coote INDUSTRIAL

Annual Report | 2007

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FY07 HIGHLIGHTS

Financial Performance

Total sales	$69.416m
EBITDA	$15.543m
EBIT	$13.592m
NPAT	$8.174m
Total assets	$149.837m
Borrowings	$ 37.153m
Shareholders equity	$ 91.687m

TOTAL SALES $70m

TOTAL ASSETS $150m

PROFIT $8m

Share Comparatives

Earnings per share	18.12¢
Dividends per share	5.90¢

Key Ratio Indicators

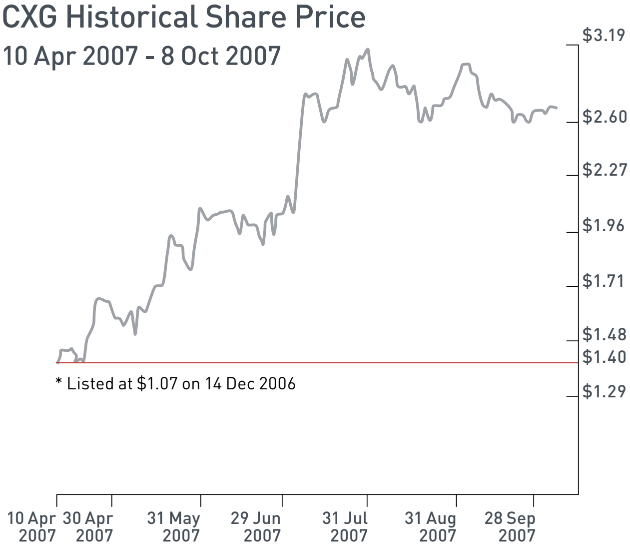
Interest cover	5.37x
Debt/equity ratio	40.5%
Current ratio	1.88x

Financial Calendar

Final dividend declared	2.95¢
Record date for final dividend	15 October 2007
Payment date for final dividend	31 October 2007
Annual General Meeting	29 November 2007

CXG Historical Share Price

10 Apr 2007 - 8 Oct 2007



"IT IS WITH GREAT PLEASURE THAT WE PRESENT COOTE INDUSTRIAL LIMITED'S FIRST ANNUAL REPORT.

THIS FINANCIAL YEAR WAS FOCUSED ON COOTE INDUSTRIAL SECURING ITS POSITION AS A PROMINENT ENGINEERED TRANSPORT AND SERVICES GROUP."

CHAIRMAN'S ADDRESS

Achieving Results

Achieving ASX listing on 14 December 2006 and the establishment of the core base of the group influenced the first half year performance.

The group exceeded its Prospectus forecast for the period to 30 June 2007, after excluding the contribution from the acquisition of South Spur Rail Services. Coote Industrial has subsequently completed three other significant acquisitions which are expected to substantially increase both revenue and profit in 2008.

In line with our public offer Prospectus plans, the Board is pleased to declare a fully franked final dividend of 2.95 cents per share to be paid on 31 October 2007, bringing the total dividends paid for the 2007 financial year to 5.9 cents per share.

Delivering On Strategy

The acquisition of South Spur Rail Services for $25 million effected on 2 May 2007, and completed on 29 June 2007, formed the basis of our Rail Services division. More recently the acquisition of Gemco for $34 million formed the basis of our Rollingstock Services division. Both were major steps towards delivering our strategy of establishing a firm position in the value-added rail services and maintenance sectors.

The acquisition of FCD Container Logistics for $12.5 million doubles the size of our specialised Logistics division with an added presence in the port of Fremantle.

Logistics, Rail and Rollingstock Services are a key strategic focus for the company and opportunities will be sought during 2008 to further develop these divisions.

Engineering Services focuses on diesel engine development, performance enhancement and efficiencies. The division will continue to strengthen its customer relationships through key contract and project delivery.

Progress within our Energy division is expected to escalate in 2008 with emphasis on commercialising efficient, environmentally friendly energy sources and technologies.

Strong Operational Performance

Continued strengthening in financial performance of the divisions is aided by our focus on robust industry segments; defence, maritime, power generation, rail and resources.

Skilled Leadership

Coote Industrial continues to be taken forward by the drive and energy of Managing Director, Mike Coote, in close partnership with Executive Directors, Don Patterson, Peter Wilson and Glenn Parrett. The company is fortunate to have a very experienced, enthusiastic management team across the operating units, with expertise in both the commercial and technical aspects of the business.

Corporate Governance

The company has only one independent, non-executive director. The Board believes that a relatively small group of fully engaged Executive Directors with extensive knowledge of the markets in which Coote Industrial operates is appropriate for this stage of the company's development. The Board is committed to Coote Industrial fulfilling all its obligations as an ASX-listed entity.

Looking Ahead

The key industry sectors on which Coote Industrial is focused are all expected to perform soundly.

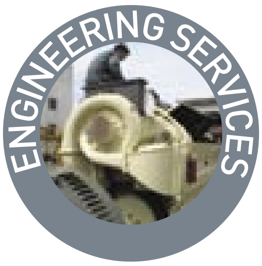
The Board is convinced that further significant opportunities exist for Coote Industrial to continue its strategy of profitable expansion through organic growth and strategic acquisition.

Donald Hector
Chairman

COOTE INDUSTRIAL LIMITED HAS ESTABLISHED ITSELF AS A LEADING SPECIALISED TRANSPORT AND SERVICES PROVIDER BY HARNESSING OUR ORGANISATIONAL STRUCTURE AND DIVISIONAL CAPABILITIES TO DELIVER INTEGRATED SOLUTIONS.

COMPANY STRUCTURE

ENGINEERED TRANSPORT AND SERVICES



DIESEL ENGINES
GTSA Engineering
Hedemora Diesel (Sweden)
Hedemora Diesel Australia

ENGINES AND TRANSMISSIONS
PC Diesel
Industrial Powertrain

ELECTRONICS
Savant Technologies

INDUSTRIAL EQUIPMENT
Lights, Power, Anything

TRANSPORT ENGINEERING
Convair Engineering

SPECIALISED FREIGHT
Asset Kinetics

PORT SERVICES
FCD Container Logistics

RAIL LOGISTICS
South Spur Rail Services

PERSONNEL
Momentum Rail

TRAINING & ACCREDITATION
Centre for Excellence in Rail Training

TOURISM
Spirit of the West

ROLLINGSTOCK
Gemco Rail

RAIL BEARINGS
Railway Bearing Refurbishment Services

PLASTICS RECYCLING
Claw Environmental

POWER GENERATION
Coote Energy

MANAGING DIRECTOR'S REVIEW

A history of growth and achievement

From very humble beginnings our business has grown to meet the evolving needs of our customer base.

During the 16 years from commencement of operations in 1989 through to 2005 our business grew from a single niche product line in diesel engine turbochargers and components, to encompass comprehensive large diesel engineering and commercial equipment manufacture. This growth was derived through investment in people, calculated investment risks, innovative engineering ideas and business opportunities presented to us by a satisfied customer base.

The period saw continued diversification of products and services, expansion into new industry sectors – particularly Defence, Rail and Resources, a number of small acquisitions, new company formations, and growth from 1 employee to 150 employees at 4 sites. Another important aspect of our efforts during the period was the development of the strong business partnerships and relationships which we enjoy to this day.

Firmly on the acquisition path

During 2006 we successfully completed the acquisition of three successful companies; Hedemora Diesel (Sweden), Asset Kinetics and Convair Engineering.

Hedemora Diesel (Sweden) is the original equipment manufacturer (OEM) for the Hedemora diesel engine range - most recently and notably those providing power generation onboard Australia's Collins Class submarines. Coote Industrial companies have been involved with these engines for many years and we enjoy long-term support contracts with ASC and the Logistics Support Agency (Navy). By acquiring the OEM and securing the Intellectual Property for the engines, Coote Industrial has done its part to ensure the long-term maintainability and supportability of this strategic defence platform. In doing so we also secured a basis for future large diesel engine development.

Asset Kinetics is a specialist road transport solutions provider for project freight, dangerous goods, transportable housing and mine site logistics. The company's innovative history is highlighted by their development of the Super Quads – impressive 53.5 metre, 194 tonne, 98 wheeled rigs which are the heaviest approved on-road road trains in Australia with a stack of performance and safety enhancing features.

Convair Engineering, a world-class dry bulk transport tanker manufacturer, expanded its Melbourne-based production capabilities during the year and achieved a world first with the introduction of the B-double aluminium bulk pneumatic tanker, co-designed with German partner Feldbinder.

While these businesses are excellent operations in their own right, their amalgamation into the group significantly enhanced our overall service offering. As a group we were then able to harness individual business capabilities and leverage them to provide integrated, innovative solutions to our customers.

Continued growth and diversification

2007 has been witness to our most dramatic and exciting period of growth to date. Coote Industrial Ltd listed on the Australian Stock Exchange on 14 December 2006, seeking capital to invest in an array of exciting business opportunities. As a result of successful listing we were able to engage in several very important strategic acquisitions and further invest in our infrastructure and people.

The conclusion of those acquisitions has seen our group services offering extended to include railroad operations, rollingstock manufacture and maintenance, power generation and alternate energy. We have also enhanced our logistics services to encompass rail transportation, and engage in freight forwarding and port services. Each of the new companies has also met our acquisition criteria of high barriers to entry, stable high recurring earnings, and a history of strong long-term growth.

South Spur Rail Services joined the group in May 2007, bringing with it the South Spur and Southern & Silverton railroad operations, specialist rail labour hire entity Momentum Rail, restaurant train operator Spirit of the West and rail training and accreditation entity Centre for Excellence in Rail Training. These companies now form the basis of our Rail Services division.

The introduction of Perth-based Gemco Rail to the group has fast-tracked our aspirations to establish a Rollingstock Services division by several years. The company's focus on wagons, wheelsets and bogies is unique and possibly has no equivalent within Australia. Gemco Rail is actively engaged with every major rail operator in the country and is recognised as a leader in their market niche. Commencing in 2008, Gemco Rail will be seeking to expand its physical presence into other Australian states.

FCD Container Logistics is based at Fremantle Container Terminal and is engaged in container handling and storage;

"LOOKING BACK AT THE PAST FINANCIAL YEAR IT IS A PLEASURE TO REFLECT ON THE GROWTH THAT HAS TAKEN PLACE AND NOTE THAT OUR ORIGINAL GOALS HAVE BEEN EXCEEDED BEYOND EXPECTATION."

quarantine and inspection, fumigation and cleaning services; freight forwarding and customs clearance. A niche market for FCD is the management of road transport to and from the port. Acquisition of FCD Container Logistics provides significant impetus towards our goal of delivering a holistic logistics service covering road, rail and sea freight transportation.

The most recent addition to our Engineering Services division is Industrial Powertrain. This company specialises in the repair and overhaul of heavy powershift transmissions, torque converters, planetary axles and differentials. The transmissions are employed in front-end loaders, dump trucks, container forklifts and other heavy equipment used in mining, earthmoving and materials handling. Working closely with PC Diesel, this business will greatly expand our service offering to the mining and resource sectors.

Commitment to sustainability

As part of our commitment and contribution towards a sustainable future, Coote Industrial established its Energy division in 2007 with intent to provide cost-effective alternate energy solutions with reduced environmental impact for the rapidly expanding private power industry.

Our acquisition of Claw Environmental, a Western Australian based plastics recycling business, was finalised on 31 March 2007. An existing R&D team within Engineering Services responsible for investigating environmentally sustainable technologies and alternate fuels was integrated into the business. One of Claw Environmental's key objectives is to continue to develop its recycling technologies with a view to longer term alternate fuel production.

Newly formed Coote Energy engages in standby power generation projects in NSW and is tasked with seeking similar opportunities in Queensland and Western Australia. Coote Energy has access to considerable existing power generation experience and other resources within the group to meet its goals of establishing a 'greener' power generation capability.

Together, Claw Environmental and Coote Energy provide the basis for our Energy division and share a common short-term objective of establishing environmentally friendly operations with a longer-term goal of carbon neutrality for the group.

Framework for success

In order to sustain our current levels of growth, Coote Industrial recognises that group businesses must be supported through continuing investment in infrastructure and sound business systems, together with recruitment and retention of personnel.

Coote Industrial's corporate body continues to strengthen and consolidate unity within the group through the development of strategic management, group accounting, business systems, marketing and human resource teams. These teams provide direction and support to our operating entities while facilitating commonality of business practices.

Our best practice SAP implementation continues to roll out to our business units and solidifies our promise of fully integrated financial, treasury, operational and administrative systems. An expanded team drives this and other business systems initiatives including new technology infrastructure and project systems management.

Looking forward

Our defence, maritime, power generation, rail and resources customer base continues to perform strongly and as a group we are well positioned to service the demands of these growth industries.

Strategic acquisition and people investment has provided the Coote Industrial group with a highly skilled, experienced workforce and management team. The capabilities we have developed in engineering, logistics, rail, rollingstock and energy provide a strong foundation for organic growth and we look forward to further capitalising on emerging synergies within the group.

To all of our customers and shareholders - thank you for your support and loyalty as we develop and grow this dynamic, exciting business. We look forward to repaying your faith through strong financial performance.

I take this opportunity to once again extend a special note of thanks to the employees of the Coote Industrial group. Your innovation, dedication and reliability have taken the group to its current position of prosperity and each of you should be exceptionally proud of our achievements to date.

The future holds promise of an interesting and exciting time for all of us and I look forward to sharing it with you.

Michael Coote
Managing Director

ENGINEERING SERVICES

THE BUSINESS

Engineering Services is comprised of eight businesses: Convair Engineering, GTSA Engineering, Hedemora Diesel (Sweden), Hedemora Diesel Australia, Industrial Powertrain, Lights Power Anything, PC Diesel and Savant Technologies. Engineering Services operates businesses delivering:

- Heavy diesel-electric engineering services;
- Defence and other commercial marine vessel maintenance;
- Heavy diesel engine parts supply;
- Locomotive and rollingstock engineering services;
- Design and manufacture of pneumatic bulk road tankers;
- Industrial electronics, and
- Commercial equipment manufacture and hire.

STRATEGY

Engineering Services' objectives of achieving sustained growth with high probability and stable, high recurring earnings is assured by:

- Attracting and retaining outstanding talent and knowledge;
- Successful acquisitions;
- Long-term contractual relationships;
- Cross-pollination within the group, and
- Maintaining existing high barriers to entry.

YEAR IN BRIEF

In 2007, Engineering Services was focused on clearly defined market segments:

DEFENCE	power generation, propulsion, mechanical and electrical systems
MARINE	power generation, propulsion, mechanical engineering
RAIL	locomotives, rollingstock and track maintenance equipment
RESOURCES	stationary power generation, diesel engine systems and equipment hire

Sales revenue for 2007 was $50.371 million with earnings before interest and tax of $12.848 million. Major contributors to this result included strong demand dry bulk pneumatic tankers to support construction in the resources industry; locomotive and rollingstock projects; solid demand for engine support in the mining power, submarine, oil and gas segments.

Convair Engineering

Convair Engineering had a record year with sales in excess of $15.1 million; an increase of 20% on the previous year. Sales of steel tankers were solid, complemented by continued growth in sales of imported aluminium tankers.

Spare parts, ancillary components, compressor repair and tanker repair sales continued to grow strongly.

Convair Engineering expanded its Melbourne-based production of bulk pneumatic tankers during the year and achieved a world first with the introduction of a B-double aluminium bulk pneumatic tanker, co-designed with German partner Feldbinder.

Cement customers added to demand as they responded to construction in the resources sector. An overseas production resource in China has been developed to satisfy market demand for rail and shipping Isotainer tanks.

Development was substantially progressed on a number of new, innovative products that will position Convair Engineering well for continued growth.

GTSA Engineering

A solid performance was achieved by GTSA Engineering from business units operating in Alexandria and Mascot in New South Wales, and Maddington in Western Australia.

Locomotive refurbishment, new market share in engine overhaul work and turbocharger services were the main contributors during the period.

Hedemora Diesel (Sweden)

Hedemora Diesel (Sweden) is the Original Equipment Manufacturer (OEM) for the diesel engines installed, amongst other applications, onboard Royal Australian Navy Collins Class submarines.

Strong parts sales maintained a stable base whilst major overhauls on some key oil, gas and marine installations generated a strong performance for the year.

Hedemora Diesel (Sweden) signed two major contracts during 2008. The first with Exxon Mobil was to supply parts and services for Cameroon Oil. The second, a tropicalisation process for two Swedish submarines purchased by the Republic of Singapore Navy also powered by Hedemora diesel engines.

"ENGINEERING SERVICES WAS THE FOUNDATION STONE FOR COOTE INDUSTRIAL AND CONTINUES TO PLAY A PIVOTAL CONTRIBUTION IN THE GROUP'S FINANCIAL RESULTS, BOTH FROM ITS OWN BUSINESS UNITS' FINANCIAL PERFORMANCE AND THEIR SUPPORTING ROLES IN MANY OF THE OTHER DIVISIONS' BUSINESS UNITS."

Hedemora Diesel Australia

In its first year of operations, Hedemora Diesel Australia achieved an excellent result with sales of $7.2 million.

The result was buoyed by income from reliability enhancement work for the existing Hedemora engines in the Collins Class submarines, strong parts sales coinciding with full cycle dockings, and a test engine design and build project.

Professional engineering resources were increased during the year to support ASC and Royal Australian Navy projects to continuously improve performance of the existing submarine engines. This effort also aims to position the Hedemora submarine engine as the experience-backed, logical choice for selection in any future replacement vessel for the Collins Class. Support was provided for Hedemora engines in petroleum FPSOs on the North West Shelf of Western Australia, and off the coast of Cameroon in Africa.

Planning is well advanced for relocation to new premises in the Australian Marine Complex precinct at Henderson, south of Perth in the latter part of 2007. This strategic relocation will position Hedemora Diesel Australia within a renowned centre for construction and support of marine and defence industries. Hedemora Diesel Australia's major customer, ASC, is also located at Henderson and is building a new state-of- the-art submarine maintenance and upgrade facility in the area.

Lights Power Anything (LPA)

A volume production output cycle was entered into for production of lighting towers to satisfy market demand for our two hire fleets. The expansion of the fleets impacted upon this year's result but is expected to significantly increase hire revenue in future years. Other financial performance impacts were costs of accreditation of new designs, ongoing product development (lighting towers, arrow boards and message boards), as well as lower volume component requirements and production inefficiencies.

PC Diesel

PC Diesel's performance was bolstered by contracts with Rio Tinto (Argyle Diamonds), and Tidewater Marine. There was continued solid support from customers throughout South East Asia.

Savant Technologies

The addition of several new industrial electronics products pushed revenue higher this year. Research and development activity distorted the result in this evolving business unit.

SUSTAINABILITY

Health, safety and protection of the environment are high priorities for all Engineering Services business units. The approach is underpinned by rigorous, systematic management of health, safety and environmental risks. Our diesel engine team invested in the application and development of products and solutions aimed at reducing greenhouse gas emissions, visible smoke, NOx and fuel consumption.

OUTLOOK

Strong demand for resources and the development of long-lived mining projects is expected to continue through 2008 and provide important opportunities for Engineering Services. Pressure on the supply of skilled labour in Australia provides an ongoing challenge. Engineering Services will draw upon expertise and resources in the labour supply and training businesses in Rail Services to meet the challenge.

Defence spending and marine maintenance is expected to be even stronger in the coming year.

"RAIL SERVICES WAS FORMED IN MAY 2007 FROM THE ACQUISITION OF SOUTH SPUR RAIL SERVICES AND COMPRISES FOUR BUSINESSES."

RAIL SERVICES

THE BUSINESS

Rail Services was formed in May 2007 from the acquisition of South Spur Rail Services for $25 million and comprises four businesses focused on:

- Specialised rail operations;
- Rail recruitment, labour supply and rail infrastructure maintenance;
- Rail training and accreditation, and
- Restaurant tourist train operation.

The main business units are South Spur Rail Services, Momentum Rail and Centre for Excellence in Rail Training (CERT) operating in South Australia, Northern Territory, Victoria, New South Wales and Western Australia during 2007. Momentum Rail also commenced operations in Queensland during the year.

Coote Industrial gained management control of the South Spur Rail Services group on 2 May 2007 and completed the second and final tranche of the acquisition on 29 June 2007.

Rail operations are specialised and focused on clearly defined market segments:

- Rail infrastructure services – hook and pull work train operations, rail protection crews, rail welding crews, training and certification;
- Regional services focused on mining and agriculture – shunting, hook and pull, dedicated haulage operations, labour supply, training and accreditation;
- Port destination intermodal services, and
- Integrated logistics services – focused solutions integrating road transport, port services and rail operations.

STRATEGY

Rail Services' objective of achieving sustained growth and profitability underpinned by long-term contractual relationships, divisional cross-pollination and high barriers to entry is strongly aligned to Coote Industrial's strategy.

YEAR IN BRIEF

Rail Services' operating revenue was $11.247 million for the two months to 30 June 2007, generating profit before tax of $1.272 million.

Rail infrastructure services, particularly labour welding crews in NSW and, to a lesser extent services to the Pilbara region of Western Australia, were the strongest contributors to the result.

The two months to 30 June 2007 saw a significant improvement in profitability for NSW rail operations. Mining related rail services in Broken Hill also performed strongly.

Spirit of the West performed in line with expectations for May and June 2007. Profitability for this business unit reflects its role as a marketing initiative with benefits across the group.

SUSTAINABILITY

As a function of Coote Industrial policy and extensive rail industry requirements; health, safety and protection of the environment are a high priority for all Rail Services business units.

Rail Services holds rail operator accreditation in Western Australia, South Australia, Victoria and New South Wales. Dedicated safety teams are responsible for the management of safety and environmental risks in each region.

Planning is well progressed for several engineering initiatives to significantly improve the environmental impact of heavy locomotives operated by South Spur Rail Services.

Rail operations are promoted as a transport mode with significant environmental and safety benefits by comparison with long-haul road transport.

OUTLOOK

Continued government spending on rail infrastructure development and maintenance along with State and Federal Government policy for land-based freight is expected to support ongoing conditions for expansion in the rail sector.

Strong demand for resources and the development of long-lived mining projects is expected to continue through 2008 and provide important opportunities for Rail Services.

Pressure on the supply of skilled labour in Australia provides an important challenge and opportunity for Rail Services. The labour supply and training businesses have developed an innovative program for drawing upon overseas labour markets.

Increased agricultural activity is expected during 2008 and is likely to result in peak demand for rollingstock and rail services in most market segments.

"THE STRENGTH OF THE UNDERLYING BUSINESS IS CLEARLY INDICATED WITH ACTUAL SALES OF $9.1 MILLION COMPARED TO THE PROSPECTUS REVENUE TARGET OF $9.3 MILLION."

LOGISTICS

THE BUSINESS

Asset Kinetic's segment result of $1.25 million was less than the Prospectus target of $1.86 million. The result was influenced by a number of staffing, equipment and structural changes throughout the year with a view to preparing the business for anticipated doubling of activity in 2008.

The strength of the underlying business is clearly indicated with actual sales of $9.1 million compared to our Prospectus revenue target of $9.3 million.

Some of the initiatives implemented during the year included:

- Re-organisation of the Maddington business in the second half, including change-out of older fleet vehicles for new;
- Appointment of several senior industry-experienced managers to assume responsibility for restructuring the business and achieving future growth, and
- Changes to staffing and processes in the transportable housing business to meet continuous strong demand for demountable accommodation in the mining sector in the second half.

There was a lower than anticipated demand for sulphuric acid in the Pilbara as clients move to sulphide ores. As a consequence there was a reduction in the volume of copper handled by Maddington and Port Hedland in the first half. The demand increased in the last quarter of the second half continuing into the new financial year.

STRATEGY

Logistics will actively pursue growth by expanding existing operations and through acquisition to further secure our objective to deliver a 'whole of project' approach.

Logistics is a strong strategic fit in Coote Industrial; embodying high barriers to entry, strategic locations, divisional cross-pollination and working well within the group's project and acquisition frameworks.

YEAR IN BRIEF

During the year our Logistics division negotiated the purchase of FCD Container Logistics Pty Ltd for $12.5 million, effective from 1 July 2007. FCD is a port based business, specialising in road transport to and from the Fremantle container terminal, AQIS cleaning and fumigation and container storage, packing and unpacking.

Strong synergies exist between FCD and Coote Industrial's Rail Services division which operates a container shuttle into the port of Fremantle. FCD's depot is adjacent to the Fremantle Port rail terminal.

Since October 2006, Asset Kinetics has undergone a number of internal changes. These included the assessment of existing projects and research into new ventures; including expansions to advance our market positioning.

Asset Kinetics' operations were considerably improved by the appointment of several highly experienced, skilled management personnel, enhancement of OHS&E controls and the upgrade of accounting software to Coote Industrial's SAP system.

SUSTAINABILITY

Logistics is well placed to expand the size of its business within the immense national transport industry.

Whilst Asset Kinetics and FCD Container Logistics are both benefiting from strong activity in the mining sector, the purchase of FCD brings diversification into agriculture with emphasis on export crops such as hay and grain.

Logistics' strategic advantage is in providing specialised services with high barriers to entry. Through projects such as two-way running road-trains and FCD Container Logistics' AQIS washing and related container services, our Logistics division will continue to augment its market position.

OUTLOOK

Continuing strong activity in mining and mine infrastructure construction will underpin this division's operations for the next twelve months. Resurgence in agriculture, particularly grain and hay, offers opportunities to establish new clients and benefit from increased activity.

Sustained high demand is forecast for container movements and project cargo through Fremantle port. This is expected to flow through to associated AQIS cleaning, fumigation and container storage, packing and unpacking services.

Asset Kinetics is now concentrating on building its core business areas, namely house transport services based in Perth and specialised road trains in the north-west region of Western Australia. It is also seeking further profitable opportunities through organic growth and strategic acquisitions.

ENERGY

THE BUSINESS

As part of our commitment and contribution towards a sustainable future, Coote Industrial established its Energy division in 2007 with intent to provide cost-effective alternate energy solutions with reduced environmental impact for the rapidly expanding private power industry.

On 31 March 2007, Coote Energy acquired Claw Environmental, a successful business engaged in the recycling of industrial plastics. This acquisition is an initial step towards ensuring plastics supply for plans to develop diesel fuel from waste plastics. The market for these fuels is expanding, and initial production volume will be consumed within the group, potentially reducing one of our highest costs in future years, and helping Coote Industrial reach carbon neutrality.

STRATEGY

Coote Energy will initially take a four-tier approach to establishing a commercially viable and environmentally sustainable business:

- Distributed Power Generation;
- Research and Development;
- Re-manufacturing and Value-Adding, and
- Granulated Recycled Plastics.

Distributed Power Generation

We are targeting power generation projects with an emphasis on sustainability and efficiency. These projects include cogeneration and other efficiency strategies with emphasis on utilising fuels with a lower greenhouse impact than utility generated power. Efficiency increases, together with cleaner fuels, will provide end users with lower overall costs and also reduce contribution to global warming.

Research and Development

General interest and investment in renewable technologies is increasing at a significant rate. It is estimated that in order to meet Greenhouse Gas Emission Targets by 2020, renewable power generation will need to account for 20% of Australia's total generation capacity. Coote Energy is currently researching technologies which are likely to provide the best opportunity to capitalise on this significant opportunity. Our activity is centred on developing a comprehensive understanding of the competing technologies and determining the commercial viability of participating in selected niches of the renewable energy industry.

Re-manufacturing and Value-Adding

Claw Environmental will continue its core activity of recycling industrial plastics; a process which extends the life of an otherwise non-renewable product, through value-adding and remanufacture. Significant volumes of material are being sourced from within metropolitan and regional Western Australia for this purpose. Export markets have been developed throughout South East Asia and China and markets are being developed within Australia. Considerable potential is available for the development of recycling for remanufacture within Western Australia.

“COOTE ENERGY WILL FOCUS ON THE GROWING NEED TO PROVIDE ENERGY SOLUTIONS THAT DELIVER A LOWER ENVIRONMENTAL IMPACT FOR THE RAPIDLY EXPANDING PRIVATE POWER INDUSTRY.”

Granulated Recycled Plastics

Ongoing market development is still required to encourage industry-wide adoption of granulated plastics. Claw Environmental is developing ‘plastics to diesel’ technology, which involves an alternative use for low value plastics.

Successful development of this technology will enable Claw Environmental to intercept a majority of recyclable plastics prior to disposal into landfill thereby extending the life of plastics, production of a ‘green’ fuel exceeding current fuel emission standards.

YEAR IN BRIEF

Continued, dramatic increases in recycling volumes characterised the opportunities for Claw Environmental and defined operational challenges.

A comprehensive review of plastics sorting, handling, storage and shredding capacity and processes was commenced, and a capacity expansion project has been defined.

Coote Energy undertook management of two standby power projects that were commenced by our Engineering Services division. Significant focus has been placed on determining the market’s requirements and defining a strong offering for the target segments.

A technically competent Business Manager with highly specific experience was appointed for the Coote Energy business.

SUSTAINABILITY

As a priority for the Energy division, a systematic Occupational Health and Safety risk management was implemented at Claw Environmental with immediate beneficial results.

Claw Environmental intercepts the majority of its plastics for recycling from being sent to landfill. Immediate and ongoing requirements for recycling existing commodities will continue to grow and Coote Industrial will benefit from the expanding public and private business communities eager to contribute to positive recycling and renewable energy solutions.

Gas and renewable distributed power generation has attracted Government support due to lower environmental impacts. Combined with Federal Government objectives, momentum of societal awareness will increase pressure on businesses to access Coote Industrial’s technology and services.

OUTLOOK

Government incentives for cleaner and renewable distributed power generation are expected to support ongoing conditions for growth and strong returns from investment in the sector.

Ongoing development of long-lived mineral projects, building sustainability standards and the pending introduction of carbon trading and greenhouse gas emissions targets are expected to provide a solid pipeline of opportunities in distributed and renewable power.

CORPORATE

BACKGROUND

Evolving successfully from a private business to a publicly listed group of companies requires the development of a strong corporate administrative body. Meeting compliance requirements, building best practice business processes, setting governance guidelines and risk-management strategies and ensuring fiscal strength and discipline are all cornerstones of enterprise excellence. Coote Industrial Ltd takes these elements seriously and has formed a strong team of professionals to deliver these objectives across the group.

Coote Industrial embodies Executive, Corporate Governance and Group Service resources. These centralised aspects are driven by the corporate entity.

Comprising ten operational focuses, Corporate delivers:

1. Executive/strategic management;
2. Company secretarial and compliance management;
3. Group business systems framework;
4. Project and acquisitions framework;
5. Group IT framework;
6. Risk management/internal audit;
7. Corporate affairs/public relations management;
8. Group accounting and treasury functions;
9. Health, Safety and Environment framework and services, and
10. Human Resources management services.

STRATEGY

The Board has recognised the need for, and defined, key focus areas required to derive exceptional value from the group platform. As a critical force in delivering Coote Industrial's strategy, Corporate will drive the project framework, engineering network, acquisitions and place strong emphasis on the development and retention of knowledge, talent and flexibility within the Group.

A decentralised group structure that places strong emphasis on responsibility, authority and autonomy in the business units will be blended with high quality group services, tools and the cross-fertilisation strategies outlined above.

"COOTE INDUSTRIAL'S PHILOSOPHY PLACES PEOPLE AT THE CENTRE OF THE VALUE CHAIN."

REVIEW OF ACTIVITIES

Catering for the unprecedented growth of the group was a rewarding challenge in the 2007 financial year. Achieving a successful ASX listing, consolidating existing businesses and acquiring a number of new businesses required extraordinary effort.

The foundations of a well-managed and administered, substantially sized group have been laid. Key success factors included deployment of modern and stable business systems to support Group requirements; up-skilling of staff; exercising strong fiscal discipline; applying common policy to all group companies and building best practice business processes to guide business operations.

CREATING A SUSTAINABLE BUSINESS ENVIRONMENT

Coote Industrial's philosophy places people at the centre of the value chain.

We recognise that ensuring continuous development and improvement of our environmental, health, safety and human capital management systems is pivotal to our success. Our Employee Stock Option Plan (ESOP) has broadened our corporate stakeholder base and is designed to encourage commitment and foster skills retention.

Effective strategies are being established to improve the level of communication to shareholders, customers and staff.

Customers and partners are integral to our business and this will remain a strong focus for both the development of new relationships and the maintenance of current ones. The basis of our relationship with customers will centre on quality, responsiveness and high service levels.

OUTLOOK

Primary areas of importance to Coote Industrial corporate operations are the labour market, regulatory and political environment, fiscal and monetary policy, and economic outlook.

A flexible approach has been adopted towards labour relations, placing the group in a position where a significant change in the industrial relations framework is not likely to thwart initiatives and strategy can be adjusted readily if necessary.

A central part of our approach to compliance is to further define and implement the review and change management process around regulations and legislative requirements relevant to the group.

The increase in our commercial size has enabled us to be more competitive in capital markets. It has aided our capacity to handle increased levels of debt financing for further expansion. The Board maintains a conservative view on debt equity ratios.

To accommodate the expanded group's cash flows, we have enhanced our central treasury management capabilities which include management of project and capital funding requirements as well as the day-to-day demands of our business units.

Strategies around staff recruitment, retention and development in the Group, aimed at managing the impact of a tight labour market during 2008, will draw upon the experience and resources of Momentum Rail; a specialist labour provider within Coote Industrial's Rail Services division.

FY08 OUTLOOK

LONG-TERM GROWTH WITH HIGH PROBABILITY

- Capital Stewardship and Project Framework
- Project and acquisition pipeline
- Knowledge, talent, flexibility
- Cross-pollination
- Selected, high growth industry sectors
- 'Innovation, Dedication, Reliability'

STABLE, HIGH, RECURRING EARNINGS

- High barriers to entry
- Services emphasis
- Long-term contracts
- Strategic locations
- Cost and risk management
- Market focus

COMPETITIVE VALUE FOR SHAREHOLDERS AND STAKEHOLDERS

- Share value, dividend growth and capital security
- Shareholders regarded as customers
- Beneficial employee and contractor relationships
- Safe and healthy working conditions
- Minimal impact on the environment
- Valuable contribution to industry and economy

"COOTE INDUSTRIAL IS POISED FOR A STRONG YEAR IN 2008 AS THE COMPANY MOVES TO REALISE THE BENEFITS OF ITS STRATEGIC PLATFORM. HIGHLIGHTS ARE EXPECTED TO EMERGE IN ALL OF THE OPERATING DIVISIONS."

ACQUISITIONS

Coote Industrial has added three new businesses through acquisition since 1 July 2007, each contributing strongly to the strategic development of the group.

Ongoing work will ensure that a strong pipeline of acquisition targets and opportunities are available for consideration. Further acquisitions will be made where targets meet the Group's criteria.

Gemco Rail

Gemco Rail is a Perth-based company specialising in the manufacture of rail products and the provision of maintenance services to rail operators in Western Australia, Queensland, South Australia, Victoria and New South Wales.

Strategic locations, industry segment alignment, technical excellence, operational efficiency, niche services with barriers to entry and long-term contracts characterise the strategic fit of Gemco Rail within Coote Industrial.

Gemco provides wheel-sets, bogies, in-field wagon maintenance and manufactures new and refurbished wagons, bogie component parts and customised, remote-controlled ballast car discharge gates. The additions also include a broad range of rail track maintenance equipment and recently established subsidiary Railway Bearings Refurbishment Services.

Gemco is forecast to contribute $5.63 million NPAT to Coote Industrial this financial year, on sales of $63.8 million.

FCD Container Logistics

The purchase of FCD Container Logistics is in line with our Logistics division aim of providing a 'whole of project' approach to its clients and with Coote Industrial's aim to become a leading integrated transport and services group.

Strong synergies exist between FCD and our Rail Services division, which operates a container shuttle into the port of Fremantle. FCD's depot is adjacent to the Fremantle Port rail terminal.

FCD is a port-based business, specialising in road transport to and from the Fremantle container terminal, AQIS cleaning and fumigation and container storage, packing and unpacking.

It is anticipated FCD Container Logistics will deliver FY08 NPAT of $2.2 million from revenues of $12.38 million.

Industrial Powertrain

Continuing the group's focus on Engineering Services and the mining sector, Industrial Powertrain has brought Coote Industrial an exciting platform for heavy off-road drivetrain repair, application engineering and maintenance.

The business is positioned at the maintenance and repair end of the spectrum and is likely to be insulated from, or benefited by, changes in capital spending patterns in the mining sector.

Industrial Powertrain will be integrated with operations formerly dedicated under PC Diesel. The combined business will bring a strong capability in heavy engine and transmission parts and service to the mining, port infrastructure and construction sectors.

Industrial Powertrain is expected to contribute $1.17 million NPAT to Coote Industrial this financial year on sales of $4.744 million.

STRUCTURE

Core strength within Coote Industrial derives from the investment of substantial autonomy in business units. This key feature greatly enhances outcome ownership, measurability and market focus.

The Board engages in ongoing strategic review around the growth-by-acquisition process and recognises that progressive structural change is required as the group expands.

Recent restructuring decisions have maintained the core approach of substantial autonomy and are expected to deliver further operational and branding benefits. The current divisional structure was determined following the recent acquisitions Gemco Rail, FCD Container Logistics and Industrial Powertrain.

A new division, Rollingstock Services has been formed to include Gemco Rail, Railway Bearings Refurbishment Services and elements of GTSA Engineering.

Locomotive and train operations will remain in the Rail Services division under a single business, South Spur Rail Services.

Some brands, including GTSA Engineering, Australian Rail Mining Services (ARMS), Southern & Silverton Rail, and Coote Industrial Management Services, will be consolidated into other brands.

Hedemora Diesel will be the group's diesel-electric engineering brand.

FY08 OUTLOOK (continued)

NEW APPOINTMENTS

The following appointments were made this year: John Hickey appointed to Director, Engineering division, James Wilson appointed to Director, Rail Services division and Dennis Connolly to Business Manager, Logistics division.

Company Secretary, Mustapha Darwish, has been appointed as Chief Financial Officer and Kevin Pallas is now responsible for corporate operations as Chief Operations Officer.

Andrew Butters has formally taken up the corporate role of Chief Engineer and will facilitate the Coote Industrial engineering network: driving innovation, technical development and group project engineering across the businesses.

LOCATIONS

Recent acquisitions have significantly progressed Coote Industrial's strategy of establishing footholds in strategic locations, particularly in relation to port and rail infrastructure. This platform will be further developed to support the Group's evolving structure.

CROSS-POLLINATION

The realisation of Group business development opportunities, projects and enhanced innovation across Coote Industrial's divisional structure relies upon an effective framework. Further development of engineering communication and resource sharing is a top priority for 2008 as is implementation of the Group's project management framework and engineering network.

PROJECTS AND CAPITAL STEWARDSHIP

At the centre of Coote Industrial's strategy for excellent capital stewardship is a newly established projects system, which sets minimum requirements for project and business case definition and assessment.A careful balance is struck between the needs for detailed analysis, speed and decisiveness.

The aim is a scalable system capable of supporting parallel resource allocation in steps, if necessary, as the prioritisation and approval process proceeds. Consistently high quality information supports decision-making according to weighted criteria. 2008 will see full implementation of the system; including a master document suite, support for Business Managers, increased project management resources and further support for the acquisition process.

BUSINESS ENVIRONMENT

Defence

Spending is at record levels in Australia, presenting a range of opportunities for our Engineering Services division. In particular, activity around the Australian Government's commitment to building the $3 billion Landing Helicopter Dock, amphibious ships, the $8 billion Navantia Air Warfare Destroyer project and supporting the Armidale class Patrol Boats is presenting Australian Naval Defence contractors with the opportunity to compete for high value through life support contracts into the middle of the century. The major contractors for each of these projects are existing Engineering Services' customers.

Rail

The industry is experiencing unprecedented growth, due to three factors;

- Federal Government recognition that rail must shoulder a higher proportion of the country's freight task which in 1998 was forecast by the House of Representatives Standing Committee on Transport and Regional Services to double by 2020. State and Federal Governments have started repairing and upgrading the nation's railway network through initiatives such as Auslink.
- Unprecedented demand for new tracks, locomotives and rollingstock as miners rush to expand production of iron ore, coal and other minerals to take advantage of record global demand for Australian minerals.
- Deregulation of the grain industry coupled with an improved outlook for this year's harvest is causing farmers to look for improved ways to move their grain to market. This includes better ways to move bulk grain and the increased use of shipping containers, particularly for small parcels of quality grains.

Power Generation

Opportunities are increasingly driven by the growing need to provide energy solutions that deliver a lower environmental impact, meet the needs of remote locations and in some key areas, and manage network peak demand capacity issues.

Interest and investment in renewable technologies are increasing at a significant rate. It is estimated that in order to meet Greenhouse Gas Emission Targets by 2020, renewable power generation will need to account for 20% of Australia's total generation capacity. Coote Energy is currently researching technologies which are likely to provide the best opportunity to capitalise on this significant opportunity.

Resources

Activity is expected to continue strongly through 2008. In particular, a number of iron ore projects in the Mid-west and Pilbara regions of Western Australia present opportunities for Coote Industrial through existing relationships, strategic locations and unique capabilities.

KEY 2008 PLANNING OBJECTIVES

Integration of New Acquisitions

Coote Industrial will focus on management, financial and business system integration.

Group Framework Development

Considerable investment and effort will be applied to business systems focused on: projects framework; engineering network; skilled labour database, and customer relationship management.

Data-Centre Project

Planning, execution and delivery of an enterprise class IT network infrastructure which will unify all business units onto a single, universally accessible communications framework.

SAP Phase III

Enhancing the functionality of our existing SAP platform and extending implementations within newly acquired businesses.

Group Business Development Initiatives

We aim to excel in the early identification of opportunities that take advantage of group capabilities, relationships and locations. This process will be taken through corporate level project definition, strategic supply chain development (agencies, alliances), major customer relationship development, and international business opportunities.

Focus on Cost Efficiencies

Significant opportunities have been targeted for leveraging off the scale of our group, taking a systematic focus to cost management and streamlining service provision.

Brand Building

A high priority has been set to further refine the corporate brand, implement and simplify divisional brands, and ramp up our promotional strategy.

Corporate Communications and Public Relations

Consolidating and maintaining strong relationships with our stakeholders, affiliates and employees remains a high priority, as does refining our community, industry and public sphere strategies.

BOARD OF DIRECTORS

A confident and highly experienced Board of Directors provides strong leadership for five dedicated management teams within our Energy, Engineering Services, Logistics, Rail Services and Rollingstock Services divisions.

Providing corporate governance based on sound operational strategies ensures the future activities of Coote Industrial are secure and ongoing growth will continue to be managed well.

PETER WILSON

Executive Director
MAICD

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

GLENN PARRETT

Executive Director
BCom (Fin & Econ), MAICD

Glenn is an experienced engineering technician and project manager who undertook studies in Mechanical Engineering whilst building his career in the application engineering of heavy industrial drive systems. Glenn was awarded life membership of the Golden Key National Honour Society, holds a Bachelor of Commerce degree with Finance and Economics majors and has commenced a Master of Business Law degree at Sydney University. Glenn possesses considerable experience in business management and development as Managing Director and General Manager of companies involved in engineering activities.

MIKE COOTE

Managing Director
BE(Mech), MAICD

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

DONALD HECTOR

Non-Executive Chairman
BE(Chem), FAICD, FIEAust, FIChemE

Donald has 15 years experience in senior executive management and CEO positions with industrial companies. He was Managing Director of Dow Corning Australia Pty Ltd, the Australian subsidiary of Dow Corning Corporation and was Managing Director of Asia Pacific Specialty Chemicals Ltd, an ASX-listed chemicals company. Don is a non-executive director of SEMF Pty Ltd, a multidisciplinary engineering consulting firm, and a non-executive director of Quantum Technology Pty Ltd, a manufacturer of products for the blind and vision-impaired. He is also on the board of Engineering at the University of Sydney and is a Council member of one of Sydney's leading independent schools.

DON PATTERSON

Executive Director
BBus, MAICD

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

FINANCIAL RESULTS

Directors report

Your directors present their report on the consolidated entity which includes its controlled entities (Group) for the financial year ended 30 June 2007.

Directors

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

DONALD HECTOR

Non-Executive Chairman BE(Chem), FAICD, FIEAust, FIChemE
Appointed: 02/11/06 Age: 54

Donald has 15 years experience in senior executive management and CEO positions with industrial companies. He was Managing Director of Dow Corning Australia Pty Ltd, the Australian subsidiary of Dow Corning Corporation and was Managing Director of Asia Pacific Specialty Chemicals Ltd, an ASX-listed chemicals company. Don is a non-executive director of SEMF Pty Ltd, a multidisciplinary engineering consulting firm, and a non-executive director of Quantum Technology Pty Ltd, a manufacturer of products for the blind and vision-impaired. He is also on the board of Engineering at the University of Sydney and is a Council member of one of Sydney's leading independent schools.

Summary of current equity holdings

Shares	36,000
Options	300,000

MICHAEL COOTE

Managing Director BE(Mech), MAICD
Appointed: 28/06/06 Age: 44

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

Other Responsibilities

Chief Executive Officer

Summary of current equity holdings

Shares 41,982,313

DONNIE PATTERSON

Executive Director BBus, MAICD
Appointed: 28/06/2006 Age: 49

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

Summary of current equity holdings

Shares	1,005,287
Options	2,000,000

PETER WILSON

Executive Director, MAICD
Appointed: 02/11/06 Age: 60

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

Summary of current equity holdings

Shares	122,000
Options	250,000

GLENN PARRETT

Executive Director BCom (Fin & Econ), MAICD
Appointed: 28/06/2006 Age: 42

Glenn is an experienced engineering technician and project manager who undertook studies in Mechanical Engineering at North Sydney TAFE whilst building his career in application engineering of heavy industrial drive systems. Glenn was awarded life membership of the Golden Key National Honour Society and he has commenced a Master of Business Law degree at Sydney University. Glenn possesses considerable experience in business management and development, and has managed importing and wholesaling companies involved in engineering related activities.

Summary of current equity holdings

Shares	147,507
Options	250,000

Company Secretary

Mustapha Darwish BCom (Acctg & Fin) ASA has worked for Coote Industrial Limited for the past three years, performing management roles in corporate accounting as the Group Chief Financial Officer and was appointed Company Secretary on 02/11/2006.

Principal Activities

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

Engineering Services

- Design and manufacture of pneumatic bulk tankers;
- Engineering consultancy to rail, maritime, resources, defence and logistics industries;
- Original equipment manufacturer (OEM) of Hedemora Diesel engines;
- Other Original Manufacturer representation and service centre activities for large diesel engines;
- Components and services in support of a large range of large diesel engines, and
- Design, manufacture and hire commercial equipment.

Logistics

- Transportation of portable housing, dangerous goods, mining commodities and mining equipment supplies

Rail Services

- Provide hook and pull and other intermodal rail services;
- Rail related labour hire, and
- Rail related training services.

Energy

- Recycle waste plastics for hi-grade remanufacture by external parties.

Significant Events

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

- Incorporation 28 June 2006;
- Acquired Convair Engineering Pty Ltd 31 July 2006;
- Acquired Coote Engineering Pty Ltd and its controlled entities 31 October 2006;
- Acquired Asset Kinetics Pty Ltd 31 October 2006;
- Listed on the Australian Stock Exchange 14 December 2006;
- Acquired Claw Environmental 31 March 2007, and
- Acquired South Spur Rail Services Pty Ltd and its controlled entities, in two tranches with the last settled on the 29 June 2007.

Operating Results

The consolidated profit of the group after providing for income tax amounted to $8.174m.

Dividends Paid or Recommended

Dividends paid or declared for payment are as follows:

- Ordinary interim dividend paid of 2.95 cents per share fully franked on the 30 March 2007 as projected in our public offer Prospectus dated 4 November 2006, and
- Final ordinary dividend of 2.95 cents per share recommended by the Directors and payable on 31 October 2007.

Review of Operations

	June 07
Sales Revenue	$69.416m
EBITDA	$15.543m
EBIT	$13.592m
NPAT	$8.174m
NPAT Margin	11.78%
Earnings per Share	18.12¢
Dividend per Share	5.9¢

Result

Engineered transport and services group Coote Industrial today reported its first annual results as an ASX listed entity with a net profit after tax of **$8.174m** for the year ended 30 June 2007.

Coote Industrial delivered a strong finish in the second half year with a sustained focus on the business, recovering solidly after IPO-related distraction impacted upon financial performance in the first half.

Highlights included robust profit contributions from 2006/07 acquisitions; Swedish original equipment manufacturer, Hedemora Diesel AB; bulk pneumatic tanker manufacturer, Convair Engineering and South Spur Rail Services.

In line with the strong finish to the company's first financial year, the Directors have declared a fully franked Final Dividend of 2.95¢ per share, bringing the full year dividend to 5.9¢, as proposed in the Prospectus. The Dividend is payable on 31 October 2007 to shareholders on the register at 15 October 2007.

The result represents a fully reconciled 13.06% increase on the company's Prospectus forecast NPAT of $6.644m. This comparison is based on an NPAT of $7.512m, after deducting the May/June $0.748m NPAT contribution from South Spur (net of acquisition costs) and adding back a $0.086m loss in Claw Environmental.

Outlook

Managing Director, Mike Coote, said "We are pleased with the final result, which illustrates the underlying strength of our business. The result is particularly good in a year which included a number of significant achievements comprising listing on the ASX, acquisition and integration of Convair Engineering, further integration of Hedemora Diesel AB, the establishment and development of Hedemora Diesel Australia, full integration of Asset Kinetics, and the completion of acquisitions South Spur Rail Services and Claw Environmental."

With continued focus on business direction, forward planning, a number of organic growth projects and continued implementation of acquisition strategies (including three recent strategic acquisitions) Coote Industrial expects sales revenue growth of more than 200% to $214.50m in 2008 with a 90% increase in NPAT to $15.50m.

All of Coote Industrial's market segments; Rail, Defence, Resources, Power Generation and Maritime are expected to contribute to the company's growth in 2008.

Financial Position

The directors believe the group has established a strong and stable financial platform to expand and grow its current operations.

Significant Changes in State of Affairs

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

(a) Listing on the Australian Stock Exchange 14 December 2006;

(b) Proceeds from the capital raising used for debt reduction, and

(c) Acquired South Spur Rail Services Pty Ltd and its controlled entities for a consideration of $25m, satisfied by payment of $14m in cash, utilising debt facilities and issue of 10m fully paid ordinary shares.

After Balance Date Events

Coote Industrial Limited has remained focused on growing its business by organic growth and acquisition and has since the end of this financial year acquired:

- FCD Container Logistics;
- GEMCO Rail and its controlled entity, and
- Industrial Powertrain.

Additional detail on these acquisitions can be found in Note 29 of the accounts.

Future Developments, Prospects and Business Strategies

- Organic growth in all business sectors focused on rail, maritime, defence, mining, resources and power generation;
- Continue to focus on acquisition of service based businesses participating in our preferred market sectors, and
- Management focus on integration of systems and processes and rollout of business management systems across the Group.

Environmental Issues

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

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

Based upon the results of inquiries made, the Board is not aware of any significant breaches during the period covered by this report nor does it consider the Group is subject to any presently known material environmental liabilities.

Remuneration report

Overview

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

Remuneration Policy

The remuneration policy of Coote Industrial Limited has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the consolidated group's financial results. The board of Coote Industrial Limited believes the approach to remunerating to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the consolidated group, as well as create goal congruence between directors, executives and shareholders.

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

- All executive directors and key executives receive a base salary package (which is based on factors such as length of service and experience), the package includes consideration of a base salary, superannuation and fringe benefits. In future, packages will also include options in accordance with the company's Employee Share and Option Plan. Details of the plan can be found in our Public Offer Prospectus dated 4 November 2006 and other performance incentives where appropriate.
- The board will review executive packages annually by reference to the consolidated group's performance, executive performance and comparable information from industry sectors.
- The performance of executives will be measured against criteria agreed annually with each executive and is based predominantly on the forecast growth of the consolidated group's profits, which are aligned with shareholder value. The developing remuneration policy will be designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.
- Executives will participate in the employee share and option arrangements commencing in the 08 financial year.
- The executive directors and other key executives receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice part of their salary to increase payments towards superannuation.
- All remuneration paid to directors and executives is valued at cost to the company and expensed. Shares given to directors and executives are valued as the difference between the market price of those shares and the amount paid by the director or executive. Options are valued using the Binomial methodology.
- The board policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The board determines payments to non-executive directors and will review their remuneration annually, based on market practice, duties and accountability. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. To align directors' interests with shareholder interests, the directors are encouraged to hold shares in the company and are able to participate in the employee option plan.

Performance-based Remuneration

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

Company Performance, Shareholder Wealth and Director and Executive Remuneration

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

Key Management Personnel Remuneration Structure

The remuneration structure for key management personnel is based on a number of factors, including length of service, particular experience of the individual concerned, and overall performance of the company. The contracts for service between the company and key management personnel are on a continuing basis. In future any options not exercised before or on the date of termination will lapse.

Some of the business units include bonus payments for all staff based on internal KPI's both financial and non-financial targets. The objective of the reward scheme is to both reinforce the short- and long-term goals of the business unit and to provide a common interest between all staff. The basis of the bonus scheme is being developed across all entities of the group.

The employment conditions of the Managing Director, Michael C Coote and other key management personnel are formalised in contracts of employment. The employment contract does not stipulate a term of employment period but does stipulate notice period for resignation and periods of remuneration and conditions under termination. Termination payments are not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the company can terminate employment at any time. Any options not exercised before or on the date of termination will lapse.

The board determines the proportion of fixed and variable compensation for key management personnel - refer below.

	Short-Term Benefits		Post Employment Benefits	
2007 Key Management Person	Cash, Salary & Commissions $	Non-Cash Benefit $	Other $	Superannuation $
M C Coote	286,000	-	-	25,740
D J Patterson	258,586	-	-	23,400
G A M Parrett	166,651	-	11,492	15,317
P G Wilson	99,400	-	-	8,483
D C A Hector	62,333	-	-	-
J Hickey	104,603	-	-	9,433
A Butters	92,138	-	-	23,400
M Darwish	73,301	-	-	6,525

		Share-based Payment			
Key Management Person	Other Long-Term Benefits $	Equity $	Options $	Total $	Performance Related %
M C Coote	-	-	-	311,740	0
D J Patterson	-	-	320,000	601,986	0
G A M Parrett	-	-	40,000	233,460	0
P G Wilson	-	-	40,000	147,883	0
D C A Hector	-	-	48,000	110,333	0
J Hickey	-	-	-	114,036	0
A Butters	-	-	-	115,538	0
M Darwish	-	-	16,000	95,826	0

Remuneration report (continued)

Options issued as part of remuneration for the year ended 30 June 2007

Options are issued to the majority of directors and executives of Coote Industrial Limited and its subsidiaries to increase goal congruence between executives, directors and shareholders.

	Options granted as part of remuneration $	Total remuneration represented by options %	Options exercised $	Options lapsed $	Total $
D C A Hector	48,000	42	-	-	48,000
M C Coote	-	-	-	-	-
D J Patterson	320,000	53	-	-	320,000
G A M Parrett	40,000	17	-	-	40,000
P G Wilson	40,000	27	-	-	40,000
M Darwish	16,000	16	-	-	16,000
Totals	**464,000**		**-**	**-**	**464,000**

Meetings of Directors

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

	Directors' Meetings		Audit Committee	
	Number Eligible to attend	Number Attended	Number Eligible to attend	Number Attended
D C A Hector	9	9	2	2
M C Coote	11	11	-	-
D J Patterson	11	11	-	-
G A M Parrett	11	11	2	2
P G Wilson	9	9	2	2

Indemnifying Officers or Auditor

The company has paid premiums to insure each of the following directors against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director of the company, other than conduct involving a wilful breach of duty in relation to the company. The amount of the premium was $54,062.34 incl GST.

D C A Hector
M C Coote
D J Patterson
G A M Parrett
P G Wilson

Options

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

Grant Date	Date of Expiry	Exercise Price	No. Under Option
27/11/06	14/12/09	$1.00	4,400,000
			4,400,000

During the year ended 30 June 2007, no ordinary shares of Coote Industrial Limited were issued on the exercise of options granted under the Coote Industrial Limited Employee Share and Option Plan.

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

Remuneration report (continued)

Proceedings on Behalf of Company

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

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

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2007 has been received and can be found on page 31.

Rounding of Amounts

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

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

Michael Charles Coote
Managing Director
Dated this 27th day of September 2007

Director's declaration

In the directors' opinion:

(a) The financial statements and notes set out in pages 37 to 64 are in accordance with the Corporations Act 2001, including:

  (i) complying with Accounting Standards, the Corporations Regulations and other mandatory professional reporting requirements, and

  (ii) give a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of its performance, as represented by the results of their operations, changes in equity and their cash flows, for the financial year ended on that date.

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

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

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

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

Michael Charles Coote
Managing Director

RIX LEVY FOWLER
AUDIT & CORPORATE PTY LTD

Directors
Phillip Rix FCA
Ranko Matic CA
Chris Watts CA

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rixlevyfowler.com.au
ABN 33 121 222 802

To The Board of Directors

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

This declaration is made in connection with our audit of the financial report of Coote Industrial Limited and Controlled Entities for the year ended 30 June 2007 and in accordance with the provisions of the Corporations Act 2001.

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

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

Yours faithfully

Rix Levy Fowler

RIX LEVY FOWLER	**RANKO MATIC**
Audit & Corporate Pty Ltd	**Director**

DATED at PERTH this 30th day of September 2007

RIXLEVYFOWLER
AUDIT & CORPORATE PTY LTD

Directors
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Ranko Matic CA
Chris Watts CA

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Independent Audit Report

To the Members of Coote Industrial Limited

We have audited the accompanying financial report of Coote Industrial Limited (the company) and Coote Industrial Limited and Controlled Entities (the consolidated entity), which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

As permitted by the Corporations Regulations 2001, the company has disclosed information about the remuneration of directors and executives (remuneration disclosures), required by Accounting Standard AASB 124: Related Party Disclosures, under the heading "Remuneration Report" in pages 26 to 29 of the directors' report and not in the financial report.

Directors Responsibility for the Financial Report

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

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

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement and that the remuneration disclosures in the directors' report comply with Accounting Standard AASB 124.

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

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

Independent audit report (continued)

Independence

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

Auditor's Opinion

In our opinion:

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

   i. giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and

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

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

c. the remuneration disclosures that are contained in pages 26 to 29 of the directors' report comply with Accounting Standard AASB 124.

Rix Levy Fowler

RIX LEVY FOWLER
Audit & Corporate Pty Ltd

RANKO MATIC
Director

DATED at PERTH this 28th day of September 2007

Corporate governance statement

The board recognises that it currently does not comply with all of the ASX best practice guidelines. The board is committed to a program aimed at developing its governance framework guided by the ASX Best Practice Recommendations.

Role of the Board

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

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

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

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

Executive Delegation

Other than those matters reserved by the board to itself, the board delegates to the CEO all authority to achieve the company's objective consistent with this Governance Charter, the company constitution, statute or other regulation.

The CEO, in conjunction with executive management, will prepare a long-term strategic plan and a yearly operational plan for approval by the board.

Board Structure

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

Meetings of the Board

The board meets formally at least four times per year and on other occasions as required. On the invitation of the Board, members of senior management attend and make presentations at Board meetings. In addition to the formal meetings the Board frequently meets to consider the strategic direction of the company.

The number of meetings held and attended by each of the directors for the financial year ended 30 June 2007 is set out in the Directors report.

Retirement and Re-election

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

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

Board Membership

Appointment

Board members are nominated by the board and their appointment confirmed by a vote of shareholders. The board will have a minimum of one non-executive director who will be free of material relationships with the company and who would be reasonably considered by shareholders to be independent. This policy is not consistent with ASX Principle 2 however the board considers this structure appropriate at this stage of the company's development.

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

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

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

Board Access to Information and Independent Advice

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

Conflicts of Interest

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

Performance Evaluation

A performance evaluation of the board and all board members is scheduled to occur in the 2008 financial year.

Reward and Remuneration

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

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

Committees

Since listing the Board has established an Audit Committee, to assist it in exercising its responsibilities. The Audit Committee monitors internal control policies and procedures designed to safeguard company assets and to maintain the integrity of financial reporting. The specific responsibilities set out in its charter include:

- In conjunction with the internal and external auditors, assure the integrity of financial statements;
- Recommend to the board appointment of and review the performance of the external auditor;
- Determine the remuneration of the external auditor;
- Oversee the integrity of the internal and external audit process, and
- Ensure there is a process to identify the likelihood and impact of financial risk and that this process is actively managed.

Audit Committee

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

Mr Donald Hector (Chairman)

Mr Peter Wilson

Mr Glenn Parrett

Senior staff and any other persons considered appropriate, attend meetings of the Audit Committee by invitation. Details of the number of meetings held and attended by the members of the Audit Committee can be found in the director's report. The board has established a Terms of Reference to guide the activities of the committee.

Financial Reporting

Consistent with ASX Principle 4, and in accordance with section 295A of the Corporations Act 2001, the company's financial report preparation and approval process for the year ended 30 June 2007, involved both the Chief Executive Officer and Chief Financial Officer providing a written statement to the Board that, in their opinion:

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

Audit Governance and Independence

Appointment of Auditors

Rix Levy Fowler are the company's current external auditors. This is the first year that an audit has been completed for Coote Industrial Ltd. A performance review is planned to be undertaken by the Audit Committee in the 2008 financial year.

Independence Declaration

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

Rix Levy Fowler have provided such a declaration to the Audit Committee for the financial year ended 30 June 2007.

Restrictions on performance of non-audit services by external auditors

Rix Levy Fowler does not provide any non-audit services to Coote Industrial Ltd.

Attendance of external auditors at annual general meetings

In accordance with ASX Principle 6 and Corporations Act 2001, Rix Levy Fowler will be attending the company's first annual general meeting and are available to answer questions. Shareholders are asked to submit written questions to the company secretary at least 5 days prior to the annual general meeting.

Risk Identification and Management

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

Share Trading Policy

The company's Share Trading Policy aims to reinforce the requirements of the Corporations Act 2001 in relation to insider trading. The policy states that all employees and directors of the company and its related companies are prohibited from trading in the company's securities if they are in possession of "inside information". Directors must not deal in any Coote Industrial Ltd securities without notifying the chairman and receiving written approval from him to do so. The chairman must seek written approval from the Chief Executive Officer. Managers and other employees are also required to seek written approval of the Chief Executive Officer prior to trading in any shares in the company.

Continuous Disclosure

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

Communications with Shareholders

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

The board will ensure that information is regularly communicated to shareholders, in particular, paying regard to the continuous disclosure requirements of the ASX.

Income statement

for the year ended 30 June 2007

	Note	Consolidated Group 30.06.2007 $000	Parent Entity 30.06.2007 $000
Revenue	2	68,959	4,437
Other income	2	457	-
Changes in inventories of finished goods and work in progress		2,647	-
Raw materials and consumables used		(30,243)	-
Employee benefits expense		(17,109)	(546)
Depreciation and amortisation expense		(1,951)	-
Finance costs	3	(2,969)	(181)
Subcontract freight		(1,433)	-
Insurance		(1,412)	-
Rent and outgoings		(870)	-
Other expenses		(5,014)	(629)
Profit before income tax	3	11,062	3,081
Income tax expense	4	(2,888)	(877)
Profit/(loss) attributable to members of the parent entity		8,174	2,204
Overall Operations			
Basic earnings per share (cents per share) (2006: N/A)	8	18.12	
Diluted earnings per share (cents per share) (2006: N/A)	8	17.22	

Balance sheet

as at 30 June 2007

	Note	Consolidated Group 30.06.2007 $000	Parent Entity 30.06.2007 $000
Assets			
Current Assets			
Cash and cash equivalents	9	-	452
Trade and other receivables	10	19,666	2,005
Inventories	11	14,909	-
Other current assets	16	1,789	76
Total Current Assets		36,364	2,533
Non-Current Assets			
Trade and other receivables	10	-	29,204
Financial assets	13	-	66,697
Property, plant and equipment	14	35,074	-
Deferred tax assets	19	2,064	492
Intangible assets	15	76,335	-
Total Non-Current Assets		113,473	96,393
Total Assets		149,837	98,926
Liabilities			
Current Liabilities			
Trade and other payables	17	16,368	1,952
Financial liabilities	18	5,556	-
Current tax liabilities	19	2,082	988
Short-term provisions	20	2,097	-
Total Current Liabilities		26,103	2,940
Non-Current Liabilities			
Financial liabilities	18	31,597	14,000
Long-term provisions	20	450	-
Total Non-Current Liabilities		32,047	14,000
Total Liabilities		58,150	16,940
Net Assets		91,687	81,986
Equity			
Issued capital	21	81,393	81,393
Reserves		1,192	546
Retained earnings		9,102	47
Total Equity		91,687	81,986

Statement of changes in equity

for the year ended 30 June 2007

Consolidated Group	Note	Issued Capital Ordinary $000	Retained Earnings (Accumulated Losses) $000	Foreign Currency Translation Reserve $000	Option Reserves $000	Total $000
Balance at 1 July 2006		-	3,084	-	-	3,084
Shares issued during the year		82,448	-	-	-	82,448
Transaction costs		(1,055)	-	-	-	(1,055)
Profit attributable to members of parent entity		-	8,174	-	-	8,174
Adjustments from translation of foreign controlled entities		-	-	646	-	646
Option reserve on recognition of options issued		-	-	-	546	546
Sub-total		81,393	11,258	646	546	93,843
Dividends paid or provided for	7	-	(2,156)	-	-	(2,156)
Balance at 30 June 2007		**81,393**	**9,102**	**646**	**546**	**91,687**

Parent	Note	Issued Capital Ordinary $000	Retained Earnings (Accumulated Losses) $000	Foreign Currency Translation Reserve $000	Option Reserves $000	Total $000
Balance at 1 July 2006		-	(1)	-	-	(1)
Shares issued during the year		82,448	-	-	-	82,448
Transaction costs		(1,055)	-	-	-	(1,055)
Profit attributable to members of parent entity		-	2,204	-	-	2,204
Option reserve on recognition of options issued		-	-	-	546	546
Sub-total		81,393	2,203	-	546	84,142
Dividends paid or provided for	7		(2,156)	-	-	(2,156)
Balance at 30 June 2007		**81,393**	**47**	**-**	**546**	**81,986**

Consolidated cash flow statement

for the year ended 30 June 2007

	Note	Consolidated Group 30.06.2007 $000	Parent Entity 30.06.2007 $000
Cash Flows from Operating Activities			
Receipts from customers		66,820	6
Payments to suppliers and employees		(70,507)	(637)
Interest received		171	52
Finance costs		(2,530)	(154)
Income tax paid		(4,246)	-
Net cash provided by (used in) operating activities	25	(10,292)	(733)
Cash Flows from Investing Activities			
Proceeds from sale of non-current assets		395	-
Purchase of non-current assets	14	(3,277)	(5)
Payments made in respects to loans from related parties		(2,000)	-
Payment for subsidiary, net of cash acquired	25	(23,291)	(14,174)
Net cash provided by (used in) investing activities		(28,173)	(14,179)
Cash Flows from Financing Activities			
Net proceeds from issue of shares		23,564	23,572
Proceeds from borrowings		28,999	14,000
Repayments of borrowings		(14,447)	-
Dividends paid by parent entity		(2,037)	(2,037)
Provision of funds to subsidiaries		-	(25,322)
Repayment of funds lent to subsidiaries		-	5,151
Net cash provided by (used in) financing activities		36,079	15,364
Net increase in cash held		(2,386)	452
Cash at beginning of period		341	-
Cash at end of period	9	(2,045)	452

Notes to the accounts

for the year ended 30 June 2007

Note 1 — Statement of Significant Accounting Policies

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

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

The financial report of Coote Industrial Ltd and controlled entities, and Coote Industrial Ltd as an individual parent entity comply with all International Financial Reporting Standards (IFRS) in their entirety.

As Coote Industrial Group has only been in operation under holding company Coote Industrial Ltd since 1 July 2006, no prior actual comparisons are available.

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

Basis of Preparation

The accounting policies set out below have been consistently applied to all years presented.

Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Accounting Policies

(a) Principles of Consolidation

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

A list of controlled entities is contained in Note 12 to the financial statements. All controlled entities have a June financial year-end. For accounting purposes the acquisition of Coote Engineering Pty Ltd was deemed to be a reverse acquisition. Therefore the opening balances have not been eliminated on consolidation.

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

Where controlled entities have entered or left the consolidated group during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

(b) Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the consolidated group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Coote Industrial Ltd and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. Each entity in the group recognises its own current and deferred tax liabilities, except for any deferred tax assets resulting from unused tax losses and tax credits which are immediately assumed by the parent entity. The current tax liability of each group entity is then subsequently assumed by the parent entity. The group notified the Australian Taxation Office that it had formed an income tax consolidated group to apply from 31 October 2006. The South Spur Rail Services companies formed a separate consolidated tax group prior to the acquisition date. This separate group remained in place till the 30 June 2007. From the 1 July 2007 it is envisaged that it will join the Coote Industrial Ltd consolidated tax group. The tax consolidated groups entered a tax sharing agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group.

(c) Inventories

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

(d) Work in Progress

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

(e) Property, Plant and Equipment

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

Property

Freehold land and buildings are shown at their fair value (being the amount for which an asset could be exchanged between knowledgeable willing parties in an arms length transaction), based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings.

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

Plant and equipment

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

The cost of fixed assets constructed within the consolidated group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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

Depreciation

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

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

Class of Fixed Asset	Depreciation Rate
Office Equipment	7.5% - 40%
Leasehold improvements	30% - 65%
Plant and equipment	7.5% - 30%
Leased plant and equipment	30% - 65%

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

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

(f) Leases

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

Leased assets are depreciated on a diminishing value basis over the shorter of their estimated useful lives or the lease term. Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred. Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

(g) Financial Instruments

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management and within the requirements of AASB 139: Recognition and Measurement of Financial Instruments. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Held-to-maturity investments

These investments have fixed maturities, and it is the group's intention to hold these investments to maturity. Any held-to-maturity investments held by the group are stated at amortised cost using the effective interest rate method.

Available-for-sale financial assets

Available-for-sale financial assets include any financial assets not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Derivative instruments

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

Coote Industrial Ltd and Controlled Entities designates certain derivatives as either;

(1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge), or

(2) hedges of highly probable forecast transactions (cash flow hedges).

At the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions is documented. Assessments, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items are also documented.

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedge assets or liabilities that are attributable to the hedged risk.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is deferred to a hedge reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in the hedge reserve in equity are transferred to the income statement in the periods when the hedged item will affect profit or loss.

Fair value

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

Impairment

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

Notes to the accounts (continued)

for the year ended 30 June 2007

(h) Impairment of Assets

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

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

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

(i) Intangibles

Goodwill

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

Patents and trademarks

Patents and trademarks are recognised at cost of acquisition. Patents and trademarks have a finite life and are carried at cost less any accumulated amortisation and any impairment losses.

Research and development

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

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

(j) Foreign Currency Transactions and Balances

Functional and presentation currency

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

Transaction and balances

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

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

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

Group companies

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

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

Exchange differences arising on translation of foreign operations are transferred directly to the groups foreign currency translation reserve in the balance sheet. These differences are recognised in the income statement in the period in which the operation is disposed.

(k) Employee Benefits

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

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

Equity-settled compensation

The group operates a number of share-based compensation plans. These include both a share option arrangement and an employee share scheme. The bonus element over the exercise price of the employee services rendered in exchange for the grant of shares and options is recognised as an expense in the income statement. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares of the options granted.

(l) Provisions

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

(m) Cash and Cash Equivalents

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

(n) Revenue

Revenue from the sale of goods is recognised upon the delivery of goods to customers. Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

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

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

(o) Borrowing Costs

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

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

(p) Goods and Services Tax (GST)

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

Receivables and payables in the balance sheet are shown inclusive of GST.

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

(q) Rounding of Amounts

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

(r) New Accounting Standards

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2007 reporting periods. The Company's assessment of these new standards and interpretations is set out below:

(i) AASB 7 Financial Instruments: Disclosures and AASB 2005-10 Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038] AASB 7 and AASB 2005-10 are applicable to annual reports periods beginning on or after 1 January 2007. The Consolidated Group has not adopted the standards early. Application of the standards will be affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Consolidated Group's financial instruments.

(ii) AASB-1 10 Interim Financial Reporting and Impairment AASB-1 10 applies to reporting periods commencing on or after 1 November 2006. The Consolidated Group has not recognised an impairment loss in relation to goodwill, investments in equity instruments or financial assets carried out at cost in an interim reporting period but subsequently reversed the impairment loss in the annual report. Application of the interpretation will therefore have no impact on the Group's or the parent entity's financial statements.

Critical accounting estimates and judgments

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

Key Estimates — Impairment

The group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

No impairment has been recognised in respect of goodwill for the year ended 30 June 2007.

The financial report was authorised for issue on 27 September 2007 by the board of directors.

Note 2 — Revenue

	Note	Consolidated Group 2007 $000	Parent Entity 2007 $000
Sales Revenue			
Sales of goods and services		68,233	-
Total sales revenue		68,233	-
Other Revenue			
Interest received	(a)	171	542
Fuel rebates		555	-
Dividends received		-	3,895
Total other revenue		726	4,437
Total sales revenue and other revenue		68,959	4,437
Other Income			
Gain on disposal of property, plant and equipment		257	-
Gains on foreign exchange		200	-
Total other income		457	-
(a) Interest Revenue			
Interest revenue from:			
— wholly-owned controlled entities		-	467
— other persons		171	75
Total interest revenue		171	542

Note 3 — Profit for the Year

	Consolidated Group 2007 $000	Parent Entity 2007 $000
Expenses		
Cost of sales	42,115	-
Finance costs		
— Interest	2,530	77
— Other finance costs	439	104
Total finance costs	2,969	181
Bad and doubtful debts		
— Trade receivables	50	-
Total bad and doubtful debts	50	-
Rental expense on operating leases		
— Minimum lease payments	1,784	-
Total rental expense on operating leases	1,784	-

Notes to the accounts (continued)

for the year ended 30 June 2007

Note 4 — Income Tax Expense

	Note	Consolidated Group 2007 $000	Parent Entity 2007 $000
(a) The components of tax expense comprise:			
Current Tax		3,665	988
Deferred Tax	19	(1,222)	(111)
Under provision in respect of prior years		445	-
		2,888	877
(b) The prima facie tax on profit from ordinary activities before income tax is as follows			
Prima facie tax payable on profit from ordinary activities before income tax at 30% (28% Sweden)			
- consolidated group		3,074	-
- parent entity		-	925
Add:			
Tax effect of:			
- under provision for income tax in prior year		446	-
- other non-allowable items		40	-
		3,560	925
Less:			
Tax effect of:			
- changed estimate regarding inventory obsolescence write down		432	-
- other non-allowable items		-	48
- recoupment of prior year tax losses not previously brought to account		240	-
		2,888	877
The applicable weighted average effective tax rates are as follows:		26%	28%

Notes to the accounts (continued)

for the year ended 30 June 2007

Note 5 — Key Management Personnel Compensation

(a) Key Management Personnel

Names and positions held of consolidated group and parent entity key management personnel in office at any time during the financial year are:

Key Management Person	Position
Michael Charles Coote	Chief Executive Officer
Donnie James Patterson	Executive Director
Peter Gerald Wilson	Executive Director
Glenn Alexander Maxwell Parrett	Executive Director
Donald Charles Alexander Hector	Non-executive Chairman
Mustapha Darwish	Company Secretary/ Chief Financial Officer
John Hickey	Director – Engineering Services Division
Andrew Butters	Group Chief Engineer

(b) Options and Right Holdings

2007	Balance 1 July 2006	Granted as Compensation	Options Exercised	Net Change Other	Balance 30 June 2007	Total Vested 30 June 2007	Total Exercisable 30 June 2007	Total Unexercisable 30 June 2007
M C Coote	-	-	-	-	-	-	-	-
D J Patterson	-	2,000,000	-	-	2,000,000	-	-	2,000,000
P G Wilson	-	250,000	-	-	250,000	-	-	250,000
G A M Parrett	-	250,000	-	-	250,000	-	-	250,000
D C A Hector	-	300,000	-	-	300,000	-	-	300,000
M Darwish	-	100,000	-	-	100,000	-	-	100,000
J Hickey	-	-	-	-	-	-	-	-
A Butters	-	-	-	-	-	-	-	-

(c) Shareholdings

Number of Shares held by Key Management Personnel

2007	Balance 1 July 2006	Received as Compensation	Options Exercised	Net Change Other*	Balance 30 June 2007
M C Coote	-	-	-	41,964,313	41,964,313
D J Patterson	-	-	-	1,005,287	1,005,287
P G Wilson	-	-	-	122,000	122,000
G A M Parrett	-	-	-	147,507	147,507
D C A Hector	-	-	-	36,000	36,000
M Darwish	-	-	-	13,500	13,500
J Hickey	-	-	-	25,000	25,000
A Butters	-	-	-	15,000	15,000

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

Notes to the accounts (continued)

for the year ended 30 June 2007

Note 6 — Auditors Remuneration

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

Note 7 — Dividends

	Consolidated Group 2007 $000	Parent Entity 2007 $000
(a) Declared and paid		
Interim fully franked ordinary dividend of 2.95 cents per share		
franked at the tax rate of 30%	2,156	2,156
	2,156	2,156
(b) Dividends proposed and not recognised as a liability at 30 June 2007		
Proposed final fully franked ordinary dividend of 2.95 cents per share franked at the tax rate of 30%	2,454	2,454
	2,454	2,454

Note 8 — Earnings per Share

	Consolidated Group 2007 $000
(a) Reconciliation of earnings to profit or loss	
Profit	8,174
Earnings used to calculate basic EPS	8,174
Earnings used in the calculation of dilutive EPS	8,174
	No.
(b) Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	45,113,766
Weighted average number of options outstanding	2,362,740
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	47,476,506

Notes to the accounts (continued)

for the year ended 30 June 2007

Note 9 — Cash and Cash Equivalents

	Note	Consolidated Group 2007 $000	Parent Entity 2007 $000
Cash at bank and in hand		-	452
		-	452
Reconciliation of cash			
Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet as follows:			
Cash and cash equivalents		-	452
Bank overdrafts	18	(2,045)	-
		(2,045)	452

Note 10 — Trade and Other Receivables

	Note	Consolidated Group 2007 $000	Parent Entity 2007 $000
CURRENT			
Trade receivables		17,258	5
Provision for impairment of receivables		(150)	-
		17,108	5
Term receivables		2,000	2,000
Provision for impairment of receivables		-	-
Fuel rebate receivables		225	-
Other receivables		333	-
		19,666	2,005
NON – CURRENT			
Loan - wholly-owned entities		-	29,204
		-	29,204

Note 11 — Inventories

	Note	Consolidated Group 2007 $000	Parent Entity 2007 $000
CURRENT			
At cost			
Raw materials and stores		1,234	-
Work in progress		2,607	-
Finished goods		11,068	-
		14,909	-

Notes to the accounts (continued)

for the year ended 30 June 2007

Note 12 — Controlled Entities

	Country of Incorporation	Date of Control	Percentage Owned %
Parent Entity:			
Coote Industrial Ltd	Australia		
Subsidiaries of Parent Entity:			
Coote Engineering Pty Ltd	Australia	1/07/2006	100
Subsidiaries of Coote Engineering Pty Ltd:			
Hedemora Investments AB	Sweden	1/07/2006	100
Hedemora Diesel AB	Sweden	1/07/2006	100
PC Diesel Pty Ltd	Australia	1/07/2006	100
Coote Industrial Management Services Pty Ltd	Australia	1/07/2006	100
Coote Manufacturing Pty Ltd	Australia	1/07/2006	100
Subsidiaries of Coote Manufacturing Pty Ltd:			
Convair Pty Ltd	Australia	1/07/2006	100
Coote Logistics Pty Ltd	Australia	1/07/2006	100
Subsidiaries of Coote Logistics Pty Ltd:			
Asset Kinetics Pty Ltd	Australia	1/07/2006	100
Coote Energy Pty Ltd	Australia	18/04/2007	100
South Spur Rail Services Pty Ltd	Australia	30/04/2007	100
Subsidiaries of South Spur Rail Services Pty Ltd:			
Centre for Excellence in Rail Training Pty Ltd	Australia	30/04/2007	100
Australian Rail Mining Services Pty Ltd	Australia	30/04/2007	100
Midland Railway Company Pty Ltd	Australia	30/04/2007	100
Momentum Rail (WA) Pty Ltd	Australia	30/04/2007	100
Momentum Rail (NSW) Pty Ltd	Australia	30/04/2007	100
South Spur Rail Services (NSW) Pty Ltd	Australia	30/04/2007	100
Southern & Silverton Railway Pty Ltd	Australia	30/04/2007	100

Note 13 — Financial Assets

	Note	Consolidated Group 2007 $000	Parent Entity 2007 $000
NON CURRENT			
Shares in related companies		-	66,697
		-	66,697

Notes to the accounts (continued)

for the year ended 30 June 2007

Note 14 — Property Plant and Equipment

	Consolidated Group 2007 $000	Parent Entity 2007 $000
LAND AND BUILDINGS		
Freehold land:		
At cost	53	-
	53	-
Buildings:		
At cost	1,475	-
Less accumulated depreciation	(434)	-
Total buildings	1,041	-
Total land and buildings	1,094	-
PLANT AND EQUIPMENT		
Plant and equipment:		
At cost	10,808	-
Less accumulated depreciation	(4,752)	-
	6,056	-
Leasehold improvements		
At cost	7	-
Less accumulated depreciation	-	-
	7	-
Leased plant and equipment		
Capitalised leased assets	30,310	-
Less accumulated depreciation	(2,393)	-
	27,917	-
Total plant and equipment	33,980	-
Total property, plant and equipment	35,074	-

(a) Movements in Carrying Amounts

Movements in carrying amounts for each class of property plant and equipment between the beginning and the end of the current financial year:

Consolidated Group	Freehold Land $000	Buildings $000	Leasehold Improvements $000	Plant and Equipment $000	Leased Plant and Equipment $000	Total $000
Balance 1 July 2006	53	320	-	942	1,973	3,288
Additions	-	4	7	307	3,378	3,696
Disposals	-	-	-	(222)	-	(222)
Additions through acquisitions of entities	-	740	-	5,920	23,603	30,263
Revaluation increments/ (decrements)	-	-	-	-	-	-
Depreciation expense	-	(23)	-	(891)	(1,037)	(1,951)
Balance at 30 June 2007	53	1,041	7	6,056	27,917	35,074

Note 15 — Intangible Assets

	Consolidated Group 2007 $000	Parent Entity 2007 $000
Goodwill		
Cost	76,335	-
Accumulated impairment losses	-	-
Net carrying value	76,335	-
Total intangibles	76,335	-
Year ended 30 June 2007		
Opening carrying value at 1 July 2006	8,984	
Acquisitions through business combinations	67,351	
Impairment losses	-	
Closing carrying value at 30 June 2007	76,335	

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

Impairment Disclosures

Goodwill is allocated to cash-generating units which are based on the group's reporting segments.

Division	2007 $000
Engineering Services	54,137
Rail Services	16,765
Energy	956
Logistics	4,477
Total	76,335

The recoverable amount of each cash-generating unit above is determined based on value-in-use calculations. The value-in use is calculated based on the present value of cash flow projections over a 10 year period using an estimated growth rate. The cash flows are then discounted using the group's weighted cost of capital.

The following assumptions were used in the value-in-use calculations:

Division	Growth Rate %	Discount Rate %
Engineering Services	7	6.6
Rail Services	4	6.6
Energy	7	6.6
Logistics	4	6.6

Management has based the value-in-use calculations on budgets for each reporting segment. These budgets use growth rates to project revenue based on growth rates of the relevant industries and the opportunities perceived by management within the sector. Management believes that the growth rates used are conservative. Costs are calculated taking into account historical gross margins as well as estimated weighted average inflation rates over the periods which are consistent with inflation rates applicable to the locations in which the segments operate.

Notes to the accounts (continued)

for the year ended 30 June 2007

Note 16 — Other Assets

	Note	Consolidated Group 2007 $000	Parent Entity 2007 $000
CURRENT			
Prepayments		1,489	-
Accrued income		300	76
		1,789	76

Note 17 — Trade and Other Payables

	Note	Consolidated Group 2007 $000	Parent Entity 2007 $000
CURRENT			
Unsecured liabilities			
Trade payables		12,333	114
Sundry payables and accrued expenses		4,035	1,838
		16,368	1,952

Note 18 — Financial Liabilities

	Note	Consolidated Group 2007 $000	Parent Entity 2007 $000
CURRENT			
Secured liabilities			
Bank overdrafts	9	2,045	-
Lease liability	23	3,131	-
Bank loans		380	-
		5,556	-
NON-CURRENT			
Secured liabilities			
Bank loans		15,222	14,000
Lease liability	23	16,375	-
		31,597	14,000
(a) Total current and non-current secured liabilities:			
Bank overdraft		2,045	-
Bank loan		15,602	14,000
Lease liability		19,506	-
		37,153	14,000

(b) All facilities are secured against companies in Coote Industrial by way of cross guarantee and indemnity, and by a first registered fixed and floating charge over all of the assets and undertakings of those companies.

Note 19 — Tax

	Note	Consolidated Group 2007 $000	Parent Entity 2007 $000
Liabilities			
CURRENT			
Income tax		2,082	988
Total		2,082	988

NON-CURRENT	Opening Balance $000	Charged to income $000	Charged directly to equity $000	Changes in Tax Rate $000	Exchange Differences $000	Closing Balance $000
Consolidated Group						
Deferred Tax Liability						
Other	230	43	-	-	-	273
Balance as at 30 June 2007	230	43	-	-	-	273
Deferred Tax Assets						
Provisions	664	102	-	-	-	766
Transaction costs on equity issue	-	-	297	-	-	297
Losses	172	920	-	-	-	1092
Property, plant and equipment						
- impairment	-	-	-	-	-	-
Other	92	90	-	-	-	182
Balance as at 30 June 2007	928	1,112	297	-	-	2,337

NON-CURRENT	Opening Balance $000	Charged to income $000	Charged directly to equity $000	Changes in Tax Rate $000	Exchange Differences $000	Closing Balance $000
Parent Entity						
Deferred Tax Liability						
Other	-	47	-	-	-	47
Balance as at 30 June 2007	-	47	-	-	-	47
Deferred Tax Assets						
Provisions	-	25	-	-	-	25
Transaction costs on equity issue	-	-	298	-	-	298
Losses	-	47	-	-	-	47
Other	-	169	-	-	-	169
Balance as at 30 June 2007	-	241	298	-	-	539

Coote Industrial Limited will elect to consolidate from the 31 October 2006 and the tax calculations have been prepared on this basis (Please refer to note 1 for further details on tax calculations). Losses carried forward from the 31 October are available to the tax consolidated group to be used against taxable profits based on available fractions still to be determined.

The second tranche of the South Spur Rail Services acquisition settled on the 29 June 2007. The opening deferred tax balance attributable to the South Spur consolidated group was calculated from this date.

Note 20 — Provisions

	Consolidated Group 2007 $000	Parent Entity 2007 $000
CURRENT		
Employee entitlements: Annual leave		
Balance at beginning of year	709	-
Additions through acquisitions	1,235	-
Additional provisions raised during the year	899	-
Amounts used	(746)	-
Balance at end of year	2,097	-
NON CURRENT		
Employee entitlements: Long service leave		
Balance at beginning of year	124	-
Additions through acquisitions	236	-
Additional provisions raised during year	144	-
Amounts used	(54)	-
Balance at end of year	450	-
Analysis of Total Provisions		
Current	2,097	-
Non-current	450	-
	2,547	-

Provision for Employee Entitlements

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

Note 21 — Issued Capital

	Consolidated Group 2007 $000	Parent Entity 2007 $000
81,600,539 fully paid ordinary shares	81,393	81,393
	81,393	81,393

(a) Ordinary shares

		No.	No.
At the beginning of reporting period		2	2
Shares issued during year			
- 31/10/2006	Coote Engineering / Asset Kinetics acquisition	48,083,503	48,083,503
- 14/12/2006	Placement	25,000,000	25,000,000
- 03/04/2007	DRP issue	112,489	112,489
- 28/06/2006	South Spur acquisition	8,404,545	8,404,545
		81,600,539	81,600,539

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held. At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

(b) Options

(i) For information relating to the Coote Industrial Ltd employee option plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at year-end. Refer to note 26: Share Based Payments

(ii) For information relating to share options issued to key management personnel during the financial year. Refer to note 26: Share Based Payments

Note 22 — Reserves

(a) Foreign Currency Translation Reserve

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

(b) Option Reserve

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

Note 23 — Capital and Leasing Commitments

	Note	Consolidated Group 2007 $000	Parent Entity 2007 $000
(a) Finance Lease Commitments			
Payable – minimum lease payments			
- not later than 12 months		5,786	-
- between 12 months and 5 years		12,735	-
- greater than 5 years		6,405	-
Minimum lease payments		24,926	-
Less future finance charges		(5,420)	-
Present value of minimum lease payments	18	19,506	-
(b) Operating Lease Commitments			
Non-cancellable operating leases contracted for but not capitalised in the financial statements			
Payable – minimum lease payments			
- not later than 12 months		4,557	-
- between 12 months and 5 years		844	-
- greater than 5 years		-	-
		5,401	-
The operating lease commitments above include property leases on varying terms and conditions.			
(c) Capital expenditure commitments			
Capital expenditure commitments contracted for:			
Plant and equipment purchases		179	-
Capital expenditure projects		-	-
		179	-
Payable:			
- not later than 12 months		179	-
- between 12 months and 5 years		-	-
- greater than 5 years		-	-
		179	-

Notes to the accounts (continued)

for the year ended 30 June 2007

Note 24 — Segment Reporting

	Engineering Services 2007 $000	Logistics Services 2007 $000	Rail Services 2007 $000	Energy 2007 $000	Elims. 2007 $000	Consol. Group 2007 $000
Primary Reporting: Business Segments						
Revenue						
Total sales revenue	50,371	9,085	11,247	227	(2,617)	68,313
Unallocated revenue						646
Total revenue						68,959
Result						
Segment result	12,848	1,250	1,272	(89)	(618)	14,663
Unallocated expenses net of unallocated revenue						(632)
Finance costs						(2,969)
Profit before income tax						11,062
Income tax expense						(2,888)
Profit after income tax						8,174
Assets						
Segment assets	42,314	9,183	35,416	1,790	(9,708)	78,995
Unallocated assets						70,842
Total assets						149,837
Liabilities						
Segment liabilities	30,760	8,675	25,933	1,867	(553)	66,682
Unallocated liabilities						(8,532)
Total liabilities						58,150
Other						
Depreciation and amortisation of segment assets	987	870	195	32	(23)	2,061

Accounting Policies

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

Inter-segment Transfers

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

Business Segments

The consolidated group has the following four business segments:

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

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

Note 25 — Cash Flow Information

	Consolidated Group 2007 $000	Parent Entity 2007 $000
(a) Reconciliation of Cash Flow from Operations with Profit after Income tax		
Profit after income tax	8,174	2,204
Non-cash flows in profit	-	-
Amortisation	-	-
Depreciation	1,951	-
Write-off capitalised expenditure	-	-
Net gain on disposal of property, plant and equipment	(257)	-
Share options expensed	546	546
Changes in assets and liabilities, net of the effects of purchase of subsidiaries	-	-
(Increase)/decrease in trade and term receivables	(1,870)	(4,387)
(Increase)/decrease in prepayments	(1,223)	-
(Increase)/decrease in inventories	(3,386)	-
Increase/(decrease) in trade payables and accruals	(14,583)	27
Increase/(decrease) in income taxes payable	(279)	877
Increase/(decrease) in deferred taxes payable	(1,079)	-
Increase/(decrease) in provisions	1,714	-
Cash flow from operations	(10,292)	(733)

(b) Acquisition of entities

During the year a 100% interest was acquired in the following companies:

	Coote Engineering $000	Asset Kinetics $000	Convair Engineering $000	Claw Environmental $000	South Spur Rail Services $000
Purchase consideration	41,523	4,760	5,000	1,150	25,108
Cash consideration	-	-	5,000	1,150	14,108
Cash outflow	-	-	5,000	1,150	14,108
Assets and liabilities held at acquisition date:					
Cash	-	(396)	1,587	(100)	(4,123)
Receivables	-	1,349	721	155	8,192
Inventories	--	-	2,382	-	533
Property, plant and equipment	-	2,814	489	670	23,724
Other assets		-	58	-	1,778
Payables	-	(911)	(616)	(104)	(14,335)
Interest bearing liabilities	-	(1805)	(13)	(282)	(1,788)
Other liabilities	-	(768)	(2,331)	(145)	(5,638)
Sub - total	-	283	2,277	194	8,343
Goodwill on consolidation	51,414*	4,477	2,723	956	16,765

*Coote Engineering was treated as a reverse acquisition for accounting purposes. On consolidation no balances were eliminated.

Note 25 — Cash Flow Information (continued)

Goodwill has arisen throughout these acquisitions due to the high profitability of the acquired business and/or the significant synergies expected to arise when consolidated with the remaining Coote Industrial entities.

The assets and liabilities arising from acquisition are recognised at fair value on consolidation.

A summary of the contributions of each of the newly acquired businesses is shown below:

- A 100% interest in Convair Engineering Pty Ltd was acquired on the 28 July 2006 (control 01/07/2006). Net profit contributed after tax $1,180,237;
- A 100% interest in Asset Kinetics Pty Ltd was acquired on 31 October 2006 (control from 01/07/06). Net profit contributed after tax $579,173;
- The assets and liabilities of Claw Environmental were acquired on the 18 April 2007 (control from 01/04/07). Net loss contributed after tax ($86,204, and
- A 40% interest in South Spur Rail Services Pty Ltd and its subsidiaries was acquired on 27 April 2007 (with management control). The remaining 60% was settled on 29 June 2007. Net profit contributed after tax $972,063.

Subsequent to year-end, but prior to the approval of these financial statements, Fremantle Container Logistics, GEMCO Rail and Industrial Powertrain were acquired. Additional details can be found in note 29.

(c) Non-cash financing activities

(i) share issues

During the year the following share issues took place:

- 25,000,000 ($25,000,000) ordinary shares were issued as part of the listing of Coote Industrial Ltd.
- 112,489 ($119,238) ordinary shares were issued as part of the company's dividend re-investment plan.
- 8,404,545 ($9,245,000) ordinary shares were issued as part of the purchase consideration for South Spur Rail Services.

(ii) During the year the consolidated group acquired plant and equipment with an aggregate value of $3.378m by means of finance leases.

(d) Credit Standby Arrangements with Banks

	Consolidated Group 2007 $000	Parent Entity 2007 $000
Credit facility	27,000	20,000
Amount used	(16,045)	(13,458)
	10,955	6,542

	$000
The major facilities are summarised as follows:	
Bank overdrafts	7,000
Group limit facility	6,000
Commercial bill facility	14,000
	27,000

Both the bank overdraft and the group limit facility are arranged with the Commonwealth Bank of Australia. The general terms and conditions are set and agreed to annually. Interest rates are variable and subject to adjustment.

Commercial bill facility $14,000,000 one year variable interest rate facility provided by the Commonwealth Bank of Australia.

In addition to the facilities noted above, Hedemora Diesel AB has a bank overdraft with Nordea of 4,000,000 SEK and a loan of 9,178,568 SEK. At year end no part of the bank overdraft facility was utilised. The loan has a term of 10 years and requires quarterly interest and principal repayments.

Note 26 — Share Based Payments

The following share-based payment arrangements existed at the 30 June 2007.

On the 14 December 2006, 2,900,000 share options were granted to the directors and company secretary to accept ordinary shares at an exercise price of $1.00. The options are exercisable after the 14 September 2007 but before the 14 December 2009. The options hold no voting or dividends rights and are not transferable. When a director ceases employment the options are deemed to have lapsed. Since balance date, no director has ceased employment. At balance date no share option has been exercised.

	Consolidated Group 2007		Parent Entity 2007	
	Options No.	Weighted Average Exercise Price $	Options No.	Weighted Average Exercise Price $
Outstanding balance at the beginning of the year	-	-	-	-
Granted	2,900,000	1.00	2,900,000	1.00
Forfeited	-	-	-	-
Exercised	-	-	-	-
Expired	-	-	-	-
Outstanding at year-end	2,900,000	1.00	2,900,000	1.00
Exercisable at year-end	-	-	-	-

The weighted average fair value of the options granted during the year was $0.16.

This price was calculated the binomial option pricing model applying the following inputs:

Weighted average exercise price	$1.00
Weighted average life of options	3 Years
Underlying share price	$1.00
Expected share price volatility	38.90%
Risk free interest rate	5.73%
Discount (liquidity)	30.00%

Historical share price volatility of companies with a similar market capitalisation and industry segments has been the basis for determining expected share price volatility as it is assumed that this is indicative of future tender, which may not eventuate.

Included under employee benefits expense in the income statement is $546,000 and relates to 7/9ths of the full expense to equity-settled share-based payment transactions.

Note 27 — Contingent Liabilities

There has been no change in contingent liabilities since the last reporting date.

Note 28 — Related Party Transactions

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

(a) Lease agreements with related parties

Property Address	Tenant	Lessor	Term	Options	Commencement Date	Current Rent p.a.	Completion Date
U1/15 Colin Jamieson Drive Welshpool WA	PC Diesel	Ganesha	Monthly	Nil	01/09/2005	65,000	Monthly
47 & 308 Bickley Drive Maddington WA	GTSA	OGB	3 years	2	01/07/2004	61,485	30/06/2009
6/36 Ralph St Alexandria NSW	GTSA	Ganesha	1 year	4	01/07/2002	90,030	30/06/2007
47 & 308 Bickley Drive Maddington WA	Asset Kinetics	OGB	3 years	2	01/07/2004	84,180	30/06/2009
6 Sandhill Street Wedgefield WA	Asset Kinetics	OGB	3 years	3	01/07/2004	55,000	31/12/2009
47 & 308 Bickley Drive Maddington WA	Coote Industrial	OGB	3 years	2	01/07/2004	10,000	30/06/2009
47 & 308 Bickley Drive Maddington WA	Savant	OGB	3 years	2	01/07/2004	22,040	30/06/2009

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

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

(b) Significant transactions with related parties

As disclosed in the November 2006 prospectus the following significant transactions took place in Coote Industrial:

Sale of Shares Agreement with Asset Kinetics Pty Ltd

Coote Industrial Ltd's wholly owned subsidiary, Coote Logistics Pty Ltd, entered into an agreement to acquire all of the shares in Asset Kinetics Pty Ltd on 31 October 2006. Completion of this acquisition took place subsequent to the 30 June 2006 balance date on 31 October 2006. The consideration for the acquisition was the issue of 4,760,161 Shares in the Company to the vendors. The share sale agreement contains various warranties and representations relating to, amongst other things, the share capital of Asset Kinetics Pty Ltd, its assets and employees. Michael Charles Coote held 30% of Asset Kinetics Pty Ltd with the remainder of the company belonging to family members.

Sale of shares Agreement with Michael Charles Coote

Coote Industrial Ltd entered into an agreement with Michael Coote to acquire all of the shares in Coote Engineering on 31 October 2006 as part of a restructure of Coote Industrial. Completion of this acquisition took place subsequent to the 30 June 2006 balance date on 31 October 2006. The consideration for the acquisition was $41,523,342, which obligation was satisfied by the issue of 39,734,263 Shares to Michael Coote and the issue of 1,789,079 Qualifying Rights to certain employees of Coote Industrial under the ESP.

Note 29 — Events Subsequent to Reporting Date

Acquisitions of businesses after Balance Sheet Date:

FCD Container Logistics

Coote Industrial acquired 100% of FCD Container Logistics on 31 July 2007 and took management control from 1 July 2007 for a cost of $12.5m.

FCD Container Logistics is a cargo services provider in the port of Fremantle, Western Australia. FCD Container Logistics offers a fully integrated cargo service including quarantine inspections, cleaning and fumigation, container and general cargo storage and transport to and from the port area.

FCD Container Logistics is expected to contribute approximately $2m NPAT in the 2008 financial year, on sales of $12m.

GEMCO Rail

Coote Industrial acquired 100% of the issued shares of GEMCO Rail on 15 August 2007 and took management control from 1 July 2007 for a cost of $33.8m. The settlement of the sale share price was by payment in cash from increased debt facilities and $4.1m in shares with delivery of $9.0m NTA prior to vendor dividend payment.

GEMCO Rail is a Perth based company specialising in the manufacturing of rail products and the provision of maintenance services to rail operators in Western Australia, Queensland, South Australia, Victoria and New South Wales.

GEMCO Rail is expected to contribute approximately $5m NPAT in the 2008 financial year on sales of $63m.

Industrial Powertrain

Coote Industrial Ltd acquired 100% of the issued shares in Donovan Holdings Pty Ltd trading as Industrial Powertrain on the 24th of August 2007 with management control from the 1 July 2007 at a cost of $5m. The business is expected to contribute additional NPAT of $1.175m in next financial year on sales of $4.74m.

Industrial Powertrain is a Western Australian-based specialist in the repair and overhaul of heavy powershift transmissions, torque converters, planetary axels and differentials. The transmissions are employed in front-end loaders, dump trucks, container forklifts and other heavy equipment used in mining, earthmoving and materials handling.

No other subsequent events have occurred.

Note 30 — Financial Instruments

(a) Financial Risk Management

The groups financial instruments consist mainly of deposits with banks, accounts receivable and payable, loans to and from subsidiaries, bills, leases and foreign currency risk.

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

(i) Financial Risks

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

Interest rate risk

Interest rate risk is managed using a mixture of fixed and floating rate risk. At the 30 June 2007 100% of the groups' debt is floating. Given the low level of debt Coote Industrial does not fix any portion of the interest on the current facility using derivative instruments.

Foreign currency risk

The group is exposed to fluctuations in foreign exchange rates arising from the sale and purchase of goods and services in currencies other than the group's measurement currency.

Liquidity Risk

The group manages liquidity risk by monitoring forecast cash flow and ensuring that adequate unutilised borrowing facilities are maintained.

Credit Risk

The consolidated group does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the consolidated group.

Note 30 — Financial Instruments (continued)

(ii) Interest Rate Risk

The consolidated group's exposure to interest rate risk, which is the risk that a financial instruments value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

	Weighted Average Effective Interest Rate % 2007	Floating Interest Rate $000 2007	Fixed Interest Rate Maturing		Non – Interest Bearing $000 2007	Total $000 2007
			Within Year $000 2007	1 to 5 Years $000 2007		
Financial Assets:						
Receivables	-	-	-	-	19,666	19,666
Total Financial Assets	-	-	-	-	19,666	19,666
Financial Liabilities:						
Bank loans and overdrafts	8.5	17,647	-	-	-	17,647
Trade and sundry payables	-	-	-	-	16,368	16,368
Lease liabilities	7.34	-	3,131	16,375	-	19,506
Total Financial Liabilities	-	17,647	3,131	16,375	16,368	53,521

(iii) Net Fair Values

The net fair values of:

	Carrying Amount $000	Net Fair Value $000
Financial Assets		
Receivables	19,666	19,666
	19,666	19,666
Financial Liabilities		
Bank overdraft	2,045	2,045
Trade and sundry payables	16,368	16,368
Bank loans	15,602	15,602
Lease liabilities	19,506	19,506
	53,521	53,521

Shareholder information

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

1. Shareholding

(a) Distribution of shareholders

Category (size of holding)	No. Ordinary
1 – 1,000	16,519
1,001 – 5,000	788,576
5,001 – 10,000	1,424,372
10,001 – 100,000	6,093,357
100,001 - over	73,277,715

(b) Number of shareholdings held in less than a marketable parcel

Zero

(c) Substantial Shareholders

The names of substantial shareholders listed in the holding company's register as at 30 June 2007 are as follows:

Category (size of holding)	No. Ordinary
Michael Charles Coote	41,982,313
Grahger Group	8,400,000

(d) Voting rights

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

Ordinary Shares

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

(e) 20 Largest Shareholders – Ordinary Shares

Position	Name	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
1.	Michael Charles Coote	39,734,265	54.28
2.	Grahger Cap Inv Pty Ltd	6,000,000	8.20
3.	Grahger Cap Sec Pty Ltd	2,400,000	3.28
4.	Ganesha Nom Pty Ltd	2,238,048	3.06
5.	WJ Coote Pty Ltd	2,128,693	2.91
6.	National Nom LTD	1,651,413	2.26
7.	RBC Dexia Investor Svcs	1,601,504	2.19
8.	ANZ Nom Ltd	1,580,868	2.16
9.	Orange Grove Brickworks Pty Ltd	1,061,777	1.45
10.	WF Coote & Co Pty Ltd	1,033,029	1.41
11.	Skydawn Pty Ltd	955,287	1.31
12.	J P Morgan Nom Aust Ltd	927,980	1.27
13.	UBS Nom Pty Ltd	484,740	0.66
14.	Aust Executor Trustees Ns	300,000	0.41
15.	Aust Executor Trustees Ns	300,000	0.41
16.	CGFH Hldgs Pty Ltd	286,016	0.39
17.	Chemco Pty Ltd	210,000	0.29
18.	Albers Ernest G + PJ	200,076	0.27
19.	Coote, Gordon + Linda	200,000	0.27
20.	Little Blue Porsche Pty Ltd	200,000	0.27
		63,493,696	86.75

Shareholder information (continued)

2. Stock Exchange Listing

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

3. Unquoted Securities

Options over Unissued Shares:

- 2,900,000 options are on issue to the directors and company secretary of Coote Industrial Ltd.
- 1,500,000 options are currently on issue as part of the cost of the companies November 2006 capital raising.

Corporate directory

Registered Office

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

Head Office

Coote Industrial Ltd
Coote Industrial Centre
627-635 Bickley Road
Maddington WA 6109

ACN 120 432 144

Operating Centres

Western Australia

Australian Rail Mining Services
491 Abernethy Road
Kewdale WA

Asset Kinetics
627-635 Bickley Road
Maddington WA

6 Sandhill Street
Wedgefield
Port Hedland WA

Centre for Excellence in Rail Training
Yelverton Drive
Midland WA

CLAW Environmental
35 McDowell Street
Welshpool WA

FCD Logistics
Port Beach Road
North Fremantle WA

GTSA Engineering
627-635 Bickley Road
Maddington WA

Hedemora Diesel Australia
627-635 Bickley Road
Maddington WA

Lights Power Anything
23 Owen Road
Kelmscott WA

Momentum
491 Abernethy Road
Kewdale WA

PC Diesel
Unit 1, 15 Colin Jamieson Drive
Welshpool WA

Savant Technologies
627-635 Bickley Road
Maddington WA

South Spur Rail Services
491 Abernethy Road
Kewdale WA

CBH Grain Silo – Western End
Cnr Elgee and Robinson Road
Midland WA

Southern & Silverton Rail Service
491 Abernethy Road
Kewdale WA

Spirit of the West
Public Transport Centre
Summers St
East Perth WA

New South Wales

Centre for Excellence in Rail Training
Gate 3, Railcorp Estate
Worth Street
Chullora NSW

Coote Energy
Unit 6, 34-36 Ralph Street
Alexandria NSW

GTSA Engineering
Unit 6, 34-36 Ralph Street
Alexandria NSW

Unit 2, 5 Woodford Place
Thornton NSW

Momentum
Unit 3, 24 Enterprise Drive
Beresfield NSW

South Spur Rail Services
Gate 3, Worth Street
Chullora NSW

Southern & Silverton Rail Service
Gate 3, Railcorp Estate
Worth Street
Chullora NSW

Victoria

Convair Engineering
93 Miller Street
Epping VIC

Momentum
Suite 10, 5 Everage Street
Moonee Ponds VIC

South Australia

South Spur Rail Services
Office 15, 297 Pirie Street
Adelaide SA

International

Hedemora Diesel AB
Sturegatan 2SE-776
35 Hedemora
Sweden

External Advisors

Accountants
Bentley's MRI Perth
Level 1, 10 Kings Park Road
West Perth WA 6005

Auditors
Rix Levy Fowler
Level 1, 12 Kings Park Road
West Perth WA 6005

Solicitors
Solomon Brothers
Level 40, Exchange Plaza
2 The Esplanade
Perth WA 6000

Investor information

Shareholder Inquiries

If you have any questions about your shareholding or dividends please contact the company's share registry:

Security Transfer Registrars Pty Ltd
770 Canning Highway
Applecross WA 6153

Investor Inquiries

Phone: +61 8 9315 2333
Fax: +61 8 9315 2233
Website www.securitytransfer.com.au

When communicating with the share registry, it will assist if you can quote your current address together with your Security Reference Number (SRN) or Holder Identification Number (HIN) as shown on your Issuer Sponsored/Chess statements.

Coote Website

www.coote.com.au

Stock Exchange Listing

Coote Industrial Ltd shares are listed on the Australian Stock Exchange under the code CXG. Share prices can be accessed at www.asx.com.au.

Dividend Re-investment Plan

The group currently operates a dividend re-investment plan. Forms for electing to participate can be downloaded from the share registry website.

Change of address

Shareholders should immediately notify the share registry in writing of any changes of address. Appropriate forms can be downloaded from the share registry website.

Change of Name

Shareholders should notify the share registry in writing if they change their name. The required form can be downloaded from the share registry website. Certified copies of the relevant marriage certificate, deed poll or other supporting documentation should be provided with the notice.

Tax File Numbers

While it is not compulsory to provide a tax file number (TFN), if shareholders have not provided a TFN and Coote Industrial pays an unfranked or partly franked dividend, the company will be required to deduct tax from the unfranked portion of the dividend at the top marginal rate. TFN forms can be obtained by contacting the share registry or by downloading the form from the share registry website.

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