** | 920 | – | Dec-19 | Floating |
| | **17,535** | **–** | | 17,520 | – | | |

* 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 18 – 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 closure costs and redundancies announced before the reporting date.

### Makegood

A provision has been recognised for makegood obligations at the end of the lease term for leased property. The Group calculates the provisions on the present value of future cash flows in respect of meeting contract obligations.

### 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.

| | Consolidated Group | | | | | | |
|---|---|---|---|---|---|---|---|
| | Long Service Leave Employee Benefits $'000 | Annual Leave Employee Benefits 2020 | Onerous Contracts $'000 | Restruc-turing $'000 | Makegood $'000 | Other $'000 | Total $'000 |
| **BALANCE AT 1 JULY 2019** | **2,938** | **2,967** | **332** | **–** | **–** | **1,356** | **7,593** |
| AASB 16 transition impact | – | – | – | – | 2,858 | – | 2,858 |
| **ADJUSTED BALANCE AT 1 JULY 2019** | **2,938** | **2,967** | **332** | **–** | **2,858** | **1,356** | **10,451** |
| Provisions raised | 418 | 2,610 | – | 859 | 785 | 755 | 5,427 |
| Provisions used | (370) | (2,307) | (117) | (785) | (59) | (322) | (3,960) |
| **BALANCE AT 30 JUNE 2020** | **2,986** | **3,270** | **215** | **74** | **3,584** | **1,789** | **11,918** |
| Current | 2,528 | 3,270 | 215 | 74 | – | 1,789 | 7,876 |
| Non-current | 458 | – | – | – | 3,584 | – | 4,042 |
| **BALANCE AT 30 JUNE 2020** | **2,986** | **3,270** | **215** | **74** | **3,584** | **1,789** | **11,918** |

## 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 2020 is $1,166,687 (2019: 1,289,974).

## Note 20 – Issued Capital and Reserves

### (a) Share Capital

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| 313,380,943 (2019: 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*.

| | 2020 No. | 2019 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 dividends 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 2020, and there are no tax consequences.

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| **(a) INTERIM DIVIDEND DECLARED** | | |
| 0.5 cents per ordinary share (2019: NIL) | **1,567** | – |
| **(b) FINAL DIVIDEND DECLARED** | | |
| 1.5 cents per ordinary share (2019: 1.5 cents) | **4,701** | 4,701 |
| **(c) 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% (2019: 30%) | **6,553** | 9,239 |

## Note 21 – Parent Entity Disclosures

As at, and throughout the financial year ended, 30 June 2020 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.

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| **(a) Financial Position of Parent Entity at year end** | | |
| **ASSETS** | | |
| Current assets | **15,476** | 12,643 |
| Non-current assets | **35,153** | 17,153 |
| **TOTAL ASSETS** | **50,629** | 29,796 |
| **LIABILITIES** | | |
| Current liabilities | **25,726** | 22,884 |
| Non-current liabilities | **2,602** | 275 |
| **TOTAL LIABILITIES** | **28,328** | 23,159 |
| **NET ASSETS** | **22,301** | 6,637 |
| **EQUITY** | | |
| Issued capital | **302,720** | 302,720 |
| Profit reserve | **10,165** | 2,433 |
| Accumulated losses | **(290,584)** | (298,516) |
| **TOTAL EQUITY** | **22,301** | 6,637 |
| **(b) Result of Parent Entity** | | |
| Profit / (loss) for the year | **15,665** | 4,373 |
| Other comprehensive income | **–** | – |
| **TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE PERIOD** | **15,665** | 4,373 |

### (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 17(a) – Financial Liabilities.

### (d) Parent Entity Contingent Liabilities

At 30 June 2020, the parent entity has no significant contingent liabilities (2019: NIL).

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

At 30 June 2020, the parent entity had not entered into any contractual commitments for the acquisition of property, plant and equipment and other intangible assets (2019: NIL).

# Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2020

## Note 22 – Cash Flow Information

### (a) Reconciliation of Cash at End of Financial Year

| | Note | 2020 $'000 | 2019 $'000 |
|---|---|---|---|
| Cash and cash equivalents | 8 | **14,447** | 23,702 |
| Bank overdrafts | 17 | **(313)** | (294) |
| **CASH (NET OF BANK OVERDRAFTS) AT END OF FINANCIAL YEAR** | | **14,134** | 23,408 |

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

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| **PROFIT / (LOSS) AFTER INCOME TAX** | **13,423** | 14,227 |
| *Adjustments for non-cash items:* | | |
| – Depreciation | **6,742** | 3,482 |
| – Other intangibles amortisation | **105** | 133 |
| – Impairment losses on inventory | **139** | 571 |
| – Impairment of property, plant and equipment | **195** | – |
| – Movement in ECL provision | **(140)** | 5 |
| – Net finance costs | **40** | 248 |
| – Income tax expense / (benefit) | **(3,273)** | (1,537) |
| – Gain on sale of property, plant and equipment | **(396)** | (2,656) |
| | **16,835** | 14,473 |
| *Changes in:* | | |
| – (Increase) / decrease in trade and other receivables | **(787)** | (1,997) |
| – (Increase) / decrease in prepayments | **240** | (429) |
| – (Increase) / decrease in inventories | **(5,408)** | (3,201) |
| – Increase / (decrease) in trade payables and accruals | **344** | 3,684 |
| – Increase / (decrease) in provisions | **3,257** | 577 |
| Cash provided by / (used in) operating activities | **14,481** | 13,107 |
| – Net interest paid | **(40)** | (248) |
| – Income taxes paid | **(348)** | (538) |
| **CASH FLOW PROVIDED BY / (USED IN) OPERATIONS** | **14,093** | 12,321 |

### (c) Reconciliation of Financial Liabilities in Financing Activities

| | 2019 $'000 | Cash Flows $'000 | Non-Cash Changes $'000 | 2020 $'000 |
|---|---|---|---|---|
| Bank overdraft | 294 | – | 19 | **313** |
| **TOTAL FINANCIAL LIABILITIES** | 294 | – | 19 | **313** |

## Note 23 – Financial Risk Management

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

| | Note | 2020 $'000 | 2019 $'000 |
|---|---|---|---|
| **FINANCIAL ASSETS** | | | |
| Cash and cash equivalents | 8 | **14,447** | 23,702 |
| Trade and other receivables | 9 | **26,369** | 27,437 |
| Contract assets | 4 | **4,897** | 2,875 |
| Forward contract | | **658** | – |
| | | **46,371** | 54,014 |
| **FINANCIAL LIABILITIES** | | | |
| Trade and other payables | 16 | **17,227** | 18,257 |
| Borrowings | 17 | **313** | 294 |
| Contract liabilities | 4 | **2,690** | 1,151 |
| Forward contract | | **658** | – |
| Lease liabilities | 11 | **21,752** | – |
| | | **42,640** | 19,702 |

The Group measures Trade and other receivables along with Trade and other payables at amortised costs. The Group designates certain derivatives as hedging instruments to hedge the variability in cash flows associated with highly probable forecast transactions arising from changes in foreign exchange rates. The Group initially measures derivatives at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and any changes therein are recognised in profit or loss.

At inception of the designated hedging relationship, the Group documented the risk management objective and strategy for undertaking the hedge. The Group also documented the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and hedging instrument are expected to offset each other.

### 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.

## Note 23 – Financial Risk Management (continued)

### 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 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:

| | 2020<br>$'000 | 2019<br>$'000 |
|---|---|---|
| **FLOATING RATE INSTRUMENTS** | | |
| Bank overdrafts | **313** | 294 |
| **TOTAL FLOATING RATE INSTRUMENTS** | **313** | 294 |

### 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 | |
| | 2020<br>$'000 | 2019<br>$'000 | 2020<br>$'000 | 2019<br>$'000 | 2020<br>$'000 | 2019<br>$'000 | 2020<br>$'000 | 2019<br>$'000 |
| **FINANCIAL LIABILITIES DUE FOR PAYMENT** | | | | | | | | |
| Trade and other payables | **17,227** | 18,257 | **–** | – | **–** | – | **17,227** | 18,257 |
| Bank overdrafts and loans | **313** | 294 | **–** | – | **–** | – | **313** | 294 |
| Contract liabilities | **2,690** | 1,151 | **–** | – | **–** | – | **2,690** | 1,151 |
| Forward contract | **658** | – | **–** | – | **–** | – | **658** | – |
| Lease liabilities | **3,338** | – | **14,668** | – | **3,746** | – | **21,752** | – |
| **TOTAL EXPECTED OUTFLOWS** | **24,226** | 19,702 | **14,668** | – | **3,746** | – | **42,640** | 19,702 |

### 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 | | | |
|---|---|---|---|---|
| | **2020 Carrying Value $'000** | **2020 Fair Value $'000** | **2019 Carrying Value $'000** | **2019 Fair Value $'000** |
| **FINANCIAL ASSETS** | | | | |
| Cash and cash equivalents | **14,447** | **14,447** | 23,702 | 23,702 |
| Trade and other receivables | **26,369** | **26,369** | 27,437 | 27,437 |
| Contract assets | **4,897** | **4,897** | 2,875 | 2,875 |
| Forward contract | **658** | **658** | – | – |
| | **46,371** | **46,371** | 54,014 | 54,014 |
| **FINANCIAL LIABILITIES** | | | | |
| Trade and other payables | **17,227** | **17,227** | 18,257 | 18,257 |
| Loans and borrowings | **313** | **313** | 294 | 294 |
| Contract liabilities | **2,690** | **2,690** | 1,151 | 1,151 |
| Forward contract | **658** | **658** | – | – |
| Lease liabilities | **21,752** | **21,752** | – | – |
| | **42,640** | **42,640** | 19,702 | 19,702 |

## Note 23 – Financial Risk Management (continued)

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

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

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| **CHANGE IN EARNINGS** | | |
| – Improvement in AUD to SEK by 5% | **(32)** | (16) |
| – Decline in AUD to SEK by 5% | **32** | 16 |
| **CHANGE IN EQUITY** | | |
| – Improvement in AUD to SEK by 5% | **497** | 467 |
| – Decline in AUD to SEK by 5% | **(497)** | (467) |

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 2020 and 2019 are as follows:

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Total borrowings | **313** | 294 |
| Net debt / (cash) | **(14,134)** | (23,408) |
| Total equity | **88,594** | 84,075 |
| **TOTAL EQUITY AND NET DEBT** | **74,460** | 60,667 |
| **GEARING RATIO** | **(16%)** | (28%) |

The gearing ratio is negative as the Group had positive Net Cash. As at 30 June 2020 it remained negative, albeit at a reduced level largely due to the cash utilisation in the current financial year.

# 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:

| | 2020<br>$ | 2019<br>$ |
|---|---|---|
| Short-term employee benefits | **1,339,748** | 1,080,650 |
| Post-employment benefits | **116,863** | 107,638 |
| Termination benefits | – | 80,000 |
| Other long-term benefits | **14,254** | 13,302 |
| **TOTAL** | **1,470,865** | 1,281,590 |

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

## (ii) Key Management Personnel Transactions

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

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

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

## Note 24 – Related Party Transactions (continued)

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:

| Related Party | Director | Revenue/(Cost) for the year ended 30 June 2020 $ | 2019 $ | Receivable/(Payable) as at 30 June 2020 $ | 2019 $ |
|---|---|---|---|---|---|
| Elph Pty Ltd[1] | V De Santis/D Elphinstone | **–** | (91,135) | **–** | – |
| Elphinstone Group (Aust) Pty Ltd[2] | V De Santis/D Elphinstone | **(218,397)** | (384,530) | **(9,058)** | (8,030) |
| William Adams Pty Ltd[3] | V De Santis/D Elphinstone | **(864)** | (1,943) | **–** | (1,738) |
| United Equipment Pty Ltd[4] | D Elphinstone | **(634,210)** | (408,987) | **(20,670)** | (12,534) |
| Southern Prospect Pty Ltd[5] | D Elphinstone | **52,509** | 75,128 | **7,131** | 9,526 |
| Elphinstone Pty Ltd[6] | D Elphinstone | **1,177,869** | 2,949,281 | **6,345** | 329,021 |

1 Line Fees and interest were incurred and paid to Elph Pty Ltd in the prior year 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 prior 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 prior 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 Elph Pty Ltd during the prior 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 | 2020 $'000 | 2019 $'000 |
|---|---|---|
| *Current receivables (parent entity):* | | |
| Receivables from subsidiaries | **314** | 524 |

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

| | 2020<br>$ | 2019<br>$ |
|---|---|---|
| **AUDIT AND REVIEW SERVICES** | | |
| Auditors of the Company | | |
| – KPMG Australia – audit and review of financial statements | **290,000** | 314,221 |
| – KPMG Overseas – audit and review of financial statements | **30,965** | 29,896 |
| Other auditors | | |
| – Audit and review of financial statements | **15,592** | – |
| **TOTAL AUDIT AND REVIEW SERVICES** | **336,557** | 344,117 |
| **OTHER SERVICES** | | |
| Auditors of the Company | | |
| – KPMG Australia – in relation to taxation compliance services | **–** | 4,580 |
| – KPMG Australia – in relation to advisory service | **–** | 11,495 |
| – KPMG Overseas – in relation to taxation compliance services | **7,078** | – |
| **TOTAL OTHER SERVICES** | **7,078** | 16,075 |
| Other Auditors | | |
| – Assurance services | **36,025** | – |
| **TOTAL OTHER SERVICES** | **36,025** | – |

## Note 26 – Events Subsequent to Reporting Date

As at 30 June 2020, the Group had entered a contractual commitment for the development of improvements to freehold land of $2,341,000 which was subsequently completed on 4 August 2020.

On 18 August 2020, the Group increased its debt facilities with National Australia Bank (NAB) to $27,100,000. The NAB facility comprises a $20,000,000 revolving credit facility, a $6,000,000 bank guarantee facility, a $600,000 corporate card facility, and a $500,000 operation account overdraft facility. The revolving credit facility expires 31 October 2023, with the other facilities renewed annually.

On 18 August 2020, Scott Cameron was appointed to the Board as an Independent Non-Executive Director, effective from 1 September 2020.

On 19 August 2020, 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 29 September 2020.

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 2020.

# Shareholder Information

Additional Information for Listed Companies at 10 August 2020.

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

## 1. Shareholding

### (a) Distribution of shareholders

| Category (size of holding) | No. of Shareholders | % | No. Ordinary Shares |
|---|---|---|---|
| 1 – 1,000 | 151 | 0.01% | 28,900 |
| 1,001 – 5,000 | 192 | 0.19% | 603,117 |
| 5,001 – 10,000 | 122 | 0.31% | 976,425 |
| 10,001 – 100,000 | 247 | 2.79% | 8,735,581 |
| 100,001 – and over | 101 | 96.70% | 303,036,920 |
| | 813 | 100.00% | 313,380,943 |

### (b) The number of shareholdings held in less than marketable parcels (less than $500 in value) is 156.

### (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 | 110,070,536 | 35.12% |
| 2 | Elph Pty Ltd | 98,163,120 | 31.31% |
| 3 | UBS Nominees Pty Ltd | 23,802,310 | 7.60% |
| 4 | RAC & JD Brice Superannuation Pty Ltd | 19,150,583 | 6.11% |
| 5 | HSBC Customer Nominees (Australia) Limited | 11,784,606 | 3.76% |
| 6 | Marford Group Pty Ltd | 4,356,297 | 1.39% |
| 7 | Mr Hugh William Maguire & Mrs Susan Anne Maguire | 3,697,600 | 1.18% |
| 8 | Mr Neville Leslie Esler & Mrs Cheryl Anne Esler | 2,296,925 | 0.73% |
| 9 | Mr Dennis Graham Austin & Mrs Marilyn Alice Austin | 1,645,000 | 0.52% |
| 10 | Strategic Value Pty Ltd | 1,485,400 | 0.47% |
| 11 | Neko Super Pty Ltd | 1,438,442 | 0.46% |
| 12 | Mr Hugh William Maguire | 1,300,000 | 0.41% |
| 13 | Prussner Investments Pty Ltd | 1,170,688 | 0.37% |
| 14 | Dr Jared Charles Lawrence | 1,133,807 | 0.36% |
| 15 | J P Morgan Nominees Australia Pty Ltd | 1,009,009 | 0.32% |
| 16 | T B I C Pty Ltd | 814,146 | 0.26% |
| 17 | Mrs Margaret Jane Lundermann & Mr Luke Charles Lindemann | 800,000 | 0.26% |
| 18 | Robroz Pty Ltd | 700,000 | 0.22% |
| 19 | BFA Super Pty Ltd | 644,950 | 0.21% |
| 20 | Mr Bryan John Hiscock & Mrs Jean Helen Hiscock | 550,000 | 0.18% |
| | | 286,013,419 | 91.27% |

### (d) Shareholders holding at least 5% of issued capital were listed in the holding company's register as follows:

| Shareholder | No. Ordinary Shares | % |
|---|---|---|
| Elph Investments Pty Ltd | 110,070,536 | 35.12% |
| Elph Pty Ltd | 98,163,120 | 31.31% |
| Thorney Investments Group Pty Ltd | 33,966,932 | 10.84% |
| RAC & JD Brice Superannuation P/L | 19,150,583 | 6.11% |

### (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

Meredith Rhimes

## 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:

Automic Group
Level 5, 126 Phillip Street
Sydney NSW 2000
GPO Box 5193
Sydney NSW 2001

## 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

## 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 Secretaries

**Paul Burrows**
BCom, CA, GAICD
Company Secretary

**Meredith Rhimes**
BA, 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

**Automic Group**
Level 5
126 Phillip Street
Sydney NSW 2000
GPO Box 5193
Sydney NSW 2001

T: +61 (0)2 8072 1400

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