



APPENDIX 4D & INTERIM REPORT

31 December 2021

Lodged with the ASX Listing Rule 4.2A.3.

This information should be read in conjunction with the 30 June 2021 Annual Report.

Half-Year Ended 31 December 2021

Results for Announcement to the Market

	Up/Down	Change (%)	31 Dec 21 \$'000	31 Dec 20 \$'000
Revenue for the period	↓	(1.1%)	85,493	86,423
Net profit after tax for the period	↓	(51.2%)	2,597	5,316
TOTAL NET PROFIT AFTER TAX FOR THE PERIOD ATTRIBUTABLE TO MEMBERS	↓	(51.2%)	2,597	5,316
			Amount per security Cents	Franked amount per security Cents
Dividends				
2021 Final dividend (paid 28 September 2021)			1.5	1.5
2022 Interim dividend			0.5	0.5
Dividend Distribution:				
Ex-date				3 March 2022
Record date				4 March 2022
Payment date				18 March 2022
Net Tangible Assets			31 Dec 21	31 Dec 20
Net tangible assets per ordinary share			\$0.25	\$0.23

CONTENTS

Directors' Report	2
Directors' Declaration	6
Lead Auditors' Independence Declaration	7
Independent Auditor's Report	8
Condensed Consolidated Financial Statements	
Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income	10
Condensed Consolidated Statement of Financial Position	11
Condensed Consolidated Statement of Changes in Equity	12
Condensed Consolidated Statement of Cash Flows	13
Notes to the Condensed Consolidated Interim Financial Statements	
Note 1 – Significant Accounting Policies	14
Note 2 – Operating Segments	16
Note 3 – Revenue from Contracts with Customers	21
Note 4 – Income Tax Expense	21
Note 5 – Earnings Per Share	21
Note 6 – Contingent Liabilities	22
Note 7 – Acquisition of Subsidiary	22
Note 8 – Issued Capital	24
Note 9 – Related Party Transactions	25
Note 10 – Events Subsequent to Reporting Date	25
Corporate Directory	26

These interim financial statements do not include all the notes of the type normally included in the annual financial statements. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2021 and any public announcements made by Engenco Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Directors' Report

The directors of the Group, being Engenco Limited ("the Company") and its controlled entities, present their report, together with the condensed consolidated interim financial statements for the six months ended 31 December 2021 and the auditor's review report thereon.

Directors

The directors of the Company at any time during or since the end of the interim period are:

Vincent De Santis (Non-Executive Director / Chairman)	Full period
Kevin Pallas (Managing Director & CEO)	Full period
Dale Elphinstone (Non-Executive Director)	Full period
Alison von Bibra (Independent Non-Executive Director)	Full period
Scott Cameron (Independent Non-Executive Director)	Full period

Review of Operations

The Group reported a first half net profit before tax (NPBT) of \$2,622,000 (H1 FY21: \$5,316,000). Profitability was influenced by skilled labour shortages impacting productivity and labour costs, COVID restrictions particularly on the Group's Workforce Solutions business, and general supply chain disruptions. Earnings before interest and tax (EBIT) were \$3,200,000, down from \$6,085,000.

Revenue was \$85,493,000 (H1 FY21: \$86,423,000), as the Group continued its multi-year strategy to build a stronger platform through expanding its range of goods and services and investing in people, capacity, and innovation. Net operating cash flow was \$8,579,000 (H1 FY21: \$11,233,000). At 31 December 2021, cash on hand was \$9,161,000.

The directors have declared an interim dividend of 0.5 cents per share, fully franked, consistent with the previous corresponding period. The interim dividend will be paid on 18 March 2022 to shareholders on the register at 3 March 2022.

Key performance measures are provided in the following table:

	H1 2022 \$'000	H1 2021 \$'000
Revenue	85,493	86,423
EBIT ¹	3,200	6,085
NPBT ²	2,622	5,316
NPAT ³	2,597	5,316
Dividend (cents per share) – fully franked	0.5	0.5

¹ EBIT is earnings before finance cost and income tax expense

² NPBT is net profit before income tax

³ NPAT is net profit after income tax

Note – EBIT is a non-IFRS financial measure, which has not been subject to review or audit by the Group's external auditors. This measure is presented to assist understanding of the underlying performance of the Group.

In a challenging environment that generated a sub-optimal result, the outcome nevertheless demonstrated the strength of the investments made, the resilience of staff, and the diversity of the Group's business.

The rail business performed consistently overall, with strong sales on the west coast balanced by reduced demand from customers for east coast operations. Staff shortages and supply chain delays impacted the Convair business, which has a strong order book for tankers.

Drivetrain's business experienced revenue growth including the win of some longer-term contracts. Operations at Kalgoorlie were constrained by shortages of labour and parts, and product support sales to customers at Newcastle were lower but are anticipated to grow in the second half with an expanded product range and capacity. Shipping delays affected sales of the Kovatera underground mining utility vehicle including a battery electric version, with some sales deferred to the second half.

Workforce Solutions operations were impacted by a shortage of trainers and skilled staff and, in New South Wales, mandated closure of CERT's branches for around three months due to the pandemic. These disruptions with lower government support in H1 FY22 resulted in reduced performances in CERT and Momentum, whilst the recently acquired Eureka 4WD and truck training business met expectations. Expansion of the Western Australia-based Eureka business is planned, and the operations have been brought onto Engenco's corporate platforms with integration nearing completion.

Reportable Segments*	H1 2022 Revenue \$'000	H1 2021 Revenue \$'000	H1 2022 NPBT \$'000	H1 2021 NPBT \$'000
Gemco Rail	41,366	39,160	4,952	5,008
Convair Engineering	6,454	9,920	354	1,110
Drivetrain	24,129	22,235	1,835	2,386
Workforce Solutions	10,540	12,359	1,453	2,815

*Excludes "All Other" segment

Rail and Road

Gemco Rail experienced strong demand in Western Australia, including increased orders for heavy-haul wheels and bearings and securing new wagon refurbishment work. East coast demand, however, fluctuated and volumes at Gladstone for wheelset maintenance was lower, reflecting customers' schedule changes and altered maintenance cycles. Gemco Rail's east-coast operations continue to build diverse revenue streams, demonstrating the value of the Group's investment in upgrading these facilities and introducing new locomotive and wagon maintenance services.

Convair Engineering reported lower revenue and earnings as sales of Feldbinder aluminium tankers were subject to shipping delays. These sales have moved into the second half. While demand from the infrastructure and construction sectors for Convair Engineering's premium products remain strong, labour shortages continue to effect production capacity. The business is focussed on continuously improving production efficiency and developing innovative bulk materials transportation equipment.

Power and Propulsion

Drivetrain continued to benefit from the previous consolidation of branches and broadening of its range of technical products and services. Revenue improved although margins were lower. The Perth workshop continued to operate at high rates of capacity. Although experiencing strong demand, the Group's Kalgoorlie workshop operations were constrained by skilled-labour shortages and the lack of availability of parts due to supply-chain disruptions. At Newcastle, deliveries to the mining and mining contractor sectors were lower, but workshop and parts demand remained strong. Sales of the Kovatera underground mining utility vehicle grew in central Queensland, although shipping delays have deferred some sales to the second half.

The Hedemora Sweden business continued to build, with revenue increasing compared to the previous corresponding period and on a profitable basis. This business is in the process of monetising its innovative HS Turbocharger range, which allows OEM diesel and gas engine turbochargers to be replaced with modern equipment that offers ease-of-maintenance, environmental and efficiency benefits.

Workforce Solutions

Momentum, which provides supplementary rail personnel, experienced difficult conditions with reduced locomotive driver demand due to flood damage to rail infrastructure, and complicated trans-state border service provision due to COVID restrictions. Increased workforce training requirements and insurance costs reduced margins, and profitability was lower compared to the previous corresponding half. CERT Training, which is a registered training organisation providing services to the Australian rail industry, experienced a shortage of skilled staff with trainer shortages in several states, as well as constraints from some customers not adapting to online training service provision.

Integration of Eureka 4WD Training, which provides specialised driver training services for commercial vehicles, is proceeding well, although slower than anticipated. Costs increased slightly during the half due to a shortage of qualified truck trainers and higher diesel costs.

The Workforce Solutions business is expected to benefit when pandemic restrictions are lifted.

Investment in Group Platforms

The Group's focus on improving workplace-culture and providing premium products and services has demonstrated benefits, with exceptional operations staff performance despite the adverse environment.

The Group is continuing to focus on improving its risk framework and is leveraging next-generation analytical tools, including the introduction of automated vendor payment systems. In modernising these systems, investments in software-as-a-service (SAAS) products are assisting in rapid deployment of integrated, scalable solutions.

Outlook

FY22 will be a year of stabilisation with a stronger second half, during which profit is expected to exceed the first. The run-rate for the second half is expected to be in line with management's expectations of on-going performance. The Group anticipates that full-year profit before tax will be materially in line with the FY21 full-year result, assuming no material change to trading conditions.

Dividend

Since the end of the previous financial year, the Board declared a final dividend of 1.5 cents per ordinary share (fully franked) on 18 August 2021, and subsequently paid this dividend on 28 September 2021.

On 17 February 2022, the Board resolved to declare an interim dividend of 0.5 cents per share (fully franked). Payment of the dividend to shareholders will take place on 18 March 2022.

Events Subsequent to Reporting Date

On 17 February 2022, the Board resolved to declare an interim dividend of 0.5 cents per share (fully franked). Payment of the dividend to shareholders will take place on 18 March 2022.

Other than the above, there has not arisen, in the interval between 31 December 2021 and the date of this report, any item, transaction or event which would have a material effect on the condensed consolidated interim financial statements of the Group at 31 December 2021.

Rounding off

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

Lead Auditor's Independence Declaration

The lead auditor's independence declaration is set out on page 7, and forms part of the Directors' Report for the six months ended 31 December 2021.

Signed in accordance with a resolution of the Directors.



Vincent De Santis

Chairman

Dated at Melbourne this 18th day of February 2022.

Directors' Declaration

In the opinion of the directors of Engenco Limited ("the Company"):

1. The condensed consolidated interim financial statements and notes, as set out on pages 10 to 25, are in accordance with the *Corporations Act 2001* including:
 - a. Giving a true and fair view of the Group's financial position as at 31 December 2021 and of its performance for the six-month period ended on that date; and
 - b. Complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors.



Vincent De Santis

Chairman

Dated in Melbourne this 18th day of February 2022.

Lead Auditors' Independence Declaration



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

To the Directors of Engenco Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Engenco Limited for the half-year ended 31 December 2021 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- ii. no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

A handwritten signature in black ink, appearing to read 'S Bell'.

Suzanne Bell
Partner

Melbourne
18 February 2022

Independent Auditor's Report



Independent Auditor's Review Report

To the shareholders of Engenco Limited

Report on the Financial Report

Conclusion

We have reviewed the accompanying **Interim Financial Report** of Engenco Limited.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim Financial Report of Engenco Limited does not comply with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Group's** financial position as at 31 December 2021 and of its performance for the **Interim Period** ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The **Interim Financial Report** comprises:

- Condensed consolidated statement of financial position as at 31 December 2021;
- Condensed consolidated statement of profit or loss and other comprehensive income, Condensed consolidated statement of changes in equity and Condensed consolidated statement of cash flows for the Interim Period ended on that date
- Notes 1 to 10 comprising a summary of significant accounting policies and other explanatory information
- The Directors' Declaration.

The **Group** comprises Engenco Limited (the Company) and the entities it controlled at the Interim Period's end or from time to time during the Interim Period.

The **Interim Period** is the 6 months ended on 31 December 2021.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report.

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with these requirements.



Responsibilities of the Directors for the Interim Financial Report

The Directors of the Company are responsible for:

- the preparation of the Interim Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the Interim Financial Report does not comply with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2021 and its performance for the Interim Period ended on that date, and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a Interim Period Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

KPMG

KPMG

A handwritten signature in black ink, appearing to read 'S Bell'.

Suzanne Bell
Partner

Melbourne
18 February 2022

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the six months ended 31 December 2021

	Note	Group 31 Dec 21 \$'000	Group 31 Dec 20 \$'000
Revenue	3	85,493	86,423
Other income		1,526	2,134
Changes in inventories of finished goods and work in progress		(654)	59
Impairment of inventory		(340)	(449)
Raw materials and consumables used		(39,188)	(40,555)
Employee benefits expense		(30,990)	(31,024)
Depreciation and amortisation expense		(3,922)	(3,578)
Finance costs		(578)	(769)
Subcontract freight		(503)	(431)
Repairs and maintenance		(949)	(749)
Insurances		(683)	(558)
Rent and outgoings		(1,515)	(1,423)
Foreign exchange movements		(12)	(54)
Other expenses		(5,063)	(3,710)
PROFIT BEFORE INCOME TAX		2,622	5,316
Income tax benefit / (expense)	4	(25)	-
TOTAL PROFIT FOR THE PERIOD		2,597	5,316
<i>Profit attributable to:</i>			
Owners of the Company		2,597	5,316
Non-controlling interest		-	-
TOTAL PROFIT FOR THE PERIOD		2,597	5,316
OTHER COMPREHENSIVE INCOME			
<i>Items that may be reclassified subsequently to profit:</i>			
Exchange difference on translation of overseas subsidiaries		(229)	100
Other comprehensive income for the period, net of tax		(229)	100
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		2,368	5,416
<i>Total comprehensive income attributable to:</i>			
Owners of the Company		2,368	5,416
Non-controlling interest		-	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		2,368	5,416
EARNINGS PER SHARE		Cents	Cents
Basic & Diluted earnings per share (cents per share)	5	0.82	1.70

The condensed notes on pages 14 to 25 are in integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Statement of Financial Position

as at 31 December 2021

	Note	Group 31 Dec 21 \$'000	Group 30 Jun 21 \$'000
CURRENT ASSETS			
Cash and cash equivalents		9,161	12,091
Trade and other receivables		25,956	23,736
Contract assets	3	3,493	4,160
Inventories		44,840	45,834
Current tax assets		204	91
Other current assets		2,595	1,648
TOTAL CURRENT ASSETS		86,249	87,560
NON-CURRENT ASSETS			
Property, plant, and equipment		25,248	23,557
Right-of-use assets		18,064	19,293
Deferred tax assets		15,601	15,612
Intangible assets		3,628	340
TOTAL NON-CURRENT ASSETS		62,541	58,802
TOTAL ASSETS		148,790	146,362
CURRENT LIABILITIES			
Trade and other payables		20,127	16,292
Contract liabilities	3	2,610	2,380
Current tax liabilities		39	5
Lease liabilities		4,093	3,901
Provisions		8,168	7,947
TOTAL CURRENT LIABILITIES		35,037	30,525
NON-CURRENT LIABILITIES			
Lease liabilities		15,838	17,109
Provisions		4,246	4,206
Deferred tax liabilities		643	194
TOTAL NON-CURRENT LIABILITIES		20,727	21,509
TOTAL LIABILITIES		55,764	52,034
NET ASSETS		93,026	94,328
EQUITY			
Issued capital	8	303,834	302,774
Reserves		274	503
Profit reserve		13,725	15,858
Accumulated losses		(218,978)	(218,978)
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		98,855	100,157
Non-controlling interest		(5,829)	(5,829)
TOTAL EQUITY		93,026	94,328

The condensed notes on pages 14 to 25 are in integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Statement of Changes in Equity

for the six months ended 31 December 2021

Consolidated Group	Issued Capital \$'000	Accumulated Losses \$'000	Profit Reserve \$'000	Foreign Currency Translation Reserve \$'000	Sub-Total \$'000	Non-Controlling Interest \$'000	Total Equity \$'000
BALANCE AT 1 JULY 2020	302,719	(218,978)	10,165	517	94,423	(5,829)	88,594
COMPREHENSIVE INCOME							
Profit	-	-	5,316	-	5,316	-	5,316
Other comprehensive income	-	-	-	100	100	-	100
TOTAL COMPREHENSIVE INCOME	-	-	5,316	100	5,416	-	5,416
TRANSACTIONS WITH OWNERS OF THE COMPANY							
Contributions and Distributions:							
Employee share purchase plan	55	-	-	-	55	-	55
Dividends paid	-	-	(4,701)	-	(4,701)	-	(4,701)
TOTAL TRANSACTIONS WITH OWNERS OF THE COMPANY	55	-	(4,701)	-	(4,646)	-	(4,646)
BALANCE AT 31 DECEMBER 2020	302,774	(218,978)	10,780	617	95,193	(5,829)	89,364

Consolidated Group	Issued Capital \$'000	Accumulated Losses \$'000	Profit Reserve \$'000	Foreign Currency Translation Reserve \$'000	Sub-Total \$'000	Non-Controlling Interest \$'000	Total Equity \$'000
BALANCE AT 1 JULY 2021	302,774	(218,978)	15,858	503	100,157	(5,829)	94,328
COMPREHENSIVE INCOME							
Profit	-	-	2,597	-	2,597	-	2,597
Other comprehensive income	-	-	-	(229)	(229)	-	(229)
TOTAL COMPREHENSIVE INCOME	-	-	2,597	(229)	2,368	-	2,368
TRANSACTIONS WITH OWNERS OF THE COMPANY							
Contributions and Distributions:							
Employee share purchase plan	60	-	-	-	60	-	60
Issue of ordinary shares related to business combinations	1,000	-	-	-	1,000	-	1,000
Dividends paid	-	-	(4,730)	-	(4,730)	-	(4,730)
TOTAL TRANSACTIONS WITH OWNERS OF THE COMPANY	1,060	-	(4,730)	-	(3,670)	-	(3,670)
BALANCE AT 31 DECEMBER 2021	303,834	(218,978)	13,725	274	98,855	(5,829)	93,026

The condensed notes on pages 14 to 25 are in integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Statement of Cash Flows

for the six months ended 31 December 2021

	Note	Group 31 Dec 21 \$'000	Group 31 Dec 20 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		94,320	112,127
Payments to suppliers and employees		(85,518)	(100,366)
Finance costs		(51)	(188)
Interest received		-	4
Income tax paid		(172)	(344)
NET CASH FROM / (USED IN) OPERATING ACTIVITIES		8,579	11,233
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of non-current assets		61	176
Purchase of non-current assets		(1,826)	(4,757)
Acquisition of subsidiary, net of cash acquired	7	(2,434)	-
NET CASH FROM / (USED IN) INVESTING ACTIVITIES		(4,199)	(4,581)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(4,730)	(4,701)
Payments of lease liabilities		(2,580)	(2,396)
NET CASH FROM / (USED IN) FINANCING ACTIVITIES		(7,310)	(7,097)
Net increase / (decrease) in cash and cash equivalents		(2,930)	(445)
Cash (net of bank overdrafts) at beginning of period		12,091	14,134
CASH (NET OF BANK OVERDRAFTS) AT 31 DECEMBER		9,161	13,689

As at the reporting date, where the Group has the legally enforceable right of set-off and intention to settle on a net basis some accounts within the NAB facility, the Group has set-off bank overdrafts of \$20,282,068 (31 Dec 2020: \$15,674,565) against cash and cash equivalents of \$27,344,525 (31 Dec 2020: \$24,334,986) resulting in a net NAB facility cash position of \$7,062,457 (31 Dec 2020: \$8,660,422) for these eligible accounts. The remainder of the cash and cash equivalents balance is included in bank accounts that are not part of the NAB set-off facility.

The condensed notes on pages 14 to 25 are in integral part of these condensed consolidated interim financial statements.

Note 1 – Significant Accounting Policies

for the half year ended 31 December 2021

Reporting Entity

Engenco Limited (the “Company”) is a company domiciled in Australia. These condensed consolidated interim financial statements (“interim financial statements”) as at and for the six months ended 31 December 2021 comprise the Company and its subsidiaries (“the Group”). The Group is a for-profit entity and is involved in the delivery of a diverse range of engineering services and products.

The consolidated annual financial statements of the Group as at and for the year ended 30 June 2021 are available upon request from the Company’s registered office at Level 22, 535 Bourke Street, Melbourne, VIC 3000 or at www.engenco.com.au.

Basis of Preparation

These interim financial statements are general purpose financial statements prepared in accordance with the *Corporations Act 2001* and AASB 134 *Interim Financial Reporting*, and with IAS 34 *Interim Financial Reporting*.

They do not include all the information required for a complete set of annual financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group’s financial position and performance since the last annual consolidated financial statements as at and for the year ended 30 June 2021.

These interim financial statements were authorised for issue by the Company’s Board of Directors on 18 February 2022.

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

Significant Accounting Policies

The accounting policies applied in these interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 30 June 2021, except as mentioned otherwise. These accounting policies are consistent with Australian Accounting Standards.

Use of Judgements and Estimates

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

The significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 30 June 2021.

With regard to COVID-19 considerations, our judgements continue to be relevant to those disclosed for the year ended 30 June 2021 with the following updates.

- It is expected that industry will continue to experience global impacts from the COVID-19 pandemic and Engenco will operate with differing and changing degrees in response to these impacts as we move to the “living with COVID” phase of the pandemic. Supply chains continue to be disrupted causing extra costs, delays to parts supply and completion of services,
- Skills availability will continue to be impacted due to reduced immigration and general availability of skilled labour supply as well as absenteeism due to COVID related matters.

Note 1 – Significant Accounting Policies (cont'd)

Going Concern

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

Business Combinations

Fair value in business combinations

Business combinations are accounted for using the acquisition method. This method requires the application of fair values for both the consideration given and the assets and liabilities acquired. The calculation of fair values is often predicated on estimates and judgements including future cash flows, revenue streams and value in use calculations.

The determination of the fair values may remain provisional for up to 12 months from the date of acquisition due to the time necessarily required to obtain independent valuations of individual assets and to complete assessments of provisions.

New Accounting Standards and Interpretations

New accounting standards adopted

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

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

- *Interest Rate Benchmark – Reform* (Amendments to AASB 9, AASB 7, AASB 4, AASB 16 and AASB 139)
- *COVID-19 Related Rent Concessions* (Amendments to AASB 16)

Standards issued but not yet effective

Other Accounting Standards

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

- *Amendments to Australian Standard Improvements 2018-2020 and Other Amendments*
- *Classification of Liabilities as Current or Non-Current* (Amendment to AASB 101)
- *Definition of Accounting Estimates* (Amendments to IAS 8)
- *Disclosure Initiative: Accounting Policies* (Amendments to IAS 1)
- *Onerous Contracts – Cost of Fulfilling a Contract* (Amendments to AASB 137)
- *Insurance Contracts* (Amendments to AASB 17)
- *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* (Amendments to IAS 12)
- *IFRIC Agenda Decision: Classification of debt with covenant as current or non-current*

Note 2 – Operating Segments

Segment Information

Identification of Reportable Segments

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

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

Types of Products and Services by Segment

The chief operating decision maker has identified four (4) reportable segments as follows:

a) Gemco Rail

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

b) Convair Engineering (Convair)

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

c) Drivetrain

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

d) Workforce Solutions

Workforce Solutions is Engenco's people focused business, providing training and labour hire under the brands of Centre for Excellence in Rail Training (CERT Training), Total Momentum and Eureka 4WD Training.

e) All Other

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

Note 2 – Operating Segments (cont'd)

Basis of Accounting for Purposes of Reporting by Operating Segments

a) Basis of reporting

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

b) Inter-segment transactions

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

c) Segment assets

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

d) Segment liabilities

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

e) Unallocated items

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

- Deferred tax assets and liabilities

Note 2 – Operating Segments (cont'd)

I. Segment Performance

6 months ended 31 December 2021

Reportable Segments	Gemco Rail \$'000	Convair \$'000	Drivetrain \$'000	Workforce Solutions \$'000	All Other \$'000	Group \$'000
REVENUE						
External revenue	41,366	6,454	24,129	10,477	3,067	85,493
Inter-segment revenue	-	-	-	63	1,733	1,796
TOTAL SEGMENT REVENUE	41,366	6,454	24,129	10,540	4,800	87,289
Reconciliation of segment revenue to Group revenue:						
Inter-segment eliminations	-	-	-	-	(1,796)	(1,796)
TOTAL GROUP REVENUE	41,366	6,454	24,129	10,540	3,004	85,493
SEGMENT EBITDA	7,648	617	2,492	1,888	(5,523)	7,122
Reconciliation of segment EBITDA to Group net profit / (loss) before tax:						
Depreciation and amortisation	(2,350)	(216)	(588)	(394)	(374)	(3,922)
Finance cost	(346)	(47)	(69)	(41)	(75)	(578)
NET PROFIT / (LOSS) BEFORE TAX	4,952	354	1,835	1,453	(5,972)	2,622

6 months ended 31 December 2020

Reportable Segments	Gemco Rail \$'000	Convair \$'000	Drivetrain \$'000	Workforce Solutions* \$'000	All Other \$'000	Group \$'000
REVENUE						
External revenue	39,160	9,920	22,231	12,315	2,797	86,423
Inter-segment revenue	-	-	4	44	515	563
TOTAL SEGMENT REVENUE	39,160	9,920	22,235	12,359	3,312	86,986
Reconciliation of segment revenue to Group revenue:						
Inter-segment eliminations	-	-	-	-	(563)	(563)
TOTAL GROUP REVENUE	39,160	9,920	22,235	12,359	2,749	86,423
SEGMENT EBITDA	7,770	1,397	2,998	2,992	(5,494)	9,663
Reconciliation of segment EBITDA to Group net profit / (loss) before tax:						
Depreciation and amortisation	(2,359)	(236)	(521)	(140)	(322)	(3,578)
Finance cost	(403)	(51)	(91)	(37)	(187)	(769)
NET PROFIT / (LOSS) BEFORE TAX	5,008	1,110	2,386	2,815	(6,003)	5,316

*2021 comparatives have been restated for the current year classification with the change in identifiable reporting segments.

Note 2 - Operating Segments (cont'd)

II. Segment Assets

As at 31 December 2021

Reportable Segments	Gemco Rail \$'000	Convair \$'000	Drivetrain \$'000	Workforce Solutions \$'000	All Other \$'000	Group \$'000
ASSETS						
Segment assets (excl. capital expenditure, investments, and intangibles)	63,873	8,801	42,730	13,847	3,105	132,356
Capital expenditure	1,038	82	251	36	245	1,652
Intangibles	-	-	-	803	2,825	3,628
Reconciliation of segment assets to Group assets:						
Segment eliminations	-	-	-	-	-	(4,447)
Unallocated items:						
Deferred tax assets	-	-	-	-	-	15,601
TOTAL ASSETS	64,911	8,883	42,981	14,686	6,175	148,790

As at 30 June 2021

Reportable Segments	Gemco Rail \$'000	Convair \$'000	Drivetrain \$'000	Workforce Solutions* \$'000	All Other \$'000	Group \$'000
ASSETS						
Segment assets (excl. capital expenditure, investments, and intangibles)	55,436	8,883	36,601	10,112	13,722	124,754
Capital expenditure	4,393	289	322	60	4,874	9,938
Intangibles	-	-	-	-	340	340
Reconciliation of segment assets to Group assets:						
Segment eliminations	-	-	-	-	-	(4,282)
Unallocated items:						
Deferred tax assets	-	-	-	-	-	15,612
TOTAL ASSETS	59,829	9,172	36,923	10,172	18,936	146,362

*2021 comparatives have been restated for the current year classification with the change in identifiable reporting segments.

Note 2 - Operating Segments (cont'd)

III. Segment Liabilities

As at 31 December 2021

Reportable Segments	Gemco Rail \$'000	Convair \$'000	Drivetrain \$'000	Workforce Solutions \$'000	All Other \$'000	Group \$'000
LIABILITIES						
Segment liabilities	57,764	6,779	53,903	6,496	(65,374)	59,568
Reconciliation of segment liabilities to Group liabilities:						
Segment eliminations	-	-	-	-	-	(4,447)
Unallocated items:						
Deferred tax liabilities	-	-	-	-	-	643
TOTAL LIABILITIES	57,764	6,779	53,903	6,496	(65,374)	55,764

As at 30 June 2021

Reportable Segments	Gemco Rail \$'000	Convair \$'000	Drivetrain \$'000	Workforce Solutions* \$'000	All Other \$'000	Group \$'000
LIABILITIES						
Segment liabilities	53,985	6,721	48,029	4,276	(56,889)	56,122
Reconciliation of segment liabilities to Group liabilities:						
Segment eliminations	-	-	-	-	-	(4,282)
Unallocated items:						
Deferred tax liabilities	-	-	-	-	-	194
TOTAL LIABILITIES	53,985	6,721	48,029	4,276	(56,889)	52,034

*2021 comparatives have been restated for the current year classification with the change in identifiable reporting segments.

Note 3 – Revenue from Contracts with Customers

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

	Revenue Recognition	Group 31 Dec 21 \$'000	Group 31 Dec 20 \$'000
Sale of Goods	Point in time	21,835	22,578
Rendering of Services	Over time	23,587	21,203
Construction Contracts	Over time	34,560	37,503
RTO Training	Point in time	5,374	4,698
Lease Rental Income	Over time	137	441
TOTAL SALES REVENUE		85,493	86,423

Contract Assets and Liabilities

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

	Group 31 Dec 21 \$'000	Group 30 Jun 21 \$'000
Contract assets	3,493	4,160
Contract liabilities	2,610	2,380

Note 4 – Income Tax Expense

Income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year applied to the pre-tax income of the interim reporting period.

The Group's consolidated effective tax rate for the six months ended 31 December 2021 was 1.0% (for the six months ended 31 December 2020: NIL). The effective tax rate materially differs to actual tax rates due to no tax expense being recognised in respect to Australian subsidiaries (due to carry-forward tax losses).

Note 5 – Earnings Per Share

	Group 31 Dec 21 \$'000	Group 31 Dec 20 \$'000
a) RECONCILIATION OF EARNINGS TO PROFIT		
Profit for the period	2,597	5,316
(Profit) / loss for the period, attributable to non-controlling interest	-	-
Earnings used to calculate basic EPS	2,597	5,316
Earnings used in the calculation of dilutive EPS	2,597	5,316
b) WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES OUTSTANDING DURING THE HALF YEAR USED IN CALCULATING BASIC EPS	No. '000	No. '000
	315,437	313,439
Weighted average number of options outstanding	-	-
Weighted average number of ordinary shares outstanding during the period used in calculating dilutive EPS	315,437	313,439

Note 6 – Contingent Liabilities

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

The Group has arranged for its bankers to guarantee its performance to third parties. The maximum amount of these guarantees at 31 December 2021 is \$3,247,487 (June 2021: \$1,166,687).

Other than the above, there has been no material change in contingent liabilities since the 2021 Annual Report.

Note 7 – Acquisition of Subsidiary

Acquisition of Eureka 4WD Training Pty Ltd

On 27 May 2021, the Company's subsidiary, Engenco Investments Pty Ltd, entered into an agreement to acquire 100% of the share capital of registered training organisation (RTO), Eureka 4WD Training Pty Ltd and its controlled entities (Eureka) for a consideration of \$4,500,000. The acquisition was completed on 1 July 2021.

Eureka is a Perth based market-leading RTO focussed on providing certified four-wheel-drive vehicle training to the industrial, mining and consumer markets. The company also undertakes heavy road vehicle licensing training. The purchase price includes an earn-out component and will be funded via a combination of cash and new equity to be issued to the vendors.

Details of the purchase consideration:

	\$'000
Cash Paid	2,500
Issue of shares (shares issued: 1,869,404)	1,000
Deferred consideration	1,000
TOTAL PURCHASE CONSIDERATION	4,500

Note 7 – Acquisition of Subsidiary (cont'd)

Assets acquired and liabilities assumed at the date of acquisition

The fair values of the identifiable assets and liabilities acquired as at the date of acquisition were:

	\$'000
ASSETS ACQUIRED:	
Trade and other receivables	217
Other current assets	73
Property, plant, and equipment	1,633
TOTAL ASSETS ACQUIRED	1,923
LIABILITIES ACQUIRED:	
Trade and other payables	42
Contract liabilities	120
Borrowings	216
Provisions	77
Current tax liabilities	76
Deferred tax liabilities	454
TOTAL LIABILITIES ACQUIRED	985
NET IDENTIFIABLE ASSETS	938
Technology	41
Customer relationships	329
Brand name	495
Goodwill arising on acquisition	2,631
TOTAL PURCHASE CONSIDERATION, NET OF CASH ACQUIRED	4,434

Goodwill arising on acquisition

Goodwill arose on the acquisition of Eureka due to the combination of the consideration paid for the business and the net assets acquired, less values attributed to other intangibles in the form of Technology, Customer Relationships and Brand Names. The value of goodwill represents the future benefit arising from the expected future earnings, synergies and personnel assumed via the acquisition. None of the goodwill is expected to be deductible for tax purposes.

Net cash outflow arising on acquisition

	\$'000
OUTFLOW OF CASH TO ACQUIRE SUBSIDIARY, NET OF CASH ACQUIRED:	
Cash consideration	2,500
Less: Cash balance acquired	66
NET CASH OUTFLOW – INVESTING ACTIVITIES	2,434

Impact of acquisition on the results of the Group

Included in the profit for the half-year is \$580,000 attributable to Eureka 4WD Training Pty Ltd. Revenue for the half-year includes \$1,922,000 in respect of Eureka 4WD Training Pty Ltd.

Acquisition related costs

The Group incurred acquisition related costs of \$25,164 on legal fees and due diligence costs. These costs have been included in “other expenses”.

Note 8 – Issued Capital

	Group 31 Dec 21 \$'000	Group 30 Jun 21 \$'000
315,495,882 (30 June 2021: 313,489,018) fully paid ordinary shares	303,834	302,774
	303,834	302,774

Ordinary Shares

<i>For the six months ended 31 December</i>	31 Dec 21 No.	30 Jun 21 No.
At beginning of reporting period	313,489,018	313,380,943
Employee share purchase plan	137,460	108,075
Issue of ordinary shares related to business combinations	1,869,404	-
At reporting date	315,495,882	313,489,018

Employee Share Purchase Plan

At the 2020 Annual General Meeting, shareholders approved the establishment of an Employee Share Plan (ESPP). The ESPP is available to all eligible employees each year to acquire ordinary shares in the Company from future remuneration (before tax). Shares to be issued or transferred under the ESPP will be valued at a 5% discount to the volume-weighted average price of the Company's shares traded on the Australian Securities Exchange during the five business days immediately preceding the day the shares are issued. Shares issued under the ESPP are not allowed to be sold, transferred, or otherwise disposed of until the earlier of an initial three-year period, or the participant ceasing continuing employment with the Company.

The value of shares issued under the ESPP that was recognised during the period, and any amounts of consideration by eligible participants at balance sheet date was \$60,000 (December 2020: \$55,000).

Note 9 – Related Party Transactions

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

a) Transactions with key management personnel

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

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

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

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

Related Party	Director	Revenue / (Cost) for the period ended		Receivable / (Payable) as at	
		31 Dec 21	31 Dec 20	31 Dec 21	30 Jun 21
		\$	\$	\$	\$
Elphinstone Group (Aust) Pty Ltd ¹	D Elphinstone	(50,434)	(49,288)	(8,067)	(17,285)
United Equipment Pty Ltd ²	D Elphinstone	(230,363)	(216,996)	39,493	(3,847)
Southern Prospect Pty Ltd ³	D Elphinstone	1,441	8,734	208	547
Elphinstone Pty Ltd ⁴	D Elphinstone	129,033	224,113	(2,434)	216,711
Gekko Systems Pty Ltd ⁵	D Elphinstone	40,972	-	1,359	-

¹ Director fees and travel expense reimbursements were paid to Elphinstone Group (Aust) Pty Ltd for the services of Dale Elphinstone (Non-Executive Director). Legal service fees were also paid to Elphinstone Group (Aust) Pty Ltd during the previous period. Dale Elphinstone is the Chairman of this entity.

² Goods were purchased from and sold to United Equipment Pty Ltd during the period. Dale Elphinstone is a director of this entity.

³ Goods were sold to Southern Prospect Pty Ltd during the period. Dale Elphinstone is the Chairman of this entity.

⁴ Goods were sold to Elphinstone Pty Ltd during the period. Dale Elphinstone is a director and the Chairman of this entity.

⁵ Goods were sold to Gekko Systems Pty Ltd during the period. Dale Elphinstone is a director of this entity.

Note 10 – Events Subsequent to Reporting Date

On 17 February 2022, the Board resolved to declare an interim dividend of 0.5 cents per share (fully franked). Payment of the dividend to shareholders will take place on 18 March 2022.

Other than the above, there has not arisen, in the interval between 31 December 2021 and the date of this report, any item, transaction or event which would have a material effect on the condensed consolidated interim financial statements of the Group at 31 December 2021.

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Dale Elphinstone AO

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Non-Executive Director

Alison von Bibra

BSc, MBA
Independent Non-Executive Director

Scott Cameron

BCom, FCA, FAICD
Independent Non-Executive Director

Company Secretary

Paul Burrows

BCom, CA, GAICD
Chief Financial Officer / Company Secretary

Meredith Rhimes

BA, LLB
Company Secretary