

The Environmental Group Limited

Trading as EGL

ABN 89 000 013 427

Interim Report - 31 December 2019

The Environmental Group Limited
Trading as EGL
Appendix 4D
Half-year report

1. Company details

Name of entity:	The Environmental Group Limited
ABN:	89 000 013 427
Reporting period:	For the half-year ended 31 December 2019
Previous period:	For the half-year ended 31 December 2018

2. Results for announcement to the market

			\$
Revenues from ordinary activities	up	68.5% to	18,360,574
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	up	649.7% to	678,800
Earnings Before Interest and Tax (EBIT)	up	1224.7% to	73,134
Profit/(Loss) from ordinary activities after tax attributable to the Equity holders of The Environmental Group Limited	down	12.0% to	(203,211)
Profit/(Loss) for the half-year attributable to the Equity holders of The Environmental Group Limited	down	12.0% to	(203,211)

There were no dividends recommended or declared during the current financial period.

The profit/(loss) for the Group after providing for income tax and non-controlling interest amounted to (\$203,211) (31 December 2018: \$231,007).

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>0.95</u>	<u>1.03</u>

4. Control gained over entities

There were no business combinations for the six months ended 31 December 2019.

5. Dividends

Current period

There were no dividends recommended or declared during the current financial period.

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	Amount per security Cents	Franked amount per security Cents
A final fully franked dividend for FY19 was paid at 0.06c per share on 7 October 2019. There were no other dividends recommended or declared during the current financial period.	0.060	0.025

6. Dividend reinvestment plans

Not applicable.

7. Details of associates and joint venture entities

Not applicable.

8. Attachments

The Interim Report of The Environmental Group Limited for the half-year ended 31 December 2019 is attached.

9. Signed

Signed  _____

Date: 18 February 2020

Lynn Richardson
Chairman

The Environmental Group Limited
Trading as EGL
Corporate directory
31 December 2019

Directors	Ms Lynn Richardson (Chairman Non-Executive) Mr Dean Dowie (Managing Director) Mr Ellis Richardson (Non-Executive) Mr David Cartney (Non-Executive - resigned 13 Nov 2019)
Company secretary	Mr Andrew Bush & Mr Stephen Strubel (joint Company Secretary)
Registered office	Level 1 Suite 1 10 Ferntree Place Notting Hill Victoria 3168 Telephone: (03) 9763 6711
Share register	Board Room Pty Ltd Level 12 225 George Street Sydney NSW 2000 Telephone: (02) 9290 9600
Auditor	McIntosh Bishop Level 4, 83 Mount Street North Sydney, NSW 2060
Solicitors	Baker Jones Lawyers Level 10, 160 Queen Street Melbourne, VIC 3000
Bankers	Westpac Banking Corporation Level 1, 365 Ferntree Gully Road Mount Waverley, VIC 3149
Stock exchange listing	The Environmental Group Limited shares are listed on the Australian Securities Exchange (ASX code: EGL)
Website	www.environmental.com.au

The Environmental Group Limited
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Directors' report
31 December 2019

The directors present their report, together with the financial statements, on the Group for the half-year ended 31 December 2019.

Directors

The names of Directors who held office during the whole of the half year and up to the date of this report, unless otherwise stated below, were:

Ms Lynn Richardson (Non-Executive, Chair)
Mr Dean Dowie (Managing Director)
Mr Ellis Richardson (Non-Executive)
Mr David Cartney (Non-Executive - resigned 13 Nov 2019)

Company Secretary

Mr Andrew Bush was joint Company Secretary of EGL during the whole of the half-year and up to the date of this report. Mr Stephen Strubel was joint Company Secretary of EGL during the whole of the half-year and up to the date of this report.

Principal activities

The principal activities during the period ending 31 December 2019 of the entities within the consolidated entity were design, application and servicing of innovative gas and vapour emission control systems, inlet and exhaust systems for gas turbines, engineering services, innovative water treatment and service provider for heat transfer plant and equipment including boilers with 24/7 customer service for mechanical, electrical and automation support to a wide variety of industries.

Review of operations

Profit/(Loss) after interest and tax for the 6 months ended 31 December 2019 was (\$204,204) compared to (\$245,877) for the comparative period 31 December 2018.

EBIT (profit before interest and tax) for the 6 months ended 31 December 2019 was \$73,134 after taking into account a reduction in operating expenses of \$63,022 reallocated to interest expense as a result of adopting AASB16 Leases. The EBIT result was also impacted by redundancy cost predominantly in Baltec IES Pty Ltd of \$297,251 and legacy project close out cost of \$253,171 this compares to \$5,521 for 6 months ended 31 December 2018.

Income tax expense outlined in the P&L is due to the timing differences between deferred tax assets and liabilities.

Baltec IES Pty Ltd incurred a significant reduction in order intake during the second half of FY19 and 1st quarter of FY20 which has impacted their half year results. New order intake has substantially improved over recent months with new business secured of just over \$10 Million. Revenue from these new orders will materialise over the second half of the year and into FY21.

Total Air Pollution Control Pty Ltd delivered a solid performance to 31 December 2019, however the 2nd half is forecast to be weaker due to Hastings Technology Metals Yangibana part 2 project not commencing until mid 2020. Full year results for this division are likely to be close to breakeven.

Tomlinson Energy Service Pty Ltd had a solid first six months to the 31 December 2019 exceeding budget expectations. The full year is anticipated to continue strongly and to meet budget expectations.

EGL's water initiative has now entered the advanced testing stage and continues to deliver positive results under controlled conditions. Commercialised pilot operations will be developed over the next six months for prospective clients.

Group cash and cash equivalents including utilisation of overdraft facility was (\$744,350) at 31 December 2019, compared to \$171,135 as at 30 June 2019. Movements in was cash primarily due to reduced sales in Baltec IES and payment terms of contracts that the group is currently executing.

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Directors' report
31 December 2019

Forward Outlook

As announced at the AGM, the group has identified legacy projects which will incur additional costs to close out. So far, the group incurred \$253K of costs relating to these projects for the period ending 31 December 2019 and is currently assessing the potential future finalisation costs. With the implementation of a highly qualified engineering department it is anticipated these substantive costs will not reoccur, however coupled with redundancy costs and the timetable for stage two of the Yangibana project for Hastings Technology Metals now expected to commence in mid 2020, the full year EBIT for FY20 will fall below FY19 levels. The improved pipeline for Baltec IES, the execution of the Hastings contract by TAPC and continued strong performance in Tomlinson Energy Service indicate a positive outlook for FY21.

Dividends

Dividends paid during the financial half-year were as follows:

	31 Dec 2019	31 Dec 2018
	\$	\$
A final fully franked dividend for the year ended 30 June 2019 of 0.06 cents per ordinary share.	<u>130,519</u>	<u>129,559</u>

Significant changes in the state of affairs

On 16 September 2019 EGL negotiated new and improved banking facilities with Westpac Banking Corporation. The new facility includes an \$8M Trade Guarantee and Standby Letter of Credit facility, a \$3M Bank Bill Business Loan and \$2M Business Overdraft facility.

There were no other significant changes in the state of affairs of the Group during the financial half-year.

Matters subsequent to the end of the financial half-year

No matter or circumstance has arisen since 31 December 2019 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors



Lynn Richardson
Chairman

18 February 2020

**AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF
THE ENVIRONMENTAL GROUP LIMITED**

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the review of The Environmental Group Limited for the half-year ended 31 December 2019, I declare that, to the best of my knowledge and belief, 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.

**McIntosh Bishop
Chartered Accountants**



**Robert David Macdonald
Partner**
Sydney, 18 February 2020

McIntosh Bishop
Chartered Accountants

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Level 4, 83 Mount Street
North Sydney 2060
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P.O. Box 1903
North Sydney 2059
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Tel: 02 9957 5567
.....

ABN: 14 722 713 700
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Email: dmac@mcintoshbishop.com.au
Website: www.mcintoshbishop.com.au

The Environmental Group Limited
Trading as EGL
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General information

The financial statements cover The Environmental Group Limited as an consolidated entity and the entities it controlled at the end of, or during the half year. The financial statements are presented in Australian dollars, which is The Environmental Group Limited's functional and presentation currency.

The Environmental Group Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 1 Suite 1
10 Ferntree Place
Notting Hill Victoria 3168

A description of the nature of the Group's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 18 February 2020.

The Environmental Group Limited
Trading as EGL
Statement of comprehensive income
For the half-year ended 31 December 2019

	Note	31 Dec 2019	31 Dec 2018
		\$	\$
Revenue			
Revenue from continuing operations		18,360,574	10,897,686
Subcontracting and material costs		<u>(11,010,624)</u>	<u>(7,931,201)</u>
Gross profit		<u>7,349,950</u>	<u>2,966,485</u>
Expenses			
Employee expenses		(3,929,969)	(1,407,132)
Depreciation & amortisation		(605,666)	(85,025)
Other expenses		(1,279,741)	(574,087)
Marketing expenses		(416,073)	(142,268)
Occupancy expenses		(131,755)	(205,562)
Professional fees		<u>(913,612)</u>	<u>(546,890)</u>
Operating Profit		73,134	5,521
Interest income	3	668	9,199
Interest & finance expenses		<u>(240,635)</u>	<u>(65,162)</u>
Profit/(Loss) before income tax expense		(166,833)	(50,442)
Income tax expense		<u>(37,371)</u>	<u>(195,435)</u>
Profit/(Loss) after income tax expense for the half-year		(204,204)	(245,877)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		<u>(69,129)</u>	<u>(536,717)</u>
Other comprehensive income for the half-year, net of tax		<u>(69,129)</u>	<u>(536,717)</u>
Total comprehensive income for the half-year		<u>(273,333)</u>	<u>(782,594)</u>
Profit/(Loss) for the half-year is attributable to:			
Non-controlling interest		(993)	(14,870)
Equity Holders of The Environmental Group Limited		<u>(203,211)</u>	<u>(231,007)</u>
		<u>(204,204)</u>	<u>(245,877)</u>
Total comprehensive income for the half-year is attributable to:			
Non-controlling interest		(993)	(14,870)
Equity Holders of The Environmental Group Limited		<u>(272,340)</u>	<u>(767,724)</u>
		<u>(273,333)</u>	<u>(782,594)</u>
		Cents	Cents
Basic earnings per share	16	(0.09)	(0.11)
Diluted earnings per share	16	(0.09)	(0.11)

The above statement of comprehensive income should be read in conjunction with the accompanying notes

The Environmental Group Limited
Trading as EGL
Statement of financial position
As at 31 December 2019

	Note	31 Dec 2019	30 Jun 2019
		\$	\$
Assets			
Current assets			
Cash and cash equivalents		217,137	171,135
Trade and other receivables		7,814,230	9,201,978
Inventories		1,476,205	1,221,268
Other current assets		182,683	220,645
Total current assets		<u>9,690,255</u>	<u>10,815,026</u>
Non-current assets			
Property, plant and equipment	4	1,116,745	1,201,351
Right-of-use assets	5	2,414,315	-
Intangibles		13,656,476	13,638,307
Deferred tax assets		2,084,410	1,994,910
Total non-current assets		<u>19,271,946</u>	<u>16,834,568</u>
Total assets		<u>28,962,201</u>	<u>27,649,594</u>
Liabilities			
Current liabilities			
Trade and other payables		5,007,009	7,906,555
Borrowings	6	961,487	-
Lease liabilities	7	808,386	-
Employee benefits		1,754,253	1,704,167
Financial liabilities		600,000	125,000
Total current liabilities		<u>9,131,135</u>	<u>9,735,722</u>
Non-current liabilities			
Lease liabilities	8	1,738,895	-
Deferred tax liabilities		164,091	56,392
Long-term provisions	9	106,128	108,421
Financial liabilities		2,225,932	1,863,670
Total non-current liabilities		<u>4,235,046</u>	<u>2,028,483</u>
Total liabilities		<u>13,366,181</u>	<u>11,764,205</u>
Net assets		<u>15,596,020</u>	<u>15,885,389</u>
Equity			
Issued capital	10	21,839,831	21,839,831
Reserves		168,980	238,109
Accumulated losses		(6,308,839)	(6,089,592)
Equity attributable to the Equity holders of The Environmental Group Limited		15,699,972	15,988,348
Non-controlling interest		(103,952)	(102,959)
Total equity		<u>15,596,020</u>	<u>15,885,389</u>

The above statement of financial position should be read in conjunction with the accompanying notes

The Environmental Group Limited
Trading as EGL
Statement of changes in equity
For the half-year ended 31 December 2019

	Issued capital \$	Non- controlling interest \$	Reserves \$	Retained profits \$	Total equity \$
Balance at 1 July 2018	21,759,831	(77,775)	59,332	(6,439,975)	15,301,413
Profit/(Loss) after income tax expense for the half-year	-	(14,870)	-	(231,007)	(245,877)
Other comprehensive income for the half- year, net of tax	-	-	(536,717)	-	(536,717)
Total comprehensive income for the half- year	-	(14,870)	(536,717)	(231,007)	(782,594)
Contributions of equity, net of transaction costs	80,000	-	-	-	80,000
Dividends paid (note 11)	-	-	-	(129,559)	(129,559)
Balance at 31 December 2018	<u>21,839,831</u>	<u>(92,645)</u>	<u>(477,385)</u>	<u>(6,800,541)</u>	<u>14,469,260</u>
	Issued capital \$	Non- controlling interest \$	Reserves \$	Retained profits \$	Total equity \$
Balance at 1 July 2019	21,839,831	(102,959)	238,109	(6,089,592)	15,885,389
Adjustment for change in accounting policy(see note 1)	-	-	-	114,483	114,483
Balance at 1 July 2019 - restated	21,839,831	(102,959)	238,109	(5,975,109)	15,999,872
Profit/(Loss) after income tax expense for the half-year	-	(993)	-	(203,211)	(204,204)
Other comprehensive income for the half- year, net of tax	-	-	(69,129)	-	(69,129)
Total comprehensive income for the half- year	-	(993)	(69,129)	(203,211)	(273,333)
Dividends paid (note 11)	-	-	-	(130,519)	(130,519)
Balance at 31 December 2019	<u>21,839,831</u>	<u>(103,952)</u>	<u>168,980</u>	<u>(6,308,839)</u>	<u>15,596,020</u>

The above statement of changes in equity should be read in conjunction with the accompanying notes

The Environmental Group Limited
Trading as EGL
Statement of cash flows
For the half-year ended 31 December 2019

	Note	31 Dec 2019	31 Dec 2018
		\$	\$
Cash flows from operating activities			
Receipts from customers		19,231,233	12,606,365
Payments to suppliers & employees		<u>(20,829,493)</u>	<u>(14,004,212)</u>
		(1,598,260)	(1,397,847)
Interest received		668	9,199
Interest paid		<u>(177,612)</u>	<u>(65,162)</u>
Net cash used in operating activities		<u>(1,775,204)</u>	<u>(1,453,810)</u>
Cash flows from investing activities			
Payment for purchase of business, net of cash acquired	14	-	(80,000)
Net (purchases) / sales of property, plant and equipment	4	<u>140,238</u>	<u>220,517</u>
Net cash from investing activities		<u>140,238</u>	<u>140,517</u>
Cash flows from financing activities			
Repayment of borrowings		(2,150,000)	-
Proceeds from borrowings		3,000,000	-
Dividends paid	11	<u>(130,519)</u>	<u>(129,559)</u>
Net cash from/(used in) financing activities		<u>719,481</u>	<u>(129,559)</u>
Net decrease in cash and cash equivalents		(915,485)	(1,442,852)
Cash and cash equivalents at the beginning of the financial half-year		<u>171,135</u>	<u>2,232,447</u>
Cash and cash equivalents at the end of the financial half-year		<u><u>(744,350)</u></u>	<u><u>789,595</u></u>

The above statement of cash flows should be read in conjunction with the accompanying notes

The Environmental Group Limited
Trading as EGL
Notes to the financial statements
31 December 2019

Note 1. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2019 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made by the Group during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the policies stated below.

New or amended Accounting Standards and Interpretations adopted

The Group has adopted AASB 16 Leases effective from 1 July 2019. The Group applied AASB 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 July 2019. Accordingly the comparative information presented is not restated. In the comparative period the only lease arrangements that the Group had were considered to be operating leases and therefore the lease payments were recognised in profit or loss on a straight line basis over the term of the lease. This now changes under AASB 16 and the details of the changes in accounting policies are disclosed below.

AASB 16 Leases

At the inception of a contract, the Group assesses whether a contract is, or contains, a lease which will be the case if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

At the commencement or modification of a contract that contains a lease the Group recognises a right-of-use asset and a lease liability. The right-of-use asset is initially measured at the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred.

The right-of-use asset is subsequently depreciated using the straight line method from the commencement date to the end of the lease term. The right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

The Group determined its incremental borrowing rate by reviewing its existing bank interest rates.

The lease liability is measured at amortised cost using the effective interest rate method. It is remeasured when there is a change in future lease payments arising from a change in index or rate or if the Group changes its assessment of whether it will exercise an extension option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of use asset has been reduced to zero.

The Group's leases consist of motor vehicle leases and property leases.

The Environmental Group Limited
Trading as EGL
Notes to the financial statements
31 December 2019

Note 1. Significant accounting policies (continued)

Short term leases

The Group has elected to not recognise a right-of-use asset and lease liability for short term leases. For these leases the Group recognises the lease payments as an expense on a straight line basis over the lease term.

Impact on transition

On transition to AASB 16, the Group recognised right-of-use assets and lease liabilities. The impact of adoption AASB 16 has been recognised against retained earnings.

	Property Leases \$	Vehicle Leases \$	Total \$
Operating lease commitments as at 1 July 2019 (AASB 117)	1,816,584	895,238	2,711,822
Operating lease commitments discount based on the weighted average incremental borrowing rate of 4.58% (AASB 16)	(208,915)	(57,315)	(266,230)
Impact of principal repayments vs accumulated depreciation as at 1 July 2019	(73,149)	(35,970)	(109,119)
Right-of-use assets (AASB 16)	<u>1,534,520</u>	<u>801,953</u>	<u>2,336,473</u>
Lease liabilities - current (AASB 16)	(356,172)	(381,138)	(737,311)
Lease liabilities - non-current (AASB 16)	(1,256,860)	(456,785)	(1,713,645)
Total lease liabilities (AASB 16)	<u>(1,613,032)</u>	<u>(837,923)</u>	<u>(2,450,956)</u>
Reduction in opening retained profits as at 1 July 2019	<u>(78,513)</u>	<u>(35,970)</u>	<u>(114,483)</u>

When measuring lease liabilities for leases that were previously classified as operating leases, the Group discounted lease payments using a weighted average incremental borrowing rate of 4.58%.

To assist with the understanding of the impact of the application of AASB 16 in this initial period refer to the following summary.

Right-of-use assets:	Property \$	Motor Vehicle \$	Total \$
Balance as at 1 July 2019	1,534,520	801,953	2,336,473
Additions	-	476,674	476,674
Depreciation of right-of-use assets	(191,536)	(207,296)	(398,832)
Balance as at 31 December 2019	<u>1,342,984</u>	<u>1,071,331</u>	<u>2,414,315</u>
Lease liabilities:			\$
Balance at 1 July 2019			2,450,956
New leases			476,674
Lease repayments			<u>(380,349)</u>
Balance as at 31 December 2019			<u>2,547,281</u>

The Environmental Group Limited
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Notes to the financial statements
31 December 2019

Note 1. Significant accounting policies (continued)

Comparison of previous AASB 117 accounting treatment and new AASB 16 treatment

The following table has been included to compare the new accounting treatment under AASB 16 with how the same transactions would have been shown under the previous AASB 117 for period 1 July 2019 to 31 December 2019.

Previous AASB 117 accounting treatment	Statement of Profit & Loss \$	Statement of Cash flows \$
Expenses (lease payments)	(443,371)	-
Cash flows from operating activities	-	(443,371)
New AASB 16 accounting treatment	Statement of Profit & Loss \$	Statement of Cash flows \$
Interest Expense Lease liability	(63,022)	-
Depreciation right-of-use asset	(398,832)	-
Cash flows from operating activities	-	(63,032)
Cash flows from financing activities	-	(370,339)

Note 2. Comparative figures

Where required by accounting standards, comparative figures have been adjusted to conform to changes in presentation for the current period.

Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors 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.

Segment assets

Where an asset is used across multiple segments, the asset is allocated to the segment that received the majority of economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

The Environmental Group Limited
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Notes to the financial statements
31 December 2019

Note 2. Comparative figures (continued)

	Products \$	Services \$	Corporate \$	Total \$
31 Dec 2019				
Total segment revenue	4,481,731	13,878,843	-	18,360,574
Depreciation and amortisation	(111,375)	(359,219)	(135,072)	(605,666)
Subcontracting and material costs	(2,555,684)	(8,454,940)	-	(11,010,624)
Employee benefit	(1,275,856)	(2,341,090)	(313,023)	(3,929,969)
Occupancy expenses	(77,583)	(111,844)	57,672	(131,755)
Professional fees	(193,417)	(126,577)	(593,618)	(913,612)
Other Expenses	(251,311)	(733,237)	(295,193)	(1,279,741)
Marketing Expenses	(263,475)	(152,598)	-	(416,073)
Interest expenses	(10,931)	(47,099)	(182,605)	(240,635)
Interest income	453	215	-	668
Profit/(Loss) before income tax expense	<u>(257,448)</u>	<u>1,552,454</u>	<u>(1,461,839)</u>	<u>(166,833)</u>
Income tax expense				(37,371)
Profit/(Loss) after income tax expense				<u>(204,204)</u>
Assets				
Segment assets	5,790,947	10,572,957	12,598,297	28,962,201
Total assets				<u>28,962,201</u>
Liabilities				
Segment liabilities	1,485,497	6,802,513	5,078,171	13,366,181
Total liabilities				<u>13,366,181</u>
31 Dec 2018				
Total segment revenue	10,897,686	-	-	10,897,686
Depreciation and amortisation	(46,492)	-	(38,533)	(85,025)
Subcontracting and material costs	(7,931,201)	-	-	(7,931,201)
Employee benefit	(1,047,308)	-	(359,824)	(1,407,132)
Occupancy expenses	(205,105)	-	(457)	(205,562)
Professional fees	(323,747)	-	(223,143)	(546,890)
Other Expenses	(449,349)	-	(124,738)	(574,087)
Marketing Expenses	(142,268)	-	-	(142,268)
Interest expenses	(65,162)	-	-	(65,162)
Interest income	9,199	-	-	9,199
Profit/(Loss) before income tax expense	<u>696,253</u>	<u>-</u>	<u>(746,695)</u>	<u>(50,442)</u>
Income tax expense				(195,435)
Profit/(Loss) after income tax expense				<u>(245,877)</u>
30 Jun 2019				
Assets				
Segment assets	7,199,840	9,051,376	11,398,378	27,649,594
Total assets				<u>27,649,594</u>
Liabilities				
Segment liabilities	2,145,369	7,703,718	1,915,118	11,764,205
Total liabilities				<u>11,764,205</u>

The Group has a number of customers to whom it provides both products and services. The Group supplies to a single external customer in the products segment who accounts for 9.7% of external revenue (2019: 22.4%). The next most significant client accounts for 6.0% (2019: 7.0%) of external revenue.

The Environmental Group Limited
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Note 3. Interest income

	31 Dec 2019	31 Dec 2018
	\$	\$
Interest income	<u>668</u>	<u>9,199</u>

Note 4. Non-current assets - property, plant and equipment

	31 Dec 2019	30 Jun 2019
	\$	\$
Plant and equipment - at cost	2,069,950	2,010,097
Less: Accumulated depreciation	<u>(953,205)</u>	<u>(808,746)</u>
	1,116,745	1,201,351
Motor vehicles - at cost	150,916	150,916
Less: Accumulated depreciation	<u>(150,916)</u>	<u>(150,916)</u>
	-	-
	<u>1,116,745</u>	<u>1,201,351</u>

Note 5. Non-current assets - right-of-use assets

	31 Dec 2019	30 Jun 2019
	\$	\$
Land and buildings - right-of-use	1,534,520	-
Less: Accumulated depreciation	<u>(191,536)</u>	<u>-</u>
	1,342,984	-
Motor vehicles - right-of-use	1,278,627	-
Less: Accumulated depreciation	<u>(207,296)</u>	<u>-</u>
	1,071,331	-
	<u>2,414,315</u>	<u>-</u>

The Group leases land and buildings for its offices and warehouses under agreements of between one to seven years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated. The Group also leases motor vehicles with agreements of four years.

Note 6. Current liabilities - borrowings

	31 Dec 2019	30 Jun 2019
	\$	\$
Bank overdraft	<u>961,487</u>	<u>-</u>

The Environmental Group Limited
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Note 6. Current liabilities - borrowings (continued)

Financing arrangements

Unrestricted access was available at the reporting date to the following lines of credit:

	31 Dec 2019	30 Jun 2019
	\$	\$
Total facilities		
Bank overdraft	2,000,000	2,000,000
Bank Bill Business Loan	3,000,000	2,000,000
Trade Guarantee and Standby Letters of Credit Facility	8,000,000	7,000,000
	<u>13,000,000</u>	<u>11,000,000</u>
Used at the reporting date		
Bank overdraft	961,487	-
Bank Bill Business Loan	2,850,000	2,000,000
Trade Guarantee and Standby Letters of Credit Facility	3,616,817	4,933,395
	<u>7,428,304</u>	<u>6,933,395</u>
Unused at the reporting date		
Bank overdraft	1,038,513	2,000,000
Bank Bill Business Loan	150,000	-
Trade Guarantee and Standby Letters of Credit Facility	4,383,183	2,066,605
	<u>5,571,696</u>	<u>4,066,605</u>

On 16 September 2019 the Group negotiated new and improved banking facilities with the Westpac Banking Corporation. The new facility includes an \$8M Trade Guarantee and Standby Letter of Credit facility, a \$3M Bank Bill Business Loan and \$2M Business overdraft facility.

Bank Bill Business loan is repayable over a five year period in quarterly instalments.

Trade Guarantee and Standby Letter of Credit facility is used by the group to issue performance bonds and bank guarantees.

Note 7. Current liabilities - lease liabilities

	31 Dec 2019	30 Jun 2019
	\$	\$
Lease liability	<u>808,386</u>	<u>-</u>

Note 8. Non-current liabilities - lease liabilities

	31 Dec 2019	30 Jun 2019
	\$	\$
Lease liability	<u>1,738,895</u>	<u>-</u>

Note 9. Non-current liabilities - Long-term provisions

	31 Dec 2019	30 Jun 2019
	\$	\$
Long service leave	<u>106,128</u>	<u>108,421</u>

The Environmental Group Limited
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31 December 2019

Note 10. Equity - issued capital

	31 Dec 2019	30 Jun 2019	31 Dec 2019	30 Jun 2019
	Shares	Shares	\$	\$
Ordinary shares - fully paid	<u>217,531,711</u>	<u>217,531,711</u>	<u>21,839,831</u>	<u>21,839,831</u>

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Group in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Group does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Share buy-back

There is no current on-market share buy-back.

Note 11. Equity - dividends

Dividends paid during the financial half-year were as follows:

	31 Dec 2019	31 Dec 2018
	\$	\$
A final fully franked dividend for the year ended 30 June 2019 of 0.06 cents per ordinary share	<u>130,519</u>	<u>129,559</u>

Note 12. Contingent liabilities

Estimates of material amounts of contingent liabilities not provided for in the financial reports arising from bank guarantees in respect to performance bonds and warranty bonds:

31 December 2019	\$3,616,817
30 June 2019	\$4,933,395

Note 13. Related party transactions

Parent entity

The Environmental Group Limited is the parent entity.

Transactions with related parties

There were no transactions with related parties during the current and previous financial half-year.

Receivable from and payable to related parties

There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Loans to/from related parties

There were no loans to or from related parties at the current and previous reporting date.

The Environmental Group Limited
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Note 14. Business combinations

2020

There were no additional amounts paid for either the Baltec East Asia or the RCR Energy Service acquisitions.

There were no business combinations for the period ending 31 December 2019.

2019

On 7 January 2019 EGL acquired assets of RCR Energy Service Pty Ltd for the cash consideration of \$3,000,000. The goodwill of \$3,956,878 represents the difference of the fair value assets acquired to consideration paid. The values identified in relation to the acquisition of RCR Energy Service Pty Ltd are final as at 30 June 2019. Revenue during the period was \$7,915,341. Contribution before corporate overheads and acquisition costs from ordinary activities before interest and tax during the period was \$1,010,842.

RCR Energy Service is a leading service provider for heat transfer plant and equipment and operates from facilities around Australia. It provides 24/7 customer service including mechanical, electrical and automation support. The company was renamed to Tomlinson Energy Service Pty Ltd as the business has a long history through its heritage as Tomlinson Boilers.

The acquisition is part of EGL's strategy to establish a footprint in each Australian state and build an environmental business to improve air quality, reduce carbon emissions, enhance waste to energy production and lift water quality. In particular, Tomlinson Energy Service Pty Ltd is an essential link in our strategy to build a Bio/waste to energy platform as part of the technology acquired enables a combination of gasses and waste energy sources to be used to produce electrical power or steam. In addition, the acquisition provides an opportunity to leverage EGL's existing suite of products to Tomlinson Energy Service Pty Ltd customers and to develop increased engineering capabilities and knowhow.

Details of the acquisition are as follows:

	Fair value \$
Inventories	1,100,561
Plant and equipment	227,477
Employee benefits	(1,483,739)
Deferred revenue	<u>(801,177)</u>
Net liabilities acquired	(956,878)
Goodwill	<u>3,956,878</u>
Acquisition-date fair value of the total consideration transferred	<u><u>3,000,000</u></u>
Representing:	
Cash paid or payable to vendor	<u><u>3,000,000</u></u>
Acquisition costs expensed to profit or loss	<u><u>309,022</u></u>

The Environmental Group Limited
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31 December 2019

Note 14. Business combinations (continued)

On 9 October 2018 the Group acquired 100% of the ordinary shares of Baltec East Asia Pty Ltd (Trading as Baltec Australia) for the total consideration of \$240,000 which is comprised of 33.3% cash, 33.3% share issue and 33.4% by earn out. It was acquired to provide an enhanced service offering to EGL's Electrostatic Precipitator (ESP) customers along with augmented business development activities in both Australia and the broader Asia Pacific region.

Details of the acquisition are as follows:

	Fair value \$
Prepayments	7,775
Plant and equipment	9,105
Employee benefits	<u>(4,908)</u>
Net assets acquired	11,972
Goodwill	<u>155,816</u>
Acquisition-date fair value of the total consideration transferred	<u><u>167,788</u></u>
Representing:	
Cash paid or payable to vendor	80,000
The Environmental Group Limited shares issued to vendor	80,000
Additional payment for net assets	<u>7,786</u>
	<u><u>167,786</u></u>
Acquisition costs expensed to profit or loss	<u><u>4,336</u></u>

Note 15. Events after the reporting period

No matter or circumstance has arisen since 31 December 2019 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

The Environmental Group Limited
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Notes to the financial statements
31 December 2019

Note 16. Earnings per share

	31 Dec 2019	31 Dec 2018
	\$	\$
Profit/(Loss) after income tax	(204,204)	(245,877)
Non-controlling interest	<u>993</u>	<u>14,870</u>
Profit/(Loss) after income tax attributable to the Equity holders of The Environmental Group Limited	<u>(203,211)</u>	<u>(231,007)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>217,531,711</u>	<u>216,592,580</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>217,531,711</u>	<u>216,592,580</u>
	Cents	Cents
Basic earnings per share	(0.09)	(0.11)
Diluted earnings per share	(0.09)	(0.11)

The Environmental Group Limited
Trading as EGL
Directors' declaration
31 December 2019

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors



Lynn Richardson
Chairman

18 February 2020

INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF
THE ENVIRONMENTAL GROUP LIMITED

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of The Environmental Group Limited and its subsidiaries, which comprises the Consolidated Statement of Financial Position as at 31 December 2019, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Cash Flows and the Consolidated Statement of Changes in Equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standards on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and their performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of The Environmental Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year 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.

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of The Environmental Group Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

McIntosh Bishop

Chartered Accountants

Level 4, 83 Mount Street
North Sydney 2060

P.O. Box 1903
North Sydney 2059

Tel: 02 9957 5567

ABN: 14 722 713 700

Email: dmac@mcintoshbishop.com.au
Website: www.mcintoshbishop.com.au

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year consolidated financial report of The Environmental Group Limited is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

McIntosh Bishop
Chartered Accountants



Robert David Macdonald
Partner

Sydney, 18 February 2020