



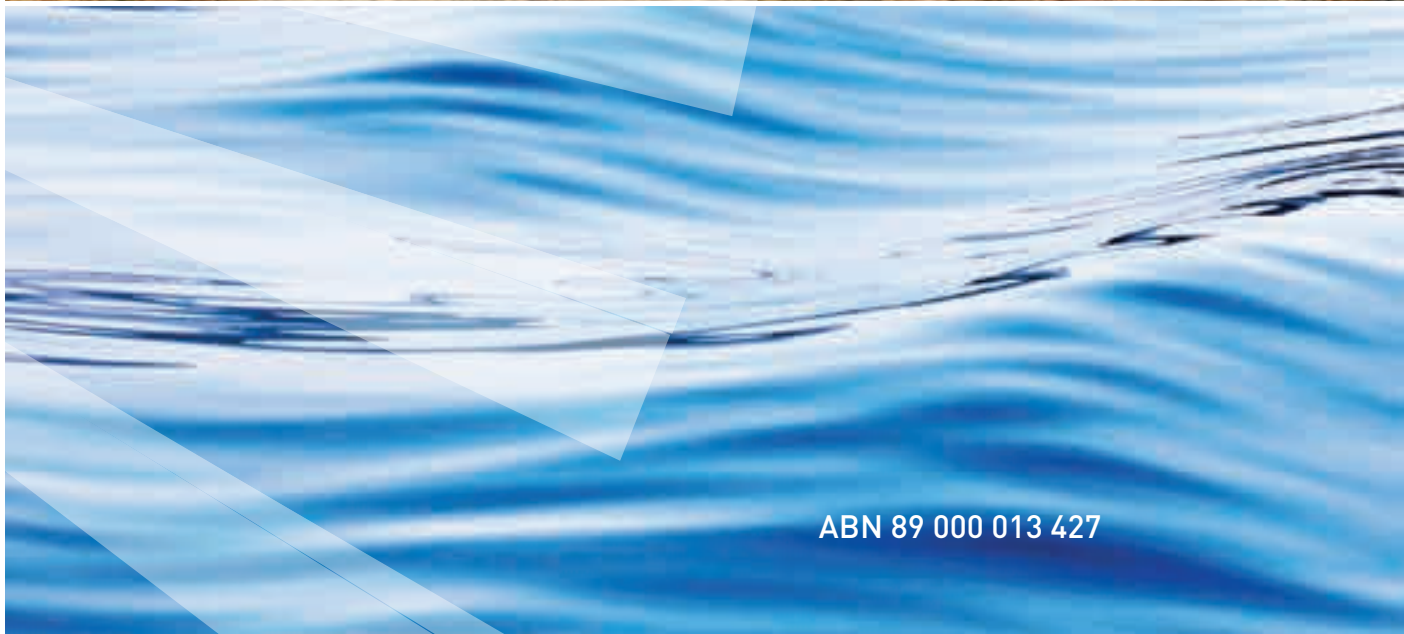
EGL

The Environmental Group Limited



2008 ANNUAL REPORT

A PROFITABLE
PLATFORM FOR
CONTINUED GROWTH



ABN 89 000 013 427

CONTENTS

CHAIRMAN'S REPORT	3
MANAGING DIRECTOR'S REPORT	4
EGL BUSINESS SUMMARY	6
CORPORATE GOVERNANCE STATEMENT	12
DIRECTORS' REPORT & FINANCIALS.....	24
AUDITORS' INDEPENDENCE DECLARATION	37
INDEPENDENT AUDIT REPORT	87
SHAREHOLDER STATISTICS	89



CHAIRMAN'S REPORT

On behalf of the board of directors of The Environmental Group Limited (EGL), I am pleased to present this report for the Financial Year Ended 30 June 2008.

The year under review witnessed significant achievements for the Company with the foreshadowed return to profitability, record operating cash flows from operations and the declaration and payment of EGL's first ever fully franked dividend. Profit before tax (PBT) for the financial year ended 30 June 2008 of \$614,939 was underpinned by an increase in revenues of 21% to \$28.9 million. Arguably more encouraging was the record cash flow from operations of \$1.9 million for 2007/08. This is the second consecutive year that EGL has recorded strong cash flows from operations with combined cash flows from the 2006/07 and 2007/08 financial years exceeding \$3.5 million.

Net profit after tax of \$342,425 for the 2008 fiscal year was adversely impacted by significant corporate overheads and adverse accounting tax expense. Prior to 30 June 2008 the Company instigated initiatives to reduce corporate overheads to levels appropriate to the underlying profit performance of the Company. The Company will also use prior year tax losses carried forward to minimise cash outflows in relation to income taxes.

Encouraged by the Company's ability to generate cash flow from operations and a robust balance sheet, your Directors declared on 29 August 2008, EGL's maiden fully franked dividend of 0.3 cents per share. The dividend was paid on 10 October 2008.

Following my comments in the 2007 Annual Report, EGL continued to evaluate initiatives to enhance shareholder value. As advised to the ASX on 9 September 2008, the Company resolved to accelerate its acquisition and corporate development program. To this end the Company has appointed an external corporate advisor to advise the Directors on corporate opportunities for acquisitive growth, mergers and divestures. The Company continues to evaluate opportunities arising from this activity. However given recent volatility in world capital markets there is no certainty that this program will yield any results acceptable to the Company and its shareholders.

Since my last report there have been significant changes to EGL's Board of Directors with the appointment of Messrs Elliott Kaplan and Rhett Butler and the retirement of Mr. Chris Fullerton. I am very grateful for the contribution and wise counsel of Elliott and Rhett during this period of unprecedented economic volatility. I also wish to express my gratitude to Chris for his exemplary contribution as an independent non-executive director working on behalf of all shareholders. Also on behalf of my colleagues I would like to thank EGL's management team and in particular our divisional managers Messrs Simon Cobden, Gary Hardie, Frank Placko and Mark Spinks for their significant contribution to the Company's improved performance during the year under review.

Notwithstanding the volatility in world capital markets, the Company enters the new financial year with a positive approach. As at 30 June 2008 EGL had cash at bank in excess of \$5.5 million, a strong opening order book with an estimated 80% of forecast fiscal 2008/09 revenues already committed and operating cash flows augmented for the first time by full year contributions from our most recent acquisitions TAPC, Moranbah Engineering and Lenmac Engineering.

JOHN D. READ
CHAIRMAN

MANAGING DIRECTOR'S REPORT

Our staff are our most important resource and I continue to be encouraged by their hard work and commitment.

This year an excellent commitment from EGL's staff provided a significant two million dollar improvement to operating profit from the previous year. Our staff are our most important resource and I continue to be encouraged by their hard work and commitment.

MAJOR HIGHLIGHTS FOR THE YEAR INCLUDED:

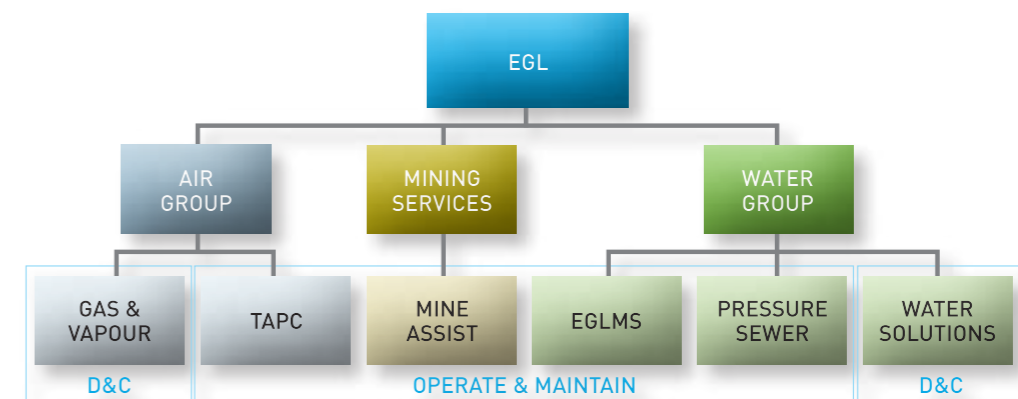
1. The operating business units exceeded budget with all business units providing strong results. This realises the strategy implemented in 2006 to transition to recurring revenue streams which now make up more than 60% of revenues and provide more predictable results.
2. The completion of the acquisition of Total Air Pollution Control (TAPC) which performed to budget and provides strong recurring revenues and growth opportunities. The business is very complimentary to EGL's Gas and Vapour business. EGL now provides the full range of both dust and fume and gas and vapour solutions for industrial air emissions.
3. EGL also benefitted from full year performance from Mine Assist which continued to increase its profitability. In addition to organic growth Mine Assist grew its business by completing the acquisition of Moranbah Engineering to expand its service offering into the significant Bowen Basin mining region.
4. EGL continued to improve its water operations by obtaining significant variations to contracts and by strengthening our client relationships. In addition EGL's Adrian Rijnbeek won the Australian Water Associations prize for junior waste water operator of the year highlighting the quality of our engineering team.

EGL ENTERED THE NEW FINANCIAL YEAR WITH STRONG CASH FLOWS, A STRONG ORDER BOOK, AND GROWING BUSINESS UNITS. IN FY09 EGL IS PREDICTING A SIMILAR IMPROVEMENT IN PROFIT PERFORMANCE BASED ON THE FOLLOWING:

1. Reduced corporate overheads.
2. Benefitting from having TAPC profits for the full year.
3. Strong performance from the Gas and Vapour division which started the year with a full order book showing at least 12 months of work.

4. Improving profitability from the Moranbah acquisition and the post year end acquisition of Lenmac engineering.
5. Winning new low risk profit opportunities within the Water Group.

The chart below describes the organisation structure of the business which we have simplified into a Water Group, Air Group, and Mining Services Group. EGL will continue this year to grow these operating groups both organically and by acquisition.



In FY08 EGL took a cautious approach to evaluating new acquisitions due to the uncertain economic conditions. Notwithstanding the difficult economic climate, EGL completed the acquisition of TAPC and Moranbah Engineering in the 12 months ended 30 June 2008. In FY09 EGL will continue to pursue new acquisitions. We plan to invest our financial resources to secure better value transactions than those presented at the height of the market in late 2007.

In the attached pages I have provided a more detailed overview of our strategy, market position, and business strengths with a view to ensuring you better understand your investment. I sincerely thank all shareholders for their continued support and look forward to interacting with more of you this year.

DUNCAN STONE
MANAGING DIRECTOR & CEO

EGL BUSINESS SUMMARY

The Environmental Group is a dominant Australian mid tier environmental services company that provides clean air and clean water solutions to three sectors:

1 The Resource Sector;

2 Municipal Water Authorities; and

3 Industry.

GROWTH DRIVERS

The demand for environmental services is growing significantly.

This growth is driven by the need to address critical issues including water constraints and by increasing government regulation of air emissions to reduce the effects of climate change:

- the Australian Government's white paper dated 2006 values the environmental industry at \$16.7b employing up to 130,000 workers;
- the environmental industry's action agenda which has set a target of \$40b in annual sales by 2011;
- the Australian water market is estimated to be \$9bn per annum;
- the Australian industrial clean air market is estimated to be \$300m per annum; and
- EGL operates in selected niche segments of these markets.

EGL HAS DEMONSTRATED ITS ABILITY TO HARVEST THIS OPPORTUNITY:

- revenues grew by 20% in FY08;
- 80% of forecast revenues for FY09 were locked in by 1 July 08;
- 60% of revenue is recurring / 40% is project based;
- Profit before tax in FY08 of \$615K, up \$2.009K from FY07.

THE MARKET POSITIONING

EGL is a dominant player in the Australian mid tier environmental services market.

EGL'S BUSINESS IS UNIQUE AS IT:

- generates recurring income streams;
- has a strong presence in the resource sector; and
- provides complete lifecycle solutions in air and water.

EGL HAS A BROAD BASE OF BLUE CHIP CUSTOMERS WITH:

- no customer contributing more than 8% of total sales; and
- over 30 regular blue chip customers including BlueScope Steel, BHP Billiton, Rio Tinto, Sydney Water, WA Water Corporation and Orica.

EGL BUSINESS OPERATIONS

EGL has three operating groups: Water, Air, and Mining Services.

The Mining Services Group supports the provision of air and water services into the Resources market.

CLEAN AIR OPERATIONS ARE SEGMENTED INTO TWO BUSINESS STREAMS:

- design and construction of customised clean air solutions for Australia's leading companies; and
- maintenance, operation, repair and installation of air pollution control equipment for significant industrial applications.

EGL'S AIR GROUP IS THE ONLY AUSTRALIAN COMPANY WITH A COMPLETE RANGE OF INDUSTRIAL AIR EMISSION SOLUTIONS INCLUDING:

- the removal of harmful gases and substances from air emissions; and
- delivering solutions to remove particles from industrial air emissions.

EGL'S WATER GROUP IS A PROCESS SOLUTION AND SERVICE PROVIDER – NOT A CONSULTANT. THE WATER GROUP FOCUSES ON:

- treatment of water for potable consumption;
- water conditioning for process applications;
- treatment of domestic and industrial wastewater; and
- treatment of sewage effluent for Re-use applications.

CLEAN WATER OPERATIONS ARE SEGMENTED INTO TWO BUSINESS STREAMS:

- design and construction of innovative clean water solutions;
- operation and maintenance of water and waste water treatment plants for municipal, industrial and resource markets companies (EGL is one of only five companies in this field) treating wastewater for over 200,000 people daily.

EGL'S MINING SERVICES GROUP FOCUSES ON PROVIDING:

- maintenance services to existing facilities in the Mining, and Industrial sectors; and
- support and implementation expertise for EGL's Air and Water Solutions to the Resource sector.

The Mining Services Group provides a conduit into the rapidly growing resource sector to enable EGL to market its air and water offering.

MINING SERVICES ACTIVITIES INCLUDE:

- maintenance of on site mining plant and equipment;
- the provision of mine site water pumping;
- the laying of high diameter poly piping for water transport; and
- specialist cleaning services for large mining equipment.

FIGURE 1. EGL MARKET AND SERVICE MATRIX

	RESOURCES	MUNICIPAL WATER	INDUSTRY
EGL AIR GROUP	YES	YES	YES
EGL WATER GROUP	YES	YES	YES
EGL MINING SERVICES	YES	YES	YES

FIGURE 2.
EGL PBT AND REVENUE (\$,000)

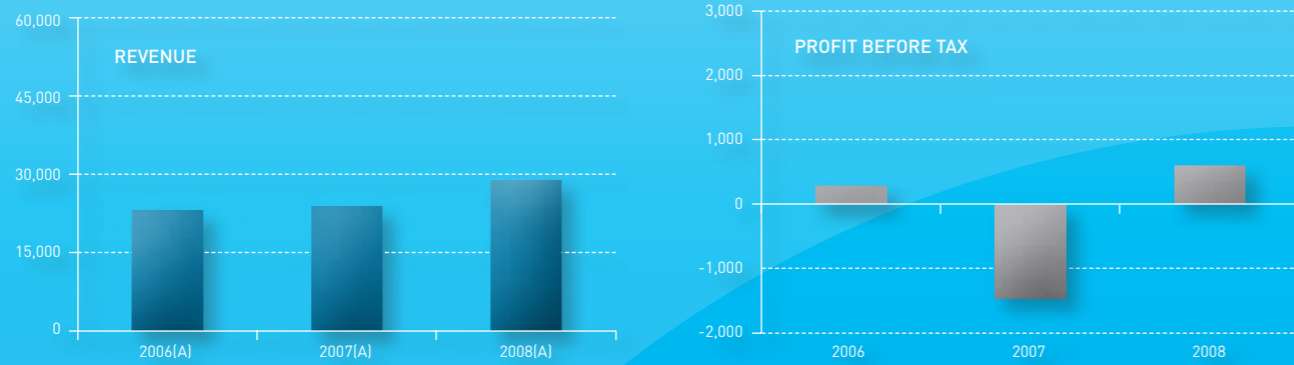


FIGURE 3.
REVENUES BY INDUSTRY SECTOR 2006 TO 2011 PERCENT OF TOTAL

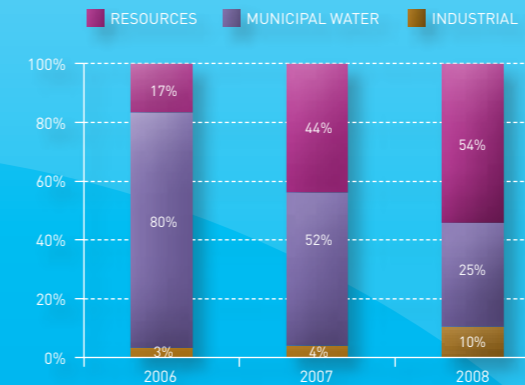


FIGURE 4.
EGL MARKET POSITIONING MID TIER

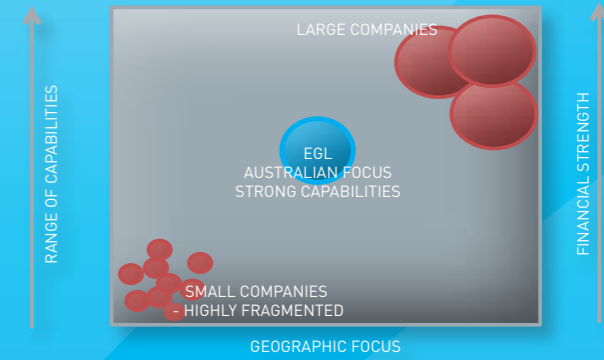


FIGURE 5. TRANSITION OF EGL'S GAS & VAPOUR PROJECTS



The Environmental Group's mission is to become the dominant mid tier provider of clean air and clean water services to industry.

SUSTAINABLE GROWTH STRATEGY

EGL provides an excellent platform for expansion. This is underpinned by several key factors including:

- a stable revenue base with over 60% recurring revenues in FY09 supporting profitability;
- 63% of EGL's revenues in FY09 will be derived from the high growth, high margin resource sector;
- a stable, deep, multidisciplinary work force of over 110 people;
- experience in identifying, securing, and integrating acquisitions, with three acquisitions completed in the past 12 months and four other significant transactions in the past 3 years; and
- substantial intellectual property and reference sites in the air and water sector with an excellent track record delivering solutions across Australia.

EGL IS IMPLEMENTING ITS GROWTH STRATEGY BY:

- implementing cross marketing opportunities throughout its operating divisions to provide a full range of water, air, and mining services to EGL's extensive list of existing blue chip customers;
- increasing its depth of services to clients.
- continuing to make acquisitions that expand EGL's competencies in air and water, and expand its geographic distribution to provide additional services to customers to increase revenues and profitability.

COMPETITIVE LANDSCAPE

The Environmental Group's mission is to become the dominant mid tier provider of clean air and clean water services to industry.

EGL dominates the mid tier market position in Australia operating between the very large multinationals and the small regional proprietor operated companies. EGL is unique in the mid tier market enjoying high recurring income streams and a strong presence in the burgeoning resource sector. EGL is one of the few businesses in the mid tier that has strong Design and Construct, and Operate and Maintain capabilities. This enables EGL to provide complete lifecycle solutions desired by larger customers operating in its target markets.

EGL INDUSTRY SECTORS

EGL provides environmental products and services to the industrial, resource, and municipal water sectors.

Figure 3 highlights EGL's changing mix of customers and trend towards providing environmental services to the resource sector.

PROFITABLE GROWTH

EGL has successfully implemented its revised business strategy of smoothing and growing sustainable revenue and profits.

This has been achieved by moving from volatile project based revenue to sustainable recurring revenue with higher margins. The sustainable profitable growth is attributed to EGL's focus on building recurring revenue streams with high margins rather than relying solely on project incomes as highlighted in Figure 5. In the past three years EGL's management has migrated the business from 5% recurring revenues in FY06 to over 60% recurring revenues forecast for FY09.

EGL is on a sustainable growth path delivering in FY08:

- profit before tax of \$0.6m up \$2.0m from FY07; and
- free operating cash flow of \$1.9m.

In addition, there has been a transition towards providing environmental services to the higher growth and more profitable Resource sector. Over 63% of EGL's revenues in FY09 will be derived from the Resource sector compared to 17% in FY06.

FIGURE 5.
PROJECT VS RECURRING REVENUE STREAMS

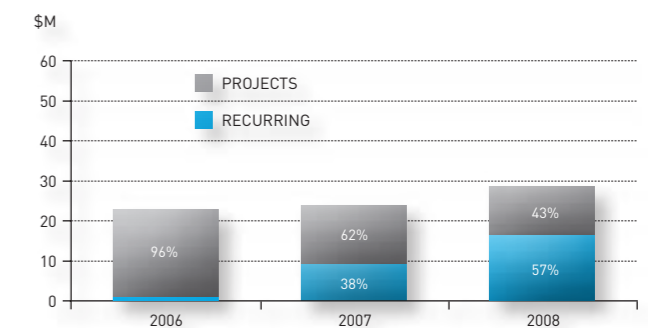
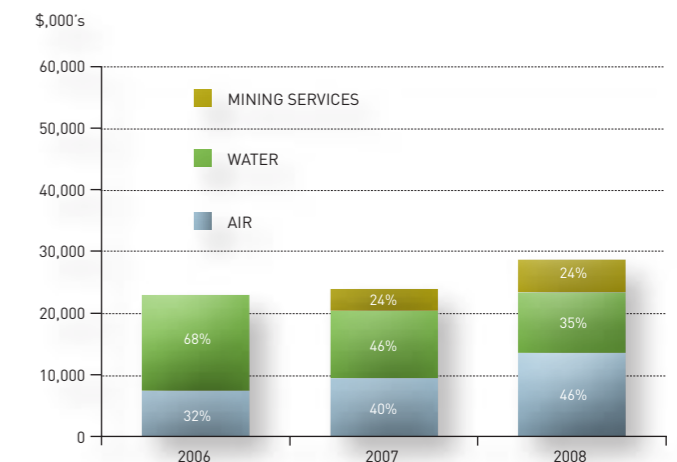
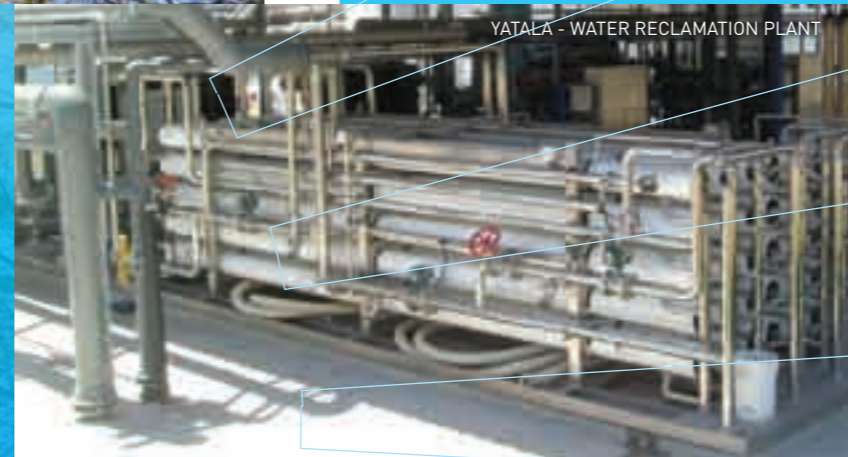


FIGURE 6.
REVENUES - 2006 TO 2008 (\$000'S)



EGL NATIONAL COVERAGE

EGL provides an excellent platform for expansion



CORPORATE GOVERNANCE STATEMENT

TABLE OF CONTENTS

1. APPROACH TO CORPORATE GOVERNANCE	12
2. THE BOARD OF DIRECTORS	13
3. BOARD COMMITTEES	16
4. INTEGRITY OF FINANCIAL REPORTING	18
5. MANAGING RISK	19
6. PROMOTE ETHICAL AND RESPONSIBLE BEHAVIOUR	20
7. MARKET DISCLOSURE	21
8. SHAREHOLDER COMMUNICATIONS	21
9. ASXCGS BEST PRACTICE RECOMMENDATIONS – COMPLIANCE TABLE	22

1. APPROACH TO CORPORATE GOVERNANCE

1A. FRAMEWORK AND APPROACH

The Environmental Group Limited's ("EGL") approach to corporate governance is to have a set of values and behaviours that underpin everyday activities, ensure transparency, protect stakeholder interests and meet the highest ethical, social and governance standards.

The board is responsible to the shareholders for the performance of the company and takes ultimate responsibility for corporate governance matters. The daily management of the company's business and the implementation of its strategy and policy initiatives are delegated by the board to the managing director and the chief financial officer within the corporate governance framework detailed herein. The company secretary is accountable to the board on all governance matters.

The following corporate governance framework has been implemented to ensure the highest standard of corporate governance is achieved:

- the board has established a number of committees to assist it in its duties, to monitor performance and allow detailed consideration of complex issues;
- the board has established an internal risk management framework focusing on key business risks;
- the company has adopted a code of conduct which applies to all board members, key executives and employees; and
- the board has implemented a strict policy regarding the trading of the company's securities by directors, employees, consultants and contractors.

A detailed description of this corporate governance framework is set out below. The full Corporate Governance statement has been placed on the Company's website at www.environmental.com.au

1b. Compliance with Australian Stock Exchange Corporate Governance Council (ASXCGC)'s best practice recommendations

The ASX listing rules require listed entities to include in their annual report a statement disclosing the extent to which they have followed the ASXCGC best practice recommendations during the reporting period, identifying the recommendations that have not been followed and providing reasons for that variance.

The company has substantially adopted the ASXCGC's corporate governance framework including principles of good corporate governance and the best practice recommendations. A checklist summarising this is set out in section 9 of this Corporate Governance Statement. The board's approach has been to adopt the principles and practices that are in the stakeholder's best interests while ensuring full compliance with legal requirements.

CORPORATE GOVERNANCE STATEMENT

1. APPROACH TO CORPORATE GOVERNANCE (CONT.)

1A. FRAMEWORK AND APPROACH (CONT.)

Where the ASX Corporate Governance Council's recommendations have not been adopted by the company, this is identified below and explained in the following section.

Principle 2.1: A majority of the board should be independent directors – Section 2b

Principle 2.2: The chairperson should be an independent director – Section 2b

Principle 4.3: Structure the audit committee so that it consists of at least three members – Section 3c

2. THE BOARD OF DIRECTORS

2A. MEMBERSHIP

The board seeks to ensure that its membership represents an appropriate balance between directors with experience and knowledge of the company, and directors with an external or fresh perspective, and that the size of the board is conducive to effective discussion and efficient decision making.

The board currently comprises one executive director and three non-executive directors, two of which are considered independent. Details of the members of the board, their experience, expertise, and qualifications are set out in the Annual Report under the directors' report. Information on directors is also available on the company's website at www.environmental.com.au.

2B. SIZE, COMPOSITION, AND INDEPENDENCE

Size and composition

The constitution of the company provides that the company must have at least 3 directors (not counting alternate directors) of which at least 2 must ordinarily reside in Australia.

Each director is required to bring relevant complementary skills and experience to the board. There must be sufficient benefit to the company to justify maintaining the mix of directors. The Nomination committee reviews these factors to ensure there are the required skills for the board to discharge its duties.

Independence

The board must continuously review the independence of its non-executive directors in light of the ASX Corporate Governance Council's definition. The board assesses each director against a range of criteria to decide whether they are in a position to exercise independent judgment. Directors are considered to be independent if they are independent of management and free of any other relationship that could interfere with their independent judgment. Such relationships include:

- being a substantial shareholder of EGL;
- within the last 3 years being an executive officer of EGL;
- being a material supplier or customer of EGL;
- having served on the board of EGL for more than ten years; or
- having an interest or business which could or could be perceived to materially interfere with the director's ability to act in the best interests of EGL.

Having regard to the above criteria, the board has determined the managing director and the chairman are not independent, as the managing director is an executive officer and the chairman is a director of a substantial shareholder. The board has determined that two of the non-executive directors meet all criteria required by the ASX Corporate Governance Council's definition of an independent director.

As such, the chairman and a majority of the board are not independent directors, which is not in accord with ASX corporate governance principles 2.1 and 2.2.

CORPORATE GOVERNANCE STATEMENT (CONT.)

2. THE BOARD OF DIRECTORS (CONT.)

2C. ROLES OF BOARD AND MANAGEMENT (CONT.)

Key functions and responsibilities of the board include:

- Ensuring the Board has a majority of Non-Executive Directors and an independent, Non-Executive Chairman;
- Ensuring the Board has a broad range of skills, qualifications and experience with time available to commit to EGL;
- Ensuring that the Board meets on a regular basis;
- Appointing, rewarding and monitoring the performance of the Managing Director;
- Approving annual financial reports and budgets;
- Identifying business risk and assuring effective risk management and compliance;
- Ensuring that EGL has implemented adequate systems of internal controls together with appropriate reviews of compliance activities;
- Providing strategic direction and adopting a corporate strategy;
- Monitoring business performance, capabilities and strategic alliances;
- Formulating policies addressing operations and ethical standards.
- Appointment or removal of the company's auditors, evaluation of auditor performance and independence; and
- Ensuring appropriate reporting to shareholders.
- The board has delegated a number of these responsibilities to its committees, as detailed in section 3 of this corporate governance statement.

The board has delegated to management responsibility for:

- developing and implementing corporate strategy;
- developing and day to day management of business plans, operating plans (including the annual budget) and funding plans;
- establishing, overseeing, reviewing and maintaining EGL's risk management framework; and
- keeping the board fully informed about material developments.

2D. SELECTION AND ROLE OF THE CHAIRMAN

The current chairman, Mr John Read, is a non-executive director appointed by the board in March 2001, and elected chairman in April 2001.

The role of the chair includes:

- leading the board of directors of EGL
 - ensuring that its activities are organised and efficiently conducted
 - ensuring that directors are properly briefed for meetings and in all matters relevant to their roles and responsibilities
 - ensuring the board meets on regular intervals and that minutes of meetings accurately record decisions taken
 - guiding the agenda and conduct of all board meetings
 - reviewing the performance of non-executive directors.

2E. MEETINGS AND CONDUCT

The chairman and company secretary establish the board timetable and meeting agendas throughout the year. All directors have the opportunity to view meeting materials in advance. Each non-executive director is expected to spend approximately 25 days a year preparing for, and attending board and committee meetings and associated activities.

The managing director and chief financial officer are responsible for implementing the company's corporate strategies, operating plans and company policies.

CORPORATE GOVERNANCE STATEMENT (CONT.)

2. THE BOARD OF DIRECTORS (CONT.)

2E. MEETINGS AND CONDUCT (CONT.)

The audit and risk committee meet with the company's auditors without executive management being present at least once a year or as required.

Board and committee meetings attended by directors for each financial year can be found in the Director's report of the relevant year's Annual report.

2F. CONFLICTS OF INTEREST

The board has adopted a procedure to ensure that conflicts and potential conflicts of interest are disclosed to the board. A director is required to disclose any actual or potential conflict of interest on appointment as a director, and to keep these disclosures up to date. Any changes to director's interests are disclosed to the ASX.

In accordance with board policy, any director with a material personal interest in a matter being considered by the board, must declare their interest and is precluded from participating in discussions or decision making on such dealings.

2G. APPOINTMENT OF DIRECTORS AND TERMS OF OFFICE

The company's constitution specifies that all non-executive directors are appointed for an initial period of six years. Subject to the Board's competency requirements and the Directors' performance, Directors may be appointed for further terms of six years.

All directors, with the exception of the managing director, must retire from office no later than the third annual general meeting following their last election. The constitution also states that one-third of its directors, excluding the managing director, must retire each year. Where eligible, a director may stand for re-election.

New directors are provided with a letter of appointment setting out their responsibilities, duties, rights and the terms and conditions of employment. Directors are also provided with the company's corporate ethical policy, share trading policy and policy regarding risk management.

2H. COMPANY SECRETARY

This position is responsible for:

- providing advice to directors and officers in relation to EGL's constitution, the requirements of the Corporation's Act, and the ASX listing rules;
- Advising the board and individual directors on corporate governance principles and assisting in the implementation of corporate governance programs;
- Carrying out the instructions of the board, assisting in the implementation of corporate strategies and giving effect to the board's decisions; and
- Functional responsibility for the management of compliance and company secretarial functions of EGL.

2I. BOARD ACCESS TO INFORMATION AND ADVICE

All directors regularly receive detailed financial and operational information from executive management to enable them to carry out their duties, and have unrestricted access to company records. Each director enters into a Deed of Indemnity with EGL to ensure access to company documents for seven years after retirement from the board.

Directors have the right to seek independent advice at the Company's expense, in order to fulfil their duties and responsibilities as Directors, after approval is sought from the Chairman.

CORPORATE GOVERNANCE STATEMENT (CONT.)

3. BOARD COMMITTEES

3A. ESTABLISHMENT AND MEMBERSHIP

The board has established three committees to assist in the execution of its duties. The committees and their membership as of the issue date of this statement are set out in the table below:

	AUDIT AND RISK COMMITTEE	NOMINATION COMMITTEE	REMUNERATION COMMITTEE
John Read (non-executive)	•	• Chair	• Chair
Elliott Kaplan (independent non-executive)	• Chair	•	•
Rhett Butler (independent non-executive)	-	•	•
Duncan Stone (executive)	-	•	•

Taking into account the size of the Company, the full Board assume the role of the Remuneration, and Nomination Committee, setting aside a specific portion of its meetings for relevant matters arising.

3B. COMMITTEE PROCEDURES

All committees meet at any time considered necessary, with the audit and risk committees meeting not less than twice a year. Each committee is entitled to the resources and information it requires, including access to employees and advisors. Senior executives may be invited to attend committee meetings as necessary. All directors receive all committee papers and can attend all committee meetings.

Following each audit and risk committee meeting, generally at the next board meeting, the board is given a verbal report by the committee chair.

The performance of each committee is reviewed as part of the board's performance review, and the performance of each committee member is evaluated as part of the performance review of each director.

3C. AUDIT AND RISK COMMITTEE

The audit and risk committee consists of two independent non-executive directors. The managing director and chief financial officer attend audit committee meetings as invitees.

Details of non-executive directors' qualifications, experience and attendance at audit committee meetings are set out in the directors' report of the most recent Annual Report.

As the audit and risk committee is made up of only two non-executive directors, this is departure from the minimum recommendation of three members by ASX corporate governance principle 4.3. However, the board considers that given the size of the company and the qualifications and experience of individuals on the committee that the existing membership is appropriate for the effective and efficient operation of the committee.

3C. AUDIT AND RISK COMMITTEE

The main functions of the audit and risk committee, as delegated by the board, are to ensure:

- review of the half-year and annual financial report
- effective management of financial risks
- reliable management and financial reporting
- compliance with laws and regulations
- reviewing the efficiency of the external audit function
- oversight of effective risk management systems.

CORPORATE GOVERNANCE STATEMENT (CONT.)

3. BOARD COMMITTEES (CONT.)

3C. AUDIT AND RISK COMMITTEE (CONT.)

The audit and risk committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party, and obtain external legal or other independent professional advice.

Management of financial risks

The committee assists the board in reviewing the effectiveness of the company's internal control environment covering the effectiveness and efficiency of operations and reliability of financial reporting.

Integrity of financial reporting

The audit and risk committee reviews the annual and half-year financial reports. It provides assurance that the board is receiving adequate, up to date and reliable information, and that the accounting policies and practices applied by management are consistent and comply with applicable regulations and standards.

In fulfilling its responsibilities the committee receives regular reports from management and external auditors. It expects to meet with the external auditors at least twice a year or more frequently if necessary. The external auditors have a line of direct communication at any time with executive directors, the chair of the audit committee, and the chair of the board.

The managing director and chief financial officer are required to state in writing to the board that the company's financial reports present a true and fair view, in all material respects, of the consolidated entity's financial condition, operational results and that they are in accordance with relevant accounting standards.

Compliance with regulatory requirements

The audit and risk committee monitors compliance with the Corporations Act 2001 and other regulatory requirements and applicable law and any matters outstanding with auditors.

Effective and efficient audit

The audit and risk committee is responsible for making recommendations to the board for the appointment of external auditors, determining their remuneration, reviewing the terms of their engagement and independence and assess the scope and quality of the audit.

Risk management systems

The committee is responsible for reviewing and approving the company's risk management policy and framework. It oversees the implementation by management of risk management systems and reviews the effectiveness of these systems.

3D. NOMINATION COMMITTEE

The nomination committee consists of the chairman of the board, the managing director and the remaining two non-executive directors. Details of the committee member's qualifications, experience and attendance at nomination committee meetings are set out in the directors' report.

The primary function of the committee is to assist the board in by ensuring suitable board composition and appointments. No other formal criteria for election of Directors currently exist. Additional Directors will be considered as the Company grows and/or specific expertise is required to complement those of the existing Board.

3E. REMUNERATION COMMITTEE

The remuneration committee consists of the chairman of the board, the managing director and the remaining two non-executive directors. Details of the committee member's qualifications, experience and attendance at nomination committee meetings are set out in the directors' report.

The remuneration committee reviews the recommendation of the managing director regarding the remuneration of staff, including Executive Directors. The managing director bases his recommendations on the remuneration including base salary, fringe benefits, superannuation, entitlements and performance related incentives based on comparative market value. The committee reviews and recommends remuneration for Directors and the managing director, prior to formal Board approval.

CORPORATE GOVERNANCE STATEMENT (CONT.)

3. BOARD COMMITTEES (CONT.)

3E. REMUNERATION COMMITTEE (CONT.)

Remuneration and other terms of employment for the managing director, chief financial officer and other employees are formalised in service agreements, covering a range of matters including their duties, rights, responsibilities and entitlements.

Remuneration of non-executive directors is determined by the board within the maximum amount approved by the shareholders from time to time. Information on directors' and executives' remuneration is detailed each year in the company's directors' report and in the financial statements of the Annual Report.

4. INTEGRITY OF FINANCIAL REPORTING

4A. CEO/CFO ASSURANCE

As an ASX-listed company, EGL prepares audited financial statements each financial year and reviewed financial statements for the half years ending 31 December.

The managing director and chief financial officer periodically provide formal statements to the board:

- that the company's financial reports present a true and fair view, in all material respects, of the financial condition and operational results of the company and consolidated entity, and are in accordance with relevant accounting standards and corporate regulations; and
- that the above statement is founded on a sound system of risk management and internal compliance and control.

4B. AUDIT GOVERNANCE AND INDEPENDENCE

The board is committed to three basic principles of audit governance:

- that EGL's financial reports present a true and fair view;
- that EGL's accounting policies are relevant and comply with applicable standards and regulations; and
- that the external auditor is independent and serves shareholder interests.

The company's policy is to appoint an external auditor that clearly demonstrates quality and independence. The board reviews annually the performance of the external auditor, taking into consideration assessment of performance, independence and value.

Ernst & Young have been appointed external auditors since 2006. As required by the Corporate Law Economic Reform Program Act 2004, the responsibilities of the lead audit partner and review audit partner cannot be performed by the same people for longer than five years. The current lead audit partner assumed the role in 2008.

The audit and risk committee requires the external auditor to confirm bi-annually that they have maintained their independence, by providing to the board a declaration of independence. At least annually, the audit and risk committee meets separately with the external auditor without executive management being present.

An analysis of fees paid to the external auditor, including a breakdown of fees for non-audit services, is provided in the company's financial statements each year.

The external auditor is requested to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

CORPORATE GOVERNANCE STATEMENT (CONT.)

5. MANAGING RISK

5A. RISK MANAGEMENT APPROACH

Risk management is undertaken to provide a structured approach to managing risk across the EGL group of companies. The Risk management policy and framework provides a detailed methodology for a systematic identification, assessment and management of risk across the organisation. The policy also defines reporting processes to ensure organisational exposures are managed at an appropriate level across the organisation.

The company has adopted the following risk categories listed below. These categories assist risk identification, measurement and provide a basis for organising and reporting outcomes.

RISK CATEGORIES	BROAD DEFINITIONS
Corporate	Risks relating to the management or maintenance of EGL's key assets including the company's IP, property, plant and equipment and environment.
Financial	Risks associated with the development, collection, storage and reporting of financial information vital to sustaining the management of EGL's operations. This category also includes risks associated with budgeting, management reporting and cost containment.
Business Continuity	Risks relating to the planning and processes required to maintain the continuity of business activities or recovery response to a disastrous event, which may impact the effectiveness of business operations. This includes internal and external activities and processes.
Human Resources	Risks associated with performance management and development of EGL's staff. It also includes risks associated with managing the company's workforce including recruitment, remuneration, retention and industrial relationship management.
Legal	Risks relating to non-compliance with legislation, regulations, supervision or internal policies and procedures. This also includes all regulatory issues impacting EGL's operations.
OH&S	Risks associated with complying with OH&S legislation, internal policies and accreditation requirements.
Investor Impact	Risks associated with the company's perception amongst its shareholders, including the maintenance and growth of the company's share price.
Project	Risk associated with inadequate planning provisions or management of projects leading to underperformance or the incurrence of a loss.

5B. ROLES AND RESPONSIBILITIES

The board is ultimately responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems. The following structure and accountabilities have been established for the purpose of risk management within EGL and to ensure effective implementation of risk management processes across the group.

Structure & Accountabilities

The **audit and risk committee** is the recipient of reporting from the risk management team and ultimately, in conjunction with the board, approves the risk management policy, framework and risk tolerance of EGL.

The managing director exercises certain authorities delegated to that position by the board and is answerable to the board in respect of key strategic issues. The managing director either delegates to the risk management team or takes ownership of fostering risk management across the organisation.

The **risk management team**, in consultation with the managing director and the audit and risk committee, is responsible for establishing, overseeing, reviewing and maintaining EGL's risk management framework. This is achieved through the development of sufficient infrastructure to identify measure, manage and report risks.

CORPORATE GOVERNANCE STATEMENT (CONT.)

5. MANAGING RISK (CONT.)

5B. ROLES AND RESPONSIBILITIES (CONT.)

The risk management team is delegated to perform the following risk management support functions:

- Independent monitoring and reporting of operational risk activities for EGL;
- Reporting on the risk profiles and risk mitigation plans of EGL;
- Maintenance of a central risk register and loss database for recording potential and actual risk events identified throughout EGL;
- Recommend education and training of operational risk practices and processes; and
- Ongoing maintenance of the framework.

The risk management team is to conduct an internal audit on an annual basis to understand the risks facing EGL and the status of management's actions to mitigate against these risks. The results of the audit will then be conveyed to the audit committee.

The **senior management team** have responsibility and accountability for the management of risk in their respective areas of responsibility. Specific duties include:

- Ensuring risk management processes are in place and operating effectively;
- Reporting risk events in accordance with the reporting process included in the framework;
- Developing and maintaining a register of risks for divisions/programs within their respective portfolios; and
- Implementing measures to appropriately resolve risk issues as they are identified, within their respective lines.

All staff across EGL are responsible for observing the company's policies, procedures, delegations and minimising risks to the organisation, at all times.

Internal reporting

The managing director and chief financial officer are required to regularly report to the board on various matters and to adhere to and follow clearly defined guidelines. To assist in discharging its responsibility, the board requires regular financial and management reporting. There is a comprehensive budgeting system with an annual budget approved by the board. Actual results are reported against budget on a monthly basis and revised forecasts for the year are prepared regularly.

6. PROMOTE ETHICAL AND RESPONSIBLE BEHAVIOUR

6A. CODE OF CONDUCT

EGL requires its directors, employees, consultants and advisors to observe the highest standards of professional conduct and ethical behaviour in all of their activities. By maintaining such standards they enhance their own standing and increase public confidence in the management and administration of EGL.

The company has developed a corporate ethical policy to ensure the highest standards of integrity and professionalism which has been fully endorsed by the board and applies to all directors, employees, consultants and advisors.

In summary, the code requires that at all times all company personnel:

- act with honesty and integrity;
- safeguard the interests of EGL;
- avoid conflicts of interest;
- respect confidentiality and not misuse information;
- report all unethical or unlawful behaviour; and
- uphold the objectives of EGL.

The audit and risk committee is responsible for ensuring compliance with this code.

CORPORATE GOVERNANCE STATEMENT (CONT.)

6. PROMOTE ETHICAL AND RESPONSIBLE BEHAVIOUR (CONT.)

6B. SECURITIES TRADING

Directors and employees are restricted under the law when dealing in the company's securities if they are in possession of information which if available to the public would have a material effect on EGL's share price.

To ensure compliance with the law and to ensure high standards of conduct, the company has developed a policy regarding trading of the company's securities by directors, employees (and their associates) and consultants. These parties must ensure that they do not engage in short term trading of company securities and fully comply with statutory requirements and common law duties.

The trading of company securities is not permitted during blackout periods. Current blackout periods exist for the following periods each year:

- from 30 June until seven days after release of the annual financial statements to the ASX;
- from 31 December until seven days after the release of the half year financial report to the ASX;
- seven days subsequent to any price sensitive disclosure made to ASX; and
- other periods as advised by the company secretary in anticipation of significant announcements.

6C. ENVIRONMENTAL HEALTH AND SAFETY

EGL recognises the importance of environmental and occupational health and safety (OH&S) issues and is committed to the highest levels of performance.

The group monitors its compliance with all relevant legislation, continually assesses the impact of its operations on the environment, and encourages employees to actively participate in the management of environmental and OH&S issues.

Information on compliance with significant environmental regulations is set out in the directors' report of the most recent Annual Report under the heading "Environmental Regulation".

7. MARKET DISCLOSURE

EGL is committed to achieving the highest standards of market disclosure; accordingly, the board recognises the importance of timely and balanced disclosure of all material matters concerning the company. The board focuses on continuous disclosure of any information concerning the company and its controlled entities that a reasonable person would expect to have a material effect on the price of the company's securities.

All information once disclosed to the ASX is posted on the company's website www.environmental.com.au as soon as possible. Material used by the managing director or chief financial officer in presentations to shareholders, analysts, brokers and the media is released to ASX and posted on the company's website.

8. SHAREHOLDER COMMUNICATIONS

EGL is committed to ensuring all shareholders have equal access to comprehensive and timely information.

Electronic copies of the Annual Report are available to all shareholders, with a hard copy distributed to all shareholders who has requested one. The Board ensures that the Annual Report includes relevant information about the operations of EGL during the year, changes in the state of affairs of the Company and details of future developments, in addition to the other disclosures required by the Corporations Act.

Half year reviewed financial statements prepared in accordance with the requirements of International Financial Reporting Standards and the Corporations Act are lodged with the Australian Securities (ASX) Exchange Limited and the Australian Securities and Investments Commission. The financial statements are sent to any shareholder that requests them.

Timely and balanced disclosure of all material matters concerning the Company are made to the ASX. These are immediately posted on the ASX website and subsequently on the website of EGL.

CORPORATE GOVERNANCE STATEMENT (CONT.)

9. ASXCGC BEST PRACTICE RECOMMENDATIONS - COMPLIANCE TABLE

BEST PRACTICE RECOMMENDATIONS	REFERENCE	COMPLIANCE
PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT		
1.1 Formalise and disclose the functions reserved to the board and those delegated to management	2c	✓
PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE		
2.1 A majority of the board should be independent directors	2a, 2b	✗
2.2 The chairperson should be an independent director.	2d	✗
2.3 The roles of chairperson and chief executive officer should not be exercised by the same individual.	2d	✓
2.4 The board should establish a nomination committee.	3d	✓
2.5 Provide the information indicated in Guide to reporting on Principle 2.	2b, 2i, 3a, 3d, Directors' report	✓
PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING		
3.1 Establish a code of conduct to guide the directors, the chief executive officer (or equivalent), the chief financial officer (or equivalent) and any other key executives as to: 3.1.1 the practices necessary to maintain confidence in the company's integrity 3.1.2 the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	6a	✓
3.2 Disclose the policy concerning trading in company securities by directors, officers and employees.	6b	✓
3.3 Provide the information indicated in Guide to reporting on Principle 3.	6a, 6b	✓
PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING		
4.1 Require the chief executive officer (or equivalent) and the chief financial officer (or equivalent) to state in writing to the board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards.	4a	✓
4.2 The board should establish an audit committee.	3c	✓
4.3 Structure the audit committee so that it consists of: • only non-executive directors • a majority of independent directors • an independent chairperson, who is not chairperson of the board • at least three members.	3c	✓ ✓ ✓ ✗
4.4 The audit committee should have a formal charter.	3c	✓
4.5 Provide the information indicated in Guide to reporting on Principle 4.	3a, 3c, 4b and Directors' report	✓
PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE		
5.1 Establish written policies and procedures designed to ensure compliance with ASX Listing Rules disclosure requirements and to ensure accountability at a senior management level for that compliance.	7	✓
5.2 Provide the information indicated in Guide to reporting on Principle 5.	7	✓

CORPORATE GOVERNANCE STATEMENT (CONT.)

BEST PRACTICE RECOMMENDATIONS	REFERENCE	COMPLIANCE
PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS		
6.1 Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.	7	✓
6.2 Request the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.	4b	✓
PRINCIPLE 7: RECOGNISE AND MANAGE RISK		
7.1 The board or appropriate board committee should establish policies on risk oversight and management.	3c, 5a, 5b	✓
7.2 The chief executive officer (or equivalent) and the chief financial officer (or equivalent) should state to the board in writing that: 7.2.1 the statement given in accordance with best practice recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board. 7.2.2 the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.	4a	✓
7.3 Provide the information indicated in Guide to reporting on Principle 7.	3b, 3c, 5a, 5b	✓
PRINCIPLE 8: ENCOURAGE ENHANCED PERFORMANCE		
8.1 Disclose the process for performance evaluation of the board, its committees and individual directors, and key executives.	3b, 3e, and Remuneration report	✓
PRINCIPLE 9: REMUNERATE FAIRLY AND RESPONSIBLY		
9.1 Provide disclosure in relation to the company's remuneration policies to enable investors to understand (i) the costs and benefits of those policies, and (ii) the link between remuneration paid to directors and key executives and corporate performance.	Remuneration report	✓
9.2 The board should establish a remuneration committee.	3e	✓
9.3 Clearly distinguish the structure of non-executive directors' remuneration from that of executives.	Remuneration report	✓
9.4 Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders:	Remuneration report	✓
9.5 Provide the information indicated in Guide to reporting on Principle 9.	3a, 3e, and Directors' report	✓
PRINCIPLE 10: RECOGNISE THE LEGITIMATE INTERESTS OF STAKEHOLDERS		
10.1 Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders.	6a	✓

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

This financial report addresses both The Environmental Group Limited ACN 000 013 427 as an individual entity and the consolidated group consisting of The Environmental Group Limited and its controlled entities.

CONTENTS

Directors' Report	24
Auditors' Independence Declaration	37
Income Statements	38
Balance Sheets	39
Statements of Changes in Equity	40
Statement of Cash flows	41
Notes to the Financial Statements	42
Directors' Declaration	86
Independent Audit Report	87
Shareholding Statistics	89

The Environmental Group Limited is a company limited by shares, incorporated in Australia. It is listed on ASX (ASX code: EGL).

The company's registered office is:
Unit 3, 9 Packard Avenue, Castle Hill, NSW 2154

All press releases, financial statements and other information are available on our website – www.environmental.com.au

DIRECTORS' REPORT

YOUR DIRECTORS SUBMIT THEIR REPORT FOR THE YEAR ENDED 30 JUNE 2008.

DIRECTORS

The names and details of the Company's directors in office during the financial year and until the date of this report are as follows.

INFORMATION ON DIRECTORS

The following directors were in office at the end of the financial year and until the date of this report:

MR JOHN D. READ
BSC (HONS), MBA, FAICD
CHAIRMAN (NON-EXECUTIVE)

Appointed to the Board in March 2001 and became Chairman on 09 April 2001. Member of the Audit Committee.

Age 50, Mr Read has over 25 years experience in leading and promoting high growth Australian enterprises including directorships of numerous companies listed on the Australian Securities Exchange. He is one of Australia's foremost and most experienced venture capitalists.

Mr Read is currently Chairman of Pro-Pac Packaging Limited (ASX: PPG), and Patrys Limited (ASX: PAB). Mr Read is also a Director of CVC Limited (ASX: CVC), CVC Private Equity Limited, CVC Sustainable Investments Limited, and numerous public and private corporations.

MR ELLIOTT KAPLAN
B.ACC, CA
NON EXECUTIVE DIRECTOR

Appointed to the Board 29 November 2007. Chairman of the Audit Committee.

Age 57, Mr Kaplan is a Chartered Accountant with extensive experience in senior financial and chief executive officer roles in both private and public listed companies. His experience from both an investor and investee perspective spans a diverse range of industries including manufacturing, environmental, distribution and services.

He is the Managing Director of CVC Private Equity Limited and a director of Pro-Pac Packaging Limited (ASX: PPG).

MR DUNCAN STONE
BE (HONS), MBA
CEO & MANAGING DIRECTOR

Appointed to the Board 6 September 2007.

Age 42, Civil Engineer. During the past 13 years Mr Stone has been responsible for managing high growth businesses focused on delivering innovative solutions to market.

Mr Stone's experiences have been gained managing both private and public companies including being Managing Director of Solco Limited (ASX: SOO) during a period of significant growth. Mr Stone has a solid grounding in capital raising and acquisition processes having completed numerous transactions both in Australia and internationally.

Mr Stone has a high level of understanding of environmental issues and in particular of business opportunities in the water sector. Mr Stone has a Queens Commission from the Royal Military College Duntroon, an honours degree in Civil Engineering from UNSW, and an MBA from the Australian Graduate School of Management.

MR RHETT BUTLER
BE, MBA
NON EXECUTIVE DIRECTOR

Appointed to the Board 15 February 2008

Age 50, Mr Butler is a water industry expert and has over 20 years experience in building profitable water businesses.

Rhett was a key senior executive of Memtec Limited and has also held senior executive roles with Vivendi Water. Rhett is also the Chairman and founder of Skyjuice Foundation – an organisation providing water solutions to developing countries around the world. In conjunction with Skyjuice, Rhett recently won the global 2007 Siemens Corporate Responsibility Award. Rhett holds mechanical engineering degrees as well as an MBA.

DIRECTORS' REPORT (CONT.)

The following directors retired from office during the year:

DR JULIAN M HIGGS BE, PHD

Appointed to the Board on 29 March 2000. Mr. Higgs was an executive director who resigned from the board effective 29 November 2007

MR RICHARD A KELL AM, BE, HON FIEAUST, FTSE

Appointed to the Board 5 April 1999. Mr. Kell was a non-executive director and chairman of the audit committee who resigned from the board effective 29 November 2007

MR CHRISTOPHER M FULLERTON B.ECON.

Appointed to the Board 24 November 2005. Mr. Fullerton was a non-executive director and member of the audit committee who resigned from the board effective 30 April 2008

MR CHRISTIAN JENSEN BCOM, LLB, CA

Appointed to the Board 6 September 2007. Mr. Jensen was a non-executive director who resigned from the board effective 31 January 2008

Interests in the shares and options of the Company and related bodies corporate

As at the date of this report, the interests of the directors in the shares and options of The Environmental Group Limited (EGL) were:

NUMBER OF ORDINARY SHARES	NUMBER OF ORDINARY SHARES	NUMBER OF OPTIONS OVER ORDINARY SHARES
J. Read	5,360,886	400,000
D. Stone	4,166,667	2,500,000
E. Kaplan	-	1,000,000
R. Butler	-	-

COMPANY SECRETARY

Ashley Arnott was appointed company secretary on 1 November 2007 and remains in office at the date of this report. He holds a Bachelor of Business (Accounting) and is a member of the Australian Institute of Company Directors and CPA Australia. Prior to this period Bjorn Borg was company secretary from 1 July 2005 to 31 October 2007.

DIVIDENDS

	CENTS	\$
Franked dividends declared on ordinary shares	0.3	705,082

The directors have declared a franked dividend of 0.3 cents per fully paid share payable 10 October 2008 to shareholders registered on 30 September 2008.

DIRECTORS' REPORT (CONT.)

PRINCIPAL ACTIVITIES

The principal activities during the year of entities within the consolidated entity were:

- Design, application and servicing of innovative gas and vapour, particle removal, water, and wastewater solutions providing clean air and clean water to a diverse range of Municipal, Industrial, and Resource sector customers.
- Operation of water and wastewater treatment infrastructure facilities for public and private sector customers.
- Supply of polyethylene welded pipe systems, environmental and industrial cleaning services, hire of skilled and semi-skilled labour, and the hire of machinery.

OPERATING AND FINANCIAL REVIEW

Profit before tax (PBT) for the financial year ended 30 June 2008 improved by over \$2 million to \$614,939 underpinned by an increase in revenues of 21% to \$28.9 million. The improvement in operating profit was supported by record cash flows from operations of \$1.9 million for the 2007/08 financial year. This is the second financial year that EGL has realised strong operating cash flows. Based on the improved operating performance, the Company has declared a maiden fully franked dividend of 0.3 cents per share payable on 10 October 2008.

The Company anticipates further improvement in operating performance in the 2008/09 and 2009/10 financial years with 80% of fiscal 2008/09 revenues already committed.

The 2007/08 financial year result reflects two underlying trends. The Company's migration to recurring revenues has provided a more stable and predictable platform for management with approximate 60% of 2007/08 revenues of a recurring nature. The results also reflect an increased contribution from EGL's recent acquisitions with the first full year contribution from Mine Assist and an initial contribution from TAPC and Moranbah Engineering. The Company expects 2008/09 operating profit will for the first time include full year contributions from our most recent acquisitions TAPC, Moranbah Engineering, Lenmac Engineering and other corporate activities.

Net profit for the year was impacted by significant corporate overheads and adverse tax expense. The Company will use prior year tax losses carried forward to minimise cash outflows in relation to income taxes. In addition, profits in financial year 2008/09 will be improved through initiatives undertaken to reduce corporate overhead to levels appropriate to the underlying profit performance of the Group

EGL's improved performance during the year was a culmination of positive profit contributions from each of the three operating divisions. The Company enters the new financial year with a robust platform for growth supported by free cash in excess of \$5.5 million, strong cash flow from operations and an operational management structure capable of managing significant growth.

The focus on Clean Air and Clean Water has set EGL apart from its competitors with a unique position as a diversified mid tier provider of environmental solutions to the Australian market.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

In the opinion of the Directors, no significant changes, not otherwise disclosed in this report or the consolidated financial statements occurred in the state of affairs of the Group during the financial year under review.

DIRECTORS' REPORT (CONT.)

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

On 22 July the Company announced to the ASX that through its subsidiary it had completed the acquisition of Lenmac Engineering for \$400,000 with \$300,000 paid on settlement and \$100,000 to be paid on an earn out deferred settlement basis. The acquisition of the business is expected to generate approximately \$250,000 of profit before tax in the next 12 months.

On 9 September 2008, the Company announced to the ASX that the Directors had resolved to accelerate the Company's acquisition and corporate program and to this end had appointed a corporate advisor to advise the Company on corporate opportunities for acquisitive growth, mergers and divestures.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Company will continue to pursue strategies aimed at increasing profit and maximising shareholder wealth.

Other information about likely developments in the operations of the Group and the expected results of those operations in future financial years have not been included in this Report as the Directors believe, on reasonable grounds, that disclosure of such information would be likely to result in unreasonable prejudice to the Group.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The economic entity's operations have minimal environmental impact. Where the company undertakes site installation work it is typically incumbent upon the company to address environmental issues in relation to those sites. This usually involves the preparation and implementation of an Environmental Management Plan for the site. Activities of this nature and environmental issues generally are addressed by and carried out under the Environmental Group Management System.

No significant environmental issues were reported or recorded on any EGL sites during the financial year and EGL met all its obligations in this area.

SHARE OPTIONS

UNISSUED SHARES

As at the date of this report, there were 7,400,000 unissued ordinary shares under options (4,900,000 at the reporting date). Refer to the remuneration report for further details of the options outstanding.

Option holders do not have any right, by virtue of the option, to participate in any share issue of the company or any related body corporate.

SHARES ISSUED AS A RESULT OF THE EXERCISE OF OPTIONS

During the financial year, no employees or executives have exercised options to acquire fully paid ordinary shares in The Environmental Group Limited.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During or since the financial year the Company has paid premiums to insure each of the Company Directors and the Public Officer 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 officers of the Company, other than conduct involving a wilful breach of duty in relation to the Company. Policy details are subject to confidentiality clauses and therefore cannot be legally disclosed.

DIRECTORS' REPORT (CONT.)

DIRECTORS' MEETINGS

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director were as follows:

	DIRECTORS' MEETING		MEETINGS OF COMMITTEES			
			AUDIT & RISK		NOMINATION & REMUNERATION	
	A	B	A	B	A	B
Number of meetings held	9		2		1	
Number of meetings attended:	A	B	A	B	A	B
John Read	9	9	2	2	1	1
Duncan Stone (appointed 6 Sep 07)	8	8	*	*	*	*
Elliott Kaplan (appointed 29 Nov 07)	6	6	1	1	-	-
Rhett Butler (appointed 15 Feb 08)	4	5	*	*	*	*
Chris Fullerton (resigned 30 Apr 08)	7	7	2	2	1	1
Julian Higgs (resigned 29 Nov 07)	1	3	*	*	*	*
Richard Kell (resigned 29 Nov 07)	2	3	1	1	1	1
Christian Jensen (appointed 29 Nov 07 – resigned 31 Jan 08)	2	2	*	*	*	*

KEY:

A: Number of meetings attended

B: Number of meetings held during the time the director held office or was a member of the committee during the year

*: Not a member of the relevant committee

Two audit committee meetings were held subsequent to the year ended 30 June 2008, and attended by all members.

Mr Elliott Kaplan is chairman of the Audit and Risk committee. Mr John Read is chairman of the Nomination & Remuneration committee.

AUDITORS' INDEPENDENCE DECLARATION

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 12.

NON-AUDIT SERVICES

The company may decide to employ the auditor (Ernst and Young) on assignments additional to its statutory audit duties where the auditor's expertise and experience with the company and/or the Group are important. During the year ended 30 June 2008, the Group has not employed the auditor on any assignments additional to their statutory audit duties.

As there have been no non-audit services provided by Ernst and Young, the board of directors is satisfied that there was no compromise to the auditor independence requirements of the *Corporations Act 2001*.

DIRECTORS' REPORT (CONT.)

REMUNERATION REPORT (AUDITED)

This Remuneration Report outlines the director and executive remuneration arrangements of the Company and the Group in accordance with the requirements of the *Corporations Act 2001* and its Regulations. It also provides the remuneration disclosures required by paragraphs Aus 25.4 to Aus 25.7.2 of AASB 124 *Related Party Disclosures*, which have been transferred to the Remuneration Report in accordance with Corporations Regulation 2M.6.04. For the purposes of this report Key Management Personnel (KMP) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company, and includes the five executives in the Parent and the Group receiving the highest remuneration.

For the purposes of this report, the term 'executive' encompasses the Chief Executive, senior executives, general managers and secretaries of the Parent and the Group.

REMUNERATION COMMITTEE AND PHILOSOPHY

The Remuneration Committee reviews the recommendations of the Managing Director regarding the remuneration of staff, including Executive Directors on an annual basis. The Managing Director bases his recommendations on remuneration including base salary, fringe benefits, superannuation, entitlements and performance related incentives on remuneration surveys and comparative market value. The Committee annually reviews and recommends remuneration for the Executive Directors and the Managing Director, prior to formal Board approval.

The objective of the Group's remuneration policy is to ensure that Executive Directors and senior executives of the Group are motivated to pursue the long term growth and success of the Company within an appropriate control framework and that there is a clear relationship between performance and remuneration.

The remuneration structures offered to Executive Directors and senior executives are designed to attract and retain suitability qualified candidates, reward the achievement of strategic objectives and achieve the broader outcome of creating value for shareholders. The remuneration structures take into account:

- The capacity and experience of the Executive Directors and Senior Executives;
- The Executive Directors' and Senior Executives' ability to control the performance of areas of the Company's business;
- The Company's performance including earnings and overall returns to shareholders;
- The amount of incentives within each Executive Directors' and Senior Executives' remuneration.

NON-EXECUTIVE DIRECTOR REMUNERATION

The non-Executive Directors of the Environmental Group are entitled to a fee that is determined by the Remuneration Committee on the commencement of the role and on an annual basis thereafter. The Board seeks to set aggregate remuneration at a level that provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders based on the size and nature of The Environmental Group.

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting.

Each non-executive director currently receives a fee of \$35,000 for being a director of the Group. The Chairman of the Board receives a fee of \$80,000. No additional fee is paid to a director who sits on a Board committee.

The non-executive directors do not receive retirement benefits, nor do they participate in any incentive programs. The remuneration of non-executive directors for the period ending 30 June 2008 and 30 June 2007 is detailed in table 1 and 2 respectively of this report.

DIRECTORS' REPORT (CONT.)

REMUNERATION REPORT (AUDITED) (CONT.)

EXECUTIVE REMUNERATION

The total remuneration for senior executives has three components as described below.

Fixed Remuneration

Fixed remuneration is provided, being a guaranteed salary that is set by reference to market conditions, the scope and nature of the executive's role and their performance and experience. Market research of both an informal and formal nature is periodically undertaken to determine market salary levels. Company superannuation contributions are included in the fixed remuneration. Executives are given the opportunity to receive their fixed remuneration in a variety of forms including cash and fringe benefits. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Group. The fixed remuneration component of executives is detailed in table 1.

Variable Remuneration – Short term incentives (STI)

Short term incentives are provided by way of a cash bonus scheme. This is a structured, fully defined scheme that is annually reviewed by the Board with the targets and performance criteria for the following financial year set at Board level. The maximum bonus available to any employee is linked to the financial and performance targets for the individual business unit and company as a whole. Once met, a defined bonus pool then becomes available. Individual rewards are then recommended by the Managing Director based upon the individual executive's performance and the performance of their operating division. The performance of all executives is reviewed annually with performance targets and KPI's set for the following year.

Long term incentives (LTI)

Long term incentives are provided by way of share options. These provide an incentive to achieve a sustained high level of performance. They are also seen to assist in the retention of key executives. Options for executive directors are approved by shareholders. Table 3 provides details of LTI options granted and the value of options granted, exercised and lapsed during the year.

GROUP PERFORMANCE AND DIRECTORS' AND EXECUTIVES' REMUNERATION

The remuneration policy and practices are aimed at aligning remuneration of key staff with the performance of the Group and the wealth of the shareholders.

In addition to components of fixed remuneration, key executive Directors and Executives are incentivised by the award of executive share options. The exercise of such options at a future date may give rise to a benefit materially in excess of the fixed remuneration component. Superior managerial performance may translate into a higher share price thus aligning the executive remuneration with shareholder wealth creation.

	2004	2005	2006	2007	2008
Revenue (\$)	22,369,400	18,916,936	23,061,120	24,019,889	28,974,458
Net Profit (\$)	520,433	(902,501)	353,872	(971,166)	342,425
Share price at year-end (cents)	22.5	9.0	9.7	9.0	7.5
Dividends paid *	-	-	-	-	-

* A dividend of 0.3 cents per share was declared by Directors for payment on 10 October 2008

DIRECTORS' REPORT (CONT.)

REMUNERATION REPORT (AUDITED) (CONT.)

EMPLOYMENT CONTRACTS

MANAGING DIRECTOR

Mr Duncan Stone, is employed under a rolling contract which commenced on 28 August 2008

Mr Stone receives a fixed remuneration of \$272,500 per annum (inclusive of superannuation)

Mr Stone will be entitled to annual short-term bonus payments subject to meeting prescribed performance criteria.

The performance criteria include measures of profitability. If Mr Stone meets the performance criteria he will be entitled to an annual bonus payment not exceeding 40% of his fixed remuneration component. No short term bonus is payable in respect of the year ended 30 June 2008.

- Termination of contract by either party after 31 October 2008 requires a 1 month notification period.

CHIEF FINANCIAL OFFICER AND COMPANY SECRETARY

Mr Ashley Arnott is employed under a rolling contract which commenced on 1 February 2008.

- Mr Arnott receives a fixed remuneration of \$180,000 per annum (inclusive of superannuation)
- Mr Arnott will be entitled to annual short-term bonus payments of up to \$30,000 subject to meeting prescribed performance criteria.
- Termination of contract by either party requires a 2 month notification period.

GENERAL MANAGER – ENVIRONMENTAL GROUP (OPERATIONS) PTY LIMITED

Mr Bjorn Borg is employed under a rolling contract which commenced on 10 July 2007.

Mr Borg receives a fixed remuneration of \$225,000 per annum (inclusive of superannuation)

- Termination of contract by either party requires a 12 month notification period. Notice of termination was issued on 30 June 2008.

OTHER EXECUTIVES

All executives have rolling contracts. The Company may terminate the executive's employment agreement by providing 1 month's written notice or providing payment in lieu of the notice period. The Company may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs the executive is only entitled to that portion of remuneration that is fixed and only up to the date of termination.

Remuneration of Key Management Personnel

Key management personnel include the Directors of the Company and:

- Mr Ashley Arnott: Chief Financial Officer and Company Secretary (from 1 Nov 07 to 30 Jun 08)
- Mr Bjorn Borg: General Manager - Environmental Group (Operations) Pty Limited
- Mr Simon Cobden: General Manager – Gas & Vapour
- Mr Frank Placko: General Manager – Water Group
- Mr Mark Spinks: General Manager – Mine Assist
- Mr Gary Hardie: General Manager – TAPC

DIRECTORS' REPORT (CONT.)

REMUNERATION REPORT (AUDITED) (CONT.)

TABLE 1: REMUNERATION FOR THE YEAR ENDED 30 JUNE 2008

	SHORT-TERM BENEFITS			POST EMPLOYMENT	SHARE-BASED PAYMENT	TOTAL \$	% PERFORMANCE RELATED
	SALARY AND FEES \$	CASH BONUS \$	NON-MONETARY BENEFITS \$	SUPER-ANNUATION \$	OPTIONS \$		
Non-executive directors							
John Read (Chairman)	82,500	-	-	-	13,760	96,260	-
Elliott Kaplan*** (appointed 29 Nov 07)	-	-	-	-	34,400	34,400	-
Rhett Butler (appointed 15 Feb 08)	9,520	-	-	-	-	9,520	-
Chris Fullerton (resigned 30 Apr 08)	20,833	-	-	-	13,760	34,593	-
Richard Kell (resigned 29 Nov 07)	6,689	-	-	602	-	7,291	-
Christian Jensen (appointed 29 Nov 07; resigned 31 Jan 08)***	-	-	-	-	-	-	-
Sub-Total	119,542	-	-	602	61,920	182,064	-
Executive directors							
Duncan Stone * (appointed director 6Sep 07)	245,513	-	22,005	22,096	211,523	501,137	-
Julian Higgs ** (resigned 29 Nov 07)	34,085	-	-	97,290	-	131,375	-
Other key management personnel							
Ashley Arnott (from 1 Nov 08)	114,670	-	-	5,829	-	120,499	-
Bjorn Borg	205,181	-	4,727	15,519	-	225,427	-
Simon Cobden	151,193	-	-	13,607	-	164,800	-
Frank Placko	111,974	-	9,944	10,078	-	131,996	-
Mark Spinks	157,365	-	-	14,040	-	171,405	-
Gary Hardie (from 12 Sep 07)	144,500	-	-	13,005	-	157,505	-
Sub-Total KMP	1,164,481	-	36,676	191,464	211,523	1,604,144	-
Totals	1,284,023	-	36,676	192,066	273,443	1,786,208	-

* Duncan Stone was employed as chief executive officer from 9 July 2007.

** Julian Higgs remained an employee of Environmental Group Operation Pty Ltd up to 30 June 2008.

*** During the year the company paid management fees to CVC Managers Pty Ltd totalling \$22,546 in relation to director services of Elliott Kaplan (\$14,652) and Christian Jensen (\$7,894).

DIRECTORS' REPORT (CONT.)

REMUNERATION REPORT (AUDITED) (CONT.)

TABLE 2: REMUNERATION FOR THE YEAR ENDED 30 JUNE 2007

	SHORT-TERM BENEFITS			POST EMPLOYMENT	SHARE-BASED PAYMENT	TOTAL \$	% PERFORMANCE RELATED
	SALARY AND FEES \$	CASH BONUS\$	NON-MONETARY BENEFITS \$	SUPER-ANNUATION \$	OPTIONS \$		
Non-executive directors							
John Read (Chairman)	76,675	-	-	-	-	76,675	-
Chris Fullerton	15,641	-	-	-	-	15,641	-
Richard Kell	19,494	-	-	1,754	-	21,248	-
Sub-Total	111,810	-	-	1,754	-	113,564	-
Executive directors							
Mike Williamson (Managing Director)	188,143	-	-	48,655	-	236,798	-
Julian Higgs	119,723	-	-	10,775	-	130,498	-
Other key management personnel							
Bjorn Borg	156,018	-	-	14,042	17,250	187,310	9.2%
Simon Cobden	146,789	-	-	13,211	17,250	177,250	9.7%
Mark Spinks (from 1 Aug 06)	130,680	-	-	11,610	-	142,290	-
Sub-Total KMP	741,353	-	-	98,293	34,500	874,146	-
Totals	853,163	-	-	100,047	34,500	987,710	-

VALUE OF OPTIONS GRANTED

The total value of options granted to key management personnel included in share based payments in the current year is \$273,443 (2007: \$34,500). The fair value of the options is calculated at the date of the grant using a binomial option-pricing model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed above is the portion of the fair value of the options allocated to this reporting period. In valuing the options, market conditions have been taken into account.

DIRECTORS' REPORT (CONT.)

REMUNERATION REPORT (AUDITED) (CONT.)

TABLE 3: COMPENSATION OPTIONS: GRANTED AND VESTED DURING THE YEAR

30 JUN 2008	TERMS AND CONDITIONS FOR EACH GRANT								
	NUMBER GRANTED	GRANT DATE	FAIR VALUE PER OPTION AT GRANT DATE \$ (NOTE 32)	EXERCISE PRICE PER OPTION \$ (NOTE 32)	EXPIRY DATE	FIRST EXERCISE DATE	LAST EXERCISE DATE	NUMBER VESTED	% VESTED
Directors									
John Read	400,000	1 Feb 08	0.0344	0.08	31 Jan 13	1 Feb 08	31 Jan 13	400,000	100
Chris Fullerton	400,000	1 Feb 08	0.0344	0.08	31 Jan 13	1 Feb 08	31 Jan 13	400,000	100
Elliott Kaplan	1,000,000	1 Feb 08	0.0344	0.08	31 Jan 13	1 Feb 08	31 Jan 13	1,000,000	100
Duncan Stone	2,500,000	6 Sep 07	0.0339	0.08	5 Sep 12	6 Sep 07	5 Sep 12	2,500,000	100
Duncan Stone	2,500,000	6 Sep 07	0.0399	0.08	5 Sep 13	6 Sep 08	5 Sep 13	-	-
Duncan Stone	2,500,000	6 Sep 07	0.0447	0.08	5 Sep 14	6 Sep 09	5 Sep 14	-	-
Executives	-	-	-	-	-	-	-	-	-
Total	9,300,000							4,300,000	
Directors									
Executives	-	-	-	-	-	-	-	-	-
Directors									
Bjorn Borg	250,000	1 Jul 06	0.0380	0.200	1 Jul 09	1 Jul 06	1 Jul 09	250,000	100
Bjorn Borg	250,000	1 Jul 06	0.0310	0.275	1 Jul 09	1 Jul 06	1 Jul 09	250,000	100
Simon Cobden	250,000	1 Jul 06	0.0380	0.200	1 Jul 09	1 Jul 06	1 Jul 09	250,000	100
Simon Cobden	250,000	1 Jul 06	0.0310	0.275	1 Jul 09	1 Jul 06	1 Jul 09	250,000	100
Total	1,000,000							1,000,000	

TABLE 4: OPTIONS GRANTED AS PART OF REMUNERATION

	VALUE OF OPTIONS				REMUNERATION CONSISTING OF OPTIONS FOR THE YEAR %
	GRANTED DURING THE YEAR \$	EXERCISED DURING THE YEAR \$	LAPSED DURING THE YEAR \$	TOTAL GRANTED, EXERCISED AND LAPSED \$	
John Read	13,760	-	-	13,760	14.3
Chris Fullerton	13,760	-	-	13,760	39.8
Elliott Kaplan	34,400	-	-	34,400	70.1
Duncan Stone	296,250	-	-	296,250	42.2

DIRECTORS' REPORT (CONT.)

REMUNERATION REPORT (AUDITED) (CONT.)

For details on the valuation of the options, including models and assumptions used, refer to note 32.

There were no alterations to the terms and conditions of options granted as remuneration since their grant date.

Options granted to Chris Fullerton valued at \$13,760 were cancelled during the period.

The maximum grant, which will be payable assuming that all service and performance criteria are met, is equal to the number of options or rights granted multiplied by the fair value at the grant date. The minimum grant payable assuming that service and performance criteria are not met is zero.

SHARES ISSUED ON EXERCISE OF COMPENSATION OPTIONS

No shares have been issued during the years ended 30 June 2008 and 30 June 2007 on exercise of compensation options.

DIRECTORS' RESOLUTION

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



JOHN D. READ
CHAIRMAN



DUNCAN STONE
MANAGING DIRECTOR & CEO

Sydney, 24 September 2008



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Auditor's Independence Declaration to the Directors of The Environmental Group Limited

In relation to our audit of the financial report of The Environmental Group Limited for the financial year ended 30 June 2008, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.



Ernst & Young



Daniel Cunningham
Partner
24 September 2008

Licensee (issued by a chartered approved)
under Professional Standards Legislation

INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2008

	NOTES	CONSOLIDATED		PARENT ENTITY	
		2008 \$	2007 \$	2008 \$	2007 \$
Revenue	6	28,974,458	24,019,889	178,256	-
Other income	7	1,127	-	-	-
Expenses					
Subcontracting and material costs		(19,909,176)	(17,968,046)	-	-
Employee expenses	8	(5,023,026)	(4,009,572)	(776,437)	-
Occupancy expenses		(431,463)	(378,384)	(34,066)	-
Marketing expenses		(66,401)	(38,655)	(27,804)	-
Professional fees		(718,214)	(595,724)	(472,872)	-
Depreciation and amortisation	8	(467,025)	(377,951)	-	-
Finance costs		(117,230)	(143,312)	-	-
Other expenses		(1,628,111)	(1,902,754)	(129,322)	-
Total expenses		(28,360,646)	(25,414,398)	(1,440,501)	-
Profit / (Loss) before income tax		614,939	(1,394,509)	(1,262,245)	-
Income tax (expense) / benefit	9a	(272,514)	423,343	319,874	-
Net profit / (loss) attributable to members of the parent entity		342,425	(971,166)	(942,371)	-
Earnings per share for profit / (loss) attributable to the ordinary equity holders of the company		Cents	Cents		
Basic earnings / (loss) per share	10	0.17	(1.0)		
Diluted earnings / (loss) per share	10	0.15	(1.0)		

The above income statements should be read in conjunction with the accompanying notes.

BALANCE SHEET

AS AT 30 JUNE 2008

	NOTES	CONSOLIDATED		PARENT ENTITY	
		2008 \$	2007 \$	2008 \$	2007 \$
ASSETS					
Current Assets					
Cash and cash equivalents	11	5,512,973	1,606,696	4,000,256	10
Trade and other receivables	12	7,546,845	3,373,543	21,010	-
Other financial assets	17	856,224	791,817	-	-
Inventories	13	612,716	760,513	-	-
Other current assets	14	140,155	210,126	-	-
Total Current Assets		14,668,913	6,742,695	4,021,266	10
Non-Current Assets					
Trade and other receivables	12	-	-	8,908,517	5,575,870
Other financial assets	17	-	-	4,120,220	4,120,220
Plant and equipment	15	1,918,146	916,946	-	-
Deferred tax assets	9c	1,732,929	1,870,832	1,226,176	1,572,553
Intangible assets	16	9,469,736	5,468,485	2,710	2,710
Total Non-Current Assets		13,120,811	8,256,263	14,257,623	11,271,353
Total assets		27,789,724	14,998,958	18,278,889	11,271,363
LIABILITIES					
Current Liabilities					
Short term borrowings		23,645	-	-	-
Trade and other payables	18	8,389,681	3,776,556	872,094	872,094
Interest bearing liabilities	19	766,167	150,941	-	-
Provisions	20	539,366	653,833	-	-
Tax liabilities		44,446	-	-	-
Total Current Liabilities		9,763,305	4,581,330	872,094	872,094
Non-Current Liabilities					
Interest bearing liabilities	19	300,626	999,718	-	-
Deferred tax liabilities	9c	100,221	167,360	-	-
Provisions	20	182,595	99,895	-	-
Total Non-Current Liabilities		583,442	1,266,973	-	-
Total liabilities		10,346,747	5,848,303	872,094	872,094
Net assets		17,442,977	9,150,655	17,406,795	10,399,269
EQUITY					
Equity attributable to the ordinary equity holders of the company					
Contributed equity	21	16,707,670	9,031,216	16,707,670	9,031,216
Retained earnings	22	381,568	25,383	439,442	1,368,053
Reserves	22	353,739	94,056	259,683	-
Total Equity		17,442,977	9,150,655	17,406,795	10,399,269

The above balance sheets should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2008

	SHARE CAPITAL \$	RETAINED EARNINGS \$	RESERVE \$	TOTAL \$
Consolidated				
Balance at 1 July 2006	6,776,654	996,549	59,556	7,832,759
Loss for the year	-	(971,166)	-	(971,166)
Total income and expense for the period	-	(971,166)	-	(971,166)
Equity transactions:				
Options issued during the year: share based payments	-	-	34,500	34,500
Shares issued	2,292,062	-	-	2,292,062
Net costs of share issue	(37,500)	-	-	(37,500)
Balance at 30 June 2007	9,031,216	25,383	94,056	9,150,655
Total income and expense for the period recognised directly in equity	-	-	-	-
Profit (loss) for the year	-	342,425	-	342,425
Total income and expense for the period	-	342,425	-	342,425
Equity transactions:				
Options issued during the year: share based payments	-	-	273,443	273,443
Options cancelled during the year	-	13,760	(13,760)	-
Shares issued	8,060,945	-	-	8,060,945
Net costs of share issue	(384,491)	-	-	(384,491)
Balance at 30 June 2008	16,707,670	381,568	353,739	17,442,977
Parent Entity				
Balance at 1 July 2006 (as previously reported)	6,776,654	1,267,046	-	8,043,700
Effect of restatements	-	101,007	-	101,007
Balance at 1 July 2006 (restated)	6,776,654	1,368,053	-	8,144,707
Profit for the year	-	-	-	-
Total income and expense for the period	-	-	-	-
Equity transactions:				
Shares Issued	2,292,062	-	-	2,292,062
Net costs of share issue	(37,500)	-	-	(37,500)
Balance at 30 June 2007	9,031,216	1,368,053	-	10,399,269
Total income and expense for the period recognised directly in equity	-	-	-	-
Loss for the year	-	(942,371)	-	(942,371)
Total income and expense for the period	-	(942,371)	-	(942,371)
Equity transactions:				
Options issued during the year: share based payments	-	-	273,443	273,443
Options cancelled during the year	-	13,760	(13,760)	-
Shares issued	8,060,945	-	-	8,060,945
Net costs of share issue	(384,491)	-	-	(384,491)
Balance at 30 June 2008	16,707,670	439,442	259,683	17,406,795

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

NATURE AND PURPOSE OF RESERVES:

Employee benefits reserve: The employee equity benefits reserve is used to record the value of share-based payments provided to employees, including KMP, as part of their remuneration. Refer to note 32 for further details of these plans.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2008

	NOTES	CONSOLIDATED		PARENT ENTITY	
		2008 \$	2007 \$	2008 \$	2007 \$
Cash Flows from Operating Activities					
Receipts from customers		28,676,028	27,651,272	-	-
Payments to suppliers and employees		(26,746,617)	(25,867,149)	(1,167,028)	-
Interest paid		(94,514)	(96,039)	-	-
Interest received		233,985	67,154	157,246	-
Income taxes paid		(134,264)	(100,539)	-	-
Net cashflow provided by (used in) operating activities	23	1,934,618	1,654,699	(1,009,782)	-
Cash Flows from Investing Activities					
Payment for purchase of subsidiaries acquired, net of cash acquired	25	(3,737,909)	(2,062,026)	-	-
Contingent consideration paid		(389,342)	(474,072)	-	-
Purchases of plant and equipment		(849,215)	(182,221)	-	-
Proceeds from sale of property, plant and equipment		13,636	-	-	-
Research and development activities		-	(216,917)	-	-
Decrease / (increase) in fixed term deposit		12,859	165,931	-	-
Capitalised acquisition costs		-	(80,030)	-	-
Movement in intercompany loan		-	-	(1,990,208)	(2,254,562)
Net cashflow provided by (used in) investing activities		(4,949,971)	(2,849,335)	(1,990,208)	(2,254,562)
Cash Flows from financing Activities					
Proceeds from share issue		7,547,184	2,292,062	7,547,184	2,292,062
Transaction costs of issue of shares		(546,948)	(37,500)	(546,948)	(37,500)
Proceeds from borrowings		272,442	1,000,000	-	-
Repayment of borrowings		(200,000)	(182,000)	-	-
Lease repayments		(151,048)	(66,035)	-	-
Net cashflow provided by / (used in) financing activities		6,921,630	3,006,527	7,000,236	2,254,562
Net increase / (decrease) in cash and cash equivalents		3,906,277	1,811,891	4,000,246	-
Cash and cash equivalents at the beginning of the financial year		1,606,696	(205,195)	10	10
Cash at the end of the financial year	11	5,512,973	1,606,696	4,000,256	10

The above cash flow statements should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

TABLE OF CONTENTS

NOTE 1. CORPORATE INFORMATION.....	43
NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.....	43
NOTE 3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS.....	54
NOTE 4. FINANCIAL RISK MANAGEMENT.....	55
NOTE 5. SEGMENT INFORMATION.....	58
NOTE 6. REVENUE.....	60
NOTE 7. OTHER INCOME.....	60
NOTE 8. EXPENSES.....	60
NOTE 9. INCOME TAX.....	61
NOTE 10. EARNINGS PER SHARE.....	63
NOTE 11. CURRENT ASSETS – CASH AND CASH EQUIVALENTS.....	63
NOTE 12. TRADE AND OTHER RECEIVABLES.....	64
NOTE 13. CURRENT ASSETS – INVENTORIES.....	65
NOTE 14. OTHER CURRENT ASSETS.....	65
NOTE 15. NON-CURRENT ASSETS –PLANT AND EQUIPMENT.....	66
NOTE 16. NON-CURRENT ASSETS – INTANGIBLE ASSETS AND GOODWILL.....	67
NOTE 17. OTHER FINANCIAL ASSETS.....	69
NOTE 18. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES.....	70
NOTE 19. INTEREST-BEARING LOANS AND BORROWINGS.....	70
NOTE 20. LIABILITIES – PROVISIONS.....	71
NOTE 21. CONTRIBUTED EQUITY.....	71
NOTE 22. RETAINED EARNINGS AND RESERVES.....	73
NOTE 23. CASH FLOW STATEMENT RECONCILIATION.....	73
NOTE 24. SUBSIDIARIES.....	74
NOTE 25. BUSINESS COMBINATIONS.....	74
NOTE 26. COMMITMENTS.....	77
NOTE 27. DIVIDENDS.....	78
NOTE 28. EVENTS AFTER THE BALANCE SHEET DATE.....	78
NOTE 29. KEY MANAGEMENT PERSONNEL DISCLOSURES.....	79
NOTE 30. RELATED PARTY DISCLOSURE.....	82
NOTE 31. REMUNERATION OF AUDITORS.....	82
NOTE 32. SHARE BASED PAYMENT PLANS.....	83
NOTE 33. CONTINGENCIES.....	85

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 1. CORPORATE INFORMATION

This financial report of The Environmental Group Limited for the year ended 30th June 2008 was authorised for issue by the Directors in accordance with a resolution of the Directors on 24 September 2008. The company's registered office is Unit 3, 9 Packard Avenue, Castle Hill, NSW 2154.

The Environmental Group Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

The nature of the operations and principal activities of the Group are described in the Directors' Report.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for The Environmental Group Limited as an individual entity and the consolidated entity consisting of The Environmental Group Limited and its subsidiaries. The Environmental Group Limited is a public listed company, incorporated and domiciled in Australia.

BASIS OF PREPARATION

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis.

The financial report is presented in Australian dollars

STATEMENT OF COMPLIANCE

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

Certain Australian Standards and UIG interpretations have been recently issued or amended but are not yet effective. These standards have not been adopted by the Group for the year ended 30 June 2008. For more information on these standards and interpretations, refer to note 2(T)

Adoption of new accounting standard

The Group has adopted AASB 7 *Financial Instruments; Disclosures* and all consequential amendments which became applicable on 1 January 2007. The adoption of this standard has only affected the disclosure in these financial statements. There has been no affect on profit and loss or the financial position of the entity.

A) BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of The Environmental Group Limited and its subsidiaries as at 30 June each year (the Group).

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all inter-company balances and transactions, income and expenses and profit and losses resulting from the intra-group transactions have been eliminated in full.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)**A) BASIS OF CONSOLIDATION (CONT.)**

Subsidiaries are fully consolidated from the date on which control is transferred to the group and ceases to be consolidated from the date on which control is transferred out of the group.

The acquisition of subsidiaries is accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition.

B) BUSINESS COMBINATIONS

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

C) CASH AND CASH EQUIVALENTS (REFER NOTE 11)

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within interest-bearing loans and borrowings in current liabilities on the balance sheet.

D) TRADE AND OTHER RECEIVABLES (REFER NOTE 12)

Trade receivables, which generally have 30-90 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

Collectability of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 60 days overdue are considered objective evidence of possible impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)**D) TRADE AND OTHER RECEIVABLES (REFER NOTE 12) (CONT.)***Construction work in progress*

Construction contracts work in progress is valued at cost, plus profit recognised to date, less any provision for anticipated future losses. Cost includes both variable and fixed costs relating to specific contracts, and those costs are attributed to the contract activity in general and that can be allocated on a reasonable basis.

Construction profits are recognised on the stage of completion basis measured using the proportion of costs incurred to date as compared to expected total costs. Where losses are anticipated they are provided for in full.

E) INVENTORIES (REFER NOTE 13)*Raw materials, finished goods and stores*

Raw materials, finished goods and stores are measured at the lower of cost and net realisable value. Costs are assigned on a weighted average basis.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

F) INVESTMENTS AND OTHER FINANCIAL ASSETS (REFER NOTE 17)

Investments and financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are categorised as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Designation is re-evaluated at each financial year end, but there are restrictions on reclassifying to other categories.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

Recognition and Derecognition

All regular way purchases and sales of financial assets are recognised on the trade date ie the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place. Financial assets are derecognised when the right to receive cash flows from the financial assets have expired or been transferred.

(i) Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term with the intention of making a profit.

(ii) Loans and receivables

Loans and receivables including loan notes and loans to KMP are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired. These are included in current assets, except for those with maturities greater than 12 months after balance date, which are classified as non-current.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)**G) PROPERTY, PLANT AND EQUIPMENT (REFER NOTE 15)**

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. All other repairs and maintenance are recognised in profit or loss as incurred.

Depreciation is calculated on either a straight-line or diminishing value basis over the estimated useful life of the specific asset. Depreciation rates used are:

CLASS OF FIXED ASSET	DEPRECIATION RATE
Leasehold Improvements	10%
Plant and Equipment	7.5% - 40%
Motor Vehicles	15% - 22.5%

The assets' residual values, useful lives and amortisation methods are reviewed periodically and adjusted if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

H) LEASES (REFER NOTE 26)

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

I) IMPAIRMENT OF NON-FINANCIAL ASSETS OTHER THAN GOODWILL

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The group conducts an annual internal review of asset values, which is used as a source of information to assess for any indicators of impairment. External factors are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that have suffered impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)**J) GOODWILL AND INTANGIBLES (REFER NOTE 16)***Goodwill*

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated includes

- EGL Infrastructure Operations cash generating unit;
- EGL Management Services cash generating unit;
- EGL Facility Services cash generating unit; and
- EGL Pollution Control cash generating unit

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates.

The Environmental Group Limited performs its impairment testing as at 30 June each year using fair value less costs to sell model for both the Infrastructure Operations and Pollution Control cash generating units and a value in use, discounted cash flow methodology for both the Management Services and Facility Services cash generating units to which goodwill and indefinite lived intangibles have been allocated. Further details on the methodology and assumptions used are outlined in note 16.

Impairment losses recognised for goodwill are not subsequently reversed.

Intangibles

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year-end. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level consistent with the methodology outlined for goodwill above. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)**J) GOODWILL AND INTANGIBLES (REFER NOTE 16) (CONT.)***Research and development costs*

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure so capitalised is amortised over the period of expected benefit from the related project.

The carrying value of an intangible asset arising from development expenditure is tested for impairment annually when the asset is not yet available for use, or more frequently when an indication of impairment arises during the reporting period.

A summary of the policies applied to the Group's intangible assets is as follows:

	TRADE MARK	LICENCES	GOODWILL	DEVELOPMENT COSTS
Useful lives	Indefinite	Indefinite	Indefinite	5 years
Method used	Not amortised or revalued	Not amortised or revalued	Not amortised or revalued	Amortised
Internally generated / Acquired	Acquired	Acquired	Acquired	Internally Generated
Impairment test / recoverable amount testing	Annually and where an indicator of impairment exists	Annually and where an indicator of impairment exists	Annually and where an indicator of impairment exists	Annually and where an indicator of impairment exists

K) TRADE AND OTHER PAYABLES (REFER NOTE 18)

Trade and other payables are carried at cost and due to their short term nature they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

L) INTEREST-BEARING LOANS AND BORROWINGS (REFER NOTE 19)

All loans and borrowings are initially recognised at the fair value of the consideration received. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs

Borrowing costs are recognised as an expense when incurred.

M) PROVISIONS (REFER NOTE 20)

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)**M) PROVISIONS (REFER NOTE 20) (CONT.)**

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date using a discounted cash flow methodology. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

N) EMPLOYEE LEAVE BENEFITS (REFER NOTE 20)*(i) Wages, salaries, annual leave and sick leave*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and any accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(ii) Long Service Leave

The liability for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

O) SHARE-BASED PAYMENT TRANSACTIONS (REFER NOTE 32)*Equity settled transactions:*

The Group provides benefits to its employees (including KMP) in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

There are currently two plans in place to provide these benefits:

- the Employee Share Option Plan (ESOP), which provides benefits to directors and senior executives, and
- the Employee Share Plan (ESP), which provides benefits to all employees, including senior executives and executive directors.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined internally using a binominal model.

In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of The Environmental Group Limited (market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date). At each subsequent reporting date until vesting, the cumulative charge to the income statement is the product of:

- the grant date fair value of the award;
- the current best estimate of the number of awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met; and
- the expired portion of the vesting period.

The charge to the income statement for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding entry to equity.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)**O) SHARE-BASED PAYMENT TRANSACTIONS (REFER NOTE 32) (CONT.)**

Equity-settled awards granted by The Environmental Group Limited to employees of subsidiaries are recognised in the parent's separate financial statements as an additional investment in the subsidiary with a corresponding credit to equity. As a result, the expense recognised by The Environmental Group Limited in relation to equity-settled awards only represents the expense associated with grants to employees of the parent. The expense recognised by the Group is the total expense associated with all such awards.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (see note 10).

P) CONTRIBUTED EQUITY (REFER NOTE 21)

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Q) REVENUE RECOGNITION

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Sale of goods

Revenue from sales of goods is recorded when goods have been dispatched to a customer pursuant to a sales order and the associated risks of ownership have passed to the customer.

(ii) Rendering of services

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

(iii) Interest revenue

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

(iv) Construction contracts revenue

Construction revenues are recognised on the stage of completion basis measured using the proportion of costs incurred to date as compared to expected total costs. Where losses are anticipated they are provided for in full. For details with respect to construction contract profits refer to note 2(D).

R) INCOME TAX AND OTHER TAXES (REFER NOTE 9)

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)**R) INCOME TAX AND OTHER TAXES (REFER NOTE 9) (CONT.)**

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Tax consolidation legislation

The Environmental Group Limited and its wholly-owned Australian controlled entities implemented the tax consolidation legislation as of 1 July 2003. The head entity, The Environmental Group Limited and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, The Environmental Group Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)**R) INCOME TAX AND OTHER TAXES (REFER NOTE 9) (CONT.)**

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Details of the tax funding agreement are disclosed in note 9.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

S) EARNINGS PER SHARE (REFER NOTE 10)

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares.

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends);
- the after tax effect of dividends; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares.

Potential ordinary shares are treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase loss per share from continuing operations.

T) SEGMENT REPORTING (REFER NOTE 5)

A business segment is a distinguishable component of the entity that is engaged in providing products or services that are subject to risks and returns that are different to those of other operating business segments. Management has assessed the reportable business segments under AASB 114 Segment Reporting and have determined that on adoption of AASB 8 Segment Reporting (applicable from 1 January 2009), additional operating segments will most likely be reported. The Company does not have geographical segments.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)**U) NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED**

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2008, but have not been applied in preparing this financial report:

Revised AASB 3 Business Combinations changes the application of acquisition accounting for business combinations and the accounting for non-controlling (minority) interests. Key changes include: the immediate expensing of all transaction costs; measurement of contingent consideration at acquisition date with subsequent changes through the income statement; measurement of non-controlling (minority) interests at full fair value or the proportionate share of the fair value of the underlying net assets; guidance on issues such as reacquired rights and vendor indemnities; and the inclusion of combinations by contract alone. The revised standard becomes mandatory for the Group's 30 June 2010 financial statements and the Company plans on applying the standard at this time. The Group has not yet determined the potential effect of the revised standard on the Group's financial report.

AASB 8 Operating Segments replaces the presentation requirements of segment reporting in AASB 114 *Segment Reporting*. AASB 8 is applicable for annual reporting periods beginning on or after 1 January 2009 and is not expected to have an impact on the financial results of the Company and the Group as the standard is only concerned with disclosures. The company plans on applying the standard from the period beginning 1 July 2009.

Revised AASB 101 Presentation of Financial Statements introduces as a financial statement (formerly "primary" statement) the "statement of comprehensive income". The revised standard does not change the recognition, measurement or disclosure of transactions and events that are required by other AASBs. The revised AASB 101 will become mandatory for the consolidated entity's 30 June 2010 financial statements and the Company plans on applying the standard at this time. The consolidated entity has not yet determined the potential effect of the revised standard on the Group's disclosures.

Revised AASB 123 Borrowing Costs removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised AASB 123 will become mandatory for the consolidated entity's 30 June 2010 financial statements. The consolidated entity has not yet determined the potential effect of the revised standard on future earnings. The company plans on applying the standard from the period beginning 1 July 2009.

AASB 2008-1 Amendments to Australian Accounting Standard - Share-based Payment: Vesting Conditions and Cancellations changes the measurement of share-based payments that contain non-vesting conditions. AASB 2008-1 becomes mandatory for the consolidated entity's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the amending standard on the consolidated entity's financial report. The company plans on applying the standard from the period beginning 1 July 2009.

Revised AASB 127 Consolidated and Separate Financial Statements changes the accounting for investments in subsidiaries. Key changes include: the re-measurement to fair value of any previous/retained investment when control is obtained/lost, with any resulting gain or loss being recognised in profit or loss; and the treatment of increases in ownership interest after control is obtained as transactions with equity holders in their capacity as equity holders. The revised standard will become mandatory for the consolidated entity's 30 June 2010 financial statements. The consolidated entity has not yet determined the potential effect of the revised standard on the consolidated entity's financial report. The company plans on applying the standard from the period beginning 1 July 2009.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

(A) SIGNIFICANT ACCOUNTING JUDGEMENTS*Recovery of deferred tax assets*

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences. The ability to utilise tax losses acquired as part of a business combination (i.e. losses brought into the tax consolidated group on acquisition of a subsidiary) are subject to the satisfaction of certain transfer tests.

(B) SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS*Impairment of Goodwill and intangibles with indefinite useful lives*

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units, using either a value in use discounted cash flow of methodology or fair value less costs to sell model to which the goodwill and intangibles with indefinite useful lives are allocated. No impairment losses were recognised in the current year in respect of goodwill. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill and intangibles with indefinite useful lives including a sensitivity analysis are discussed in note 16.

Share based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using a binomial model, with the assumptions detailed in note 32. The accounting estimates and assumptions relating to equity settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 4. FINANCIAL RISK MANAGEMENT

The Group's principal financial instruments comprise receivables, payables, cash and short term deposits, bank loans, and finance leases.

The Group manages its exposure to key financial risks, including interest rate and currency risk with the objective of supporting the delivery of the Group's financial targets whilst protecting future financial security.

The main financial risks that arise in the normal course of business for the Group's financial instruments are foreign currency risk, credit risk, liquidity risk, and interest rate risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring exposure to foreign exchange risk and assessments of market forecast for interest rate and foreign exchange prices. Liquidity risk is monitored through the development of future rolling cash flow forecasts. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk.

It is, and has been, throughout the period under review, the Board's policy that no speculative trading in financial instruments be undertaken.

Primary responsibility for identification and control of financial risks rests with the Managing Director and the Chief Financial Officer, under the authority of the Board. The Board periodically reviews these risks and management of them.

Details of the significant accounting policies and methods adopted, including criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of financial instruments are disclosed in note 2(f) to the financial statements.

Set out below by category are the carrying amounts of all of the Group's financial instruments recognised in the financial statements. The carrying amounts approximate their fair value.

	CONSOLIDATED		PARENT ENTITY	
	2008 \$	2007 \$	2008 \$	2007 \$
<i>Financial Assets</i>				
Cash and cash equivalents	5,512,973	1,606,696	4,000,256	10
Trade and other receivables	7,546,845	3,373,543	21,010	-
Term deposits and bank bills	856,224	791,817	-	-
	13,916,042	5,772,056	4,021,266	10
<i>Financial Liabilities</i>				
Short term borrowings	23,645	-	-	-
Bank loans	650,000	850,000	-	-
Finance leases	416,793	300,659	-	-
Trade and other payables	8,389,681	3,776,556	872,094	872,094
	9,480,119	4,927,215	872,094	872,094

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 4. FINANCIAL RISK MANAGEMENT (CONT.)**RISK EXPOSURE AND RESPONSES***Interest rate risk*

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. Interest rate risk arises from interest bearing financial assets and liabilities that are used. Interest bearing assets are predominantly short term liquid assets, such as bank deposits and interest bearing current accounts. The interest rate liability risk arises primarily from bank bills with a maximum of 90 days duration, which are supported by a facility with a major commercial bank. The timing of rollover of these bank bills gives rise to variable interest rate, and therefore, cash flow risks.

The following tables summarise interest rate risk, for the Group and Parent Entity together with effective weighted average interest rates at balance date.

CONSOLIDATED	INTEREST RATE	FLOATING INTEREST RATE \$	NON-INTEREST BEARING \$	TOTAL \$
30 June 2008				
<i>Financial Assets</i>				
Cash at bank and on hand	4.27%	1,189,973	-	1,189,973
Short term deposits	7.57%	4,323,000	-	4,323,000
Trade and other receivables		-	7,546,854	7,546,854
Term deposits and bank bills	6.77%	806,118	50,106	856,224
		6,319,091	7,596,960	13,916,051
<i>Financial Liabilities</i>				
Short term borrowings		-	23,645	23,645
Bank loans	10.52%	650,000	-	650,000
Finance leases	9.23%	416,793	-	416,793
Trade and other payables		-	8,389,681	8,389,681
		1,066,793	8,413,326	9,480,119
Net Financial assets		5,252,298	(816,366)	4,435,932
30 June 2007				
<i>Financial Assets</i>				
Cash at bank and on hand	6.0%	1,606,696	-	1,606,696
Trade and other receivables		-	3,373,543	3,373,543
Term deposits and bank bills	7.0%	791,817	-	791,817
		2,398,513	3,373,543	5,772,056
<i>Financial Liabilities</i>				
Bank loans	10.0%	850,000	-	850,000
Finance leases	8.50%	300,659	-	300,659
Trade and other payables		-	3,776,556	3,776,556
		1,150,659	3,776,556	4,927,215
Net Financial assets		1,247,854	(403,013)	844,841

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 4. FINANCIAL RISK MANAGEMENT (CONT.)

PARENT ENTITY	INTEREST RATE	FLOATING INTEREST RATE \$	NON-INTEREST BEARING \$	TOTAL \$
30 June 2008				
<i>Financial Assets</i>				
Cash and cash equivalents	7.55%	4,000,256	-	4,000,256
Trade and other receivables		-	21,010	21,010
		4,000,256	21,010	4,021,266
<i>Financial Liabilities</i>				
		-	-	-
Net Financial assets		4,000,256	21,010	4,021,266
30 June 2007				
<i>Financial Assets</i>				
		-	-	-
<i>Financial Liabilities</i>				
		-	-	-
Net Financial assets		-	-	-

At current interest rates and based on amounts at balance date, over the course of a full year, a movement of 100 basis points in borrowing rates with an accompanying change in deposit rates would increase or decrease pre tax profit for the group by \$52,523 and by \$40,003 in the parent entity.

Foreign currency risk

The Group has transactional currency exposure arising from those sales and purchases which are denominated in United States dollars. From time to time the Group hold cash denominated in United States dollars. Currently the Group has no foreign exchange hedge programmes in place. The Chief Financial Officer manages the purchase and sale of foreign currency to meet requirements. Transaction exposures, where possible, are netted off across the Group to reduce volatility and provide a natural hedge.

The financial assets denominated in US Dollars at balance date are as follows:

	CONSOLIDATED		PARENT ENTITY	
	2008 \$	2007 \$	2008 \$	2007 \$
<i>Financial Assets</i>				
Cash and cash equivalents	860	107,119	-	-
Trade and other receivables	-	-	-	-
<i>Financial Liabilities</i>				
Trade and other payables	11,525	261,160	-	-

At current exchange rates, and based on foreign denominated payables and receivables at balance date, if the Australian dollar was 5% higher, the impact on before tax profit, with all other variables held constant, would be an increase of \$533 (2007: \$13,058), with no change to the parent entity's profit before tax. If the Australian dollar was 10% lower, the impact on before tax profit, with all other variables held constant, would be a decrease of \$1,065 (2007: \$26,116), with no change to the parent entity's profit before tax.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 4. FINANCIAL RISK MANAGEMENT (CONT.)*Credit risk*

Credit risk arises from the financial assets of the Group which comprise cash and cash equivalents, trade and other receivables, term deposit and bank bills. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Exposure at balance date is addressed in each applicable note.

The Group trade only with creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The liquidity position of the Group is managed to ensure sufficient liquid funds are available to meet all financial commitments in a timely and cost-effective manner. The Managing Director and Chief Financial Officer constantly reviews the liquid position including cash flow forecasts to determine the forecast liquidity position and maintain appropriate liquidity levels. The group's borrowings of \$650,000 are repayable quarterly in even instalments over the following 3.5 years.

At balance date the group had \$500,000 of unused credit facilities available for its immediate use.

NOTE 5. SEGMENT INFORMATION

The Group's primary reporting format is business segments. The group operates solely in Australia and the environmental sector and therefore has no secondary reporting format. Revenue, profit and assets all relate to operations in Australia. The following are the reportable segments:

EGL Infrastructure incorporates the operations supplying design, construct and install services to industry, including air pollution control and pressure sewer systems.

EGL Facility Services includes those operations supplying facility services to industry, including the mining sector and the operation and maintenance of water treatment plants.

BUSINESS SEGMENTS

The following table present revenue and profit information and certain asset and liability information regarding business segments for the years ended 30 June 2008 and 30 June 2007.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 5. SEGMENT INFORMATION (CONT.)

YEAR ENDED 30 JUNE 2008	EGL INFRASTRUCTURE	EGL FACILITY SERVICES	UNALLOCATED	TOTAL OPERATIONS
Revenue				
Revenue	16,503,230	12,292,972	178,256	28,974,458
Result				
Segment results (profit before tax and finance costs)	980,665	1,100,189	(1,348,685)	732,169
Finance costs	-	-	(117,230)	(117,230)
Income tax expense	-	-	(272,514)	(272,514)
Net profit for the year				342,425
Assets				
Segment assets	9,135,440	5,091,286	13,562,998	27,789,724
Liabilities				
Segment liabilities	8,005,758	2,064,100	276,889	10,346,747
Other Segment information				
Capital expenditure	63,555	785,660	-	849,215
Depreciation and amortisation	245,459	221,566	-	467,025
Cash Flow Information				
Net cash from operating activities	1,299,956	1,497,911	(863,249)	1,934,618
Net cash from investing activities	(1,394,311)	(3,555,660)	-	(4,949,971)
Net cash from financing activities	121,394	1,757,050	5,043,186	6,921,630
YEAR ENDED 30 JUNE 2007	EGL INFRASTRUCTURE	EGL FACILITY SERVICES	UNALLOCATED	TOTAL OPERATIONS
Revenue				
Revenue	14,783,194	9,169,541	67,154	24,019,889
Result				
Segment results (profit before tax and finance costs)	(2,213,907)	850,953	67,154	(1,295,800)
Finance costs	-	-	(98,709)	(98,709)
Income tax benefit	-	-	423,343	423,343
Net profit / (loss) for the year				(971,166)
Assets				
Segment assets	9,803,484	5,195,374	-	14,998,958
Liabilities				
Segment liabilities	4,398,376	1,449,927	-	5,848,303
Other Segment information				
Capital expenditure	27,141	155,080	-	182,221
Depreciation and amortisation	271,837	106,114	-	377,951
Cash Flow Information				
Net cash from operating activities	465,956	1,121,589	67,154	1,654,699
Net cash from investing activities	(2,639,775)	(209,560)	-	(2,849,335)
Net cash from financing activities	3,191,148	(184,621)	-	3,006,527

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 6. REVENUE

	CONSOLIDATED		PARENT ENTITY	
	2008 \$	2007 \$	2008 \$	2007 \$
Revenue				
Design and construction work	21,783,683	18,152,002	-	-
Stock sales	398,594	1,389,281	-	-
Service	6,529,607	4,411,452	-	-
	28,711,884	23,952,735	-	-
<i>Other revenue</i>				
Interest income	262,574	67,154	178,256	-
	262,574	67,154	178,256	-
Total revenue from continuing operations	28,974,458	24,019,889	178,256	-

NOTE 7. OTHER INCOME

	CONSOLIDATED		PARENT ENTITY	
	2008 \$	2007 \$	2008 \$	2007 \$
Net gains on disposal of property, plant and equipment	1,127	-	-	-

NOTE 8. EXPENSES

The profit before income tax includes the following specific expenses.

	CONSOLIDATED		PARENT ENTITY	
	2008 \$	2007 \$	2008 \$	2007 \$
<i>(a) Depreciation, impairment and amortisation included in the income statement</i>				
Depreciation of equipment and vehicles	248,079	180,634	-	-
Amortisation of leasehold improvements	10,252	10,531	-	-
Amortisation of previously capitalised development costs	208,694	186,786	-	-
	467,025	377,951	-	-
<i>(b) Employee benefits expense</i>				
Wages and salaries	3,900,009	3,390,369	365,784	-
Superannuation expense	506,715	358,075	69,046	-
Share-based payment expense	273,443	34,500	273,443	-
Other employee benefits expense	342,859	226,128	68,164	-
	5,023,026	4,009,072	776,437	-

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 9. INCOME TAX

	CONSOLIDATED		PARENT ENTITY	
	2008 \$	2007 \$	2008 \$	2007 \$
(a) Income tax expense / (benefit)				
<i>Current income tax</i>				
Current income tax charge	315,751	(169,410)	(331,708)	-
Adjustments in respect of current income tax of previous years	30,627	(16,757)	11,834	-
<i>Deferred income tax</i>				
Relating to origination and reversal of temporary differences	(73,864)	(237,176)	-	-
Income tax expense reported in the income statement	272,514	(423,343)	(319,874)	-
Income tax is attributable to:				
Profit (loss) from continuing operations	272,514	(423,343)	(319,874)	-
Aggregate income tax expense (benefit)	272,514	(423,343)	(319,874)	-
(b) Numerical reconciliation between aggregate tax expense recognised in the income statement and tax expense calculated per the statutory income tax rate				
Total accounting profit (loss) before income tax expense	614,939	(1,394,509)	(1,262,245)	-
Tax at the Australian tax rate of 30%	184,482	(418,352)	(378,674)	-
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Adjustments in respect of current income tax of previous years	30,627	(16,757)	11,834	-
Amortisation of intangibles	2,571	10,768	-	-
Non-deductible entertainment expenses	5,236	4,999	-	-
Eligible research and development expenditure	-	(16,262)	-	-
Share based payments	82,033	10,350	82,033	-
Capital raising expenses	(35,067)	(2,250)	(35,067)	-
Sundry items	2,632	4,161	-	-
Aggregate Income tax expense (benefit)	272,514	(423,343)	(319,874)	-
(c) Recognised deferred tax assets and liabilities				
The balance comprises temporary differences attributable to:				
<i>(i) Deferred tax assets</i>				
Fixed assets	16,192	-	-	-
Relocation Costs	4,901	7,215	-	-
Accruals: General	4,889	1,250	-	-
Accruals: Superannuation	14,298	4,217	-	-
Accruals: Annual Leave	128,216	111,648	-	-
Accruals: Audit fees	15,450	19,500	-	-
Legal fees	15,499	2,999	-	-
Provision: Warranty	65	35,548	-	-
Provision: Long service leave	86,687	51,465	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 9. INCOME TAX (CONT.)

	CONSOLIDATED		PARENT ENTITY	
	2008 \$	2007 \$	2008 \$	2007 \$
Provision: Doubtful debts	50,996	57,620	-	-
Equity raising costs	164,084	-	-	-
Other	5,476	6,817	-	-
	506,753	298,279	-	-
Tax losses for current and prior years	1,226,176	1,572,553	1,226,176	1,572,553
Total deferred tax assets	1,732,929	1,870,832	1,226,176	1,572,553
<i>(ii) Deferred tax liabilities</i>				
Retention debtors	-	3,915	-	-
Fringe benefits tax	2,858	-	-	-
Capitalised development costs	97,363	-	-	-
Total deferred tax liabilities	100,221	163,445	-	-
(d) Tax losses				
Unused tax losses for which no deferred tax asset has been recognised	10,087,310	10,087,310	10,087,310	10,087,310
Potential tax benefit at 30%	3,026,193	3,026,193	3,026,193	3,026,193

(E) UNRECOGNISED TEMPORARY DIFFERENCES

At 30 June 2008, there are no unrecognised temporary differences (2007: \$nil).

(F) TAX CONSOLIDATION LEGISLATION**(i) Members of the tax consolidated group and the tax sharing arrangement**

The Environmental Group Ltd and its 100% owned Australian resident subsidiaries formed a tax consolidated group with effect from 1/7/2003. The Environmental Group Limited is the head entity of the tax consolidated group.

(ii) Tax effect accounting by members of the tax consolidated group*Measurement method adopted under UIG 1052 Tax Consolidation Accounting*

The head entity and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the stand alone tax payer allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group. The current and deferred tax amounts are measured in a systematic manner that is consistent with the broad principles in AASB 112 Income Taxes. The nature of the tax funding agreement is discussed further below.

In addition to its own current and deferred tax amounts, the head entity also recognises current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Nature of the tax funding agreement

Members of the tax consolidated group have entered into a tax funding agreement. The tax funding agreement requires payments to/from the head entity to be recognised via an inter entity receivable (payable) which is at call.

The amounts receivable or payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of the financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 10. EARNINGS PER SHARE

The following reflects the income used in the basic and diluted earnings per share calculation:

(A) EARNINGS (LOSS) USED IN CALCULATING EARNINGS PER SHARE

	CONSOLIDATED	
	2008 \$	2007 \$
<i>Basic and diluted earnings per share</i>		
Net Profit (loss) from continuing operations attributable to ordinary equity holders of the parent	342,425	(971,166)

(B) WEIGHTED AVERAGE NUMBER OF SHARES

	CONSOLIDATED	
	2008 NUMBER	2007 NUMBER
Weighted average number of ordinary shares used in calculating basic earnings per share	201,834,529	96,512,818
<i>Effect of dilution:</i>		
Share options issued	21,837,897	-
Weighted average number of ordinary shares adjusted for the effects of dilution	223,672,426	96,512,818

(C) INFORMATION CONCERNING THE CLASSIFICATION OF SECURITIES

Unexercised options, including those granted to key management personnel as described in note 32, are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent they are dilutive. These options have not been included in the determination of basic earnings per share.

Unexercised options were not included in the determination of basic earnings per share or dilutive earnings per share in 2007 as they were antidilutive.

NOTE 11. CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	CONSOLIDATED		PARENT ENTITY	
	2008 \$	2007 \$	2008 \$	2007 \$
Cash at bank and in hand	1,189,973	1,606,696	256	10
Short term deposits	4,323,000	-	4,000,000	-
Balance per statement of cash flows	5,512,973	1,606,696	4,000,256	10

(A) CASH AT BANK AND IN HAND

The cash at bank are both non-interest bearing and interest bearing with rates between 0.10% and 4.60%

(B) DEPOSITS AT CALL

The short term deposits are bearing fixed interest rates of between 7.30% and 7.75% with maturity ranging up to 90 days.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 12. TRADE AND OTHER RECEIVABLES

	CONSOLIDATED		PARENT ENTITY	
	2008 \$	2007 \$	2008 \$	2007 \$
<i>Current</i>				
Trade receivables	7,613,107	2,877,900	-	-
Allowance for impairment loss (a)	(169,986)	(192,068)	-	-
	7,443,121	2,685,832	-	-
Amount due from project work (c)	-	501,701	-	-
Sundry debtors	103,724	186,010	21,010	-
	7,546,845	3,373,543	21,010	-
<i>Non-Current</i>				
Amounts due from wholly owned subsidiaries	-	-	8,908,517	5,575,870

(A) ALLOWANCE FOR IMPAIRMENT LOSS

Trade receivables are non-interest bearing and are generally on 30-60 day terms. A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. An impairment loss of \$15,663 (2007: \$192,068) has been recognised by the Group in the current year. Amounts are included in other expenses in the profit and loss statement.

Movements in the provision for impairment loss were as follows:

	CONSOLIDATED		PARENT ENTITY	
	2008 \$	2007 \$	2008 \$	2007 \$
At 1 July	192,068	-	-	-
Charge for the year	15,663	192,068	-	-
Amounts written off	-	-	-	-
Amounts collected from debtor	(37,745)	-	-	-
	169,986	192,068	-	-

At 30 June, the ageing analysis of trade receivables is as follows:

	TOTAL	0-30 DAYS	31-60 DAYS	61-90 DAYS PDNI*	61-90 DAYS CI*	91+ DAYS PDNI*	91+ DAYS CI*
2008 Consolidated	7,613,107	5,778,462	1,304,112	248,464	-	112,083	169,986
Parent	-	-	-	-	-	-	-
2007 Consolidated	2,877,900	1,582,738	653,758	228,525	-	220,811	192,068
Parent	-	-	-	-	-	-	-

* Past due not impaired ('PDNI'); Considered impaired ('CI')

Receivables past due but not considered impaired are: Consolidated \$360,547 (2007: \$449,333); Parent Nil (2007: Nil). Payment terms on these amounts have not been re-negotiated however credit is being monitored until full payment is made. Each business unit has been in direct contact with the relevant debtor and is satisfied that payment will be received in full.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 12. TRADE AND OTHER RECEIVABLES (CONT.)

Other balances within trade and other receivables do not contain impaired assets and are not past due. It is expected that these other balances will be received when due.

(B) FAIR VALUE AND CREDIT RISK

Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value.

The maximum exposure to credit risk is the fair value of receivables. Collateral is not held as security, nor is it the Group's policy to transfer (on-sell) receivables to special purpose entities.

(C) AMOUNT DUE FROM PROJECT WORK

	CONSOLIDATED		PARENT ENTITY	
	2008 \$	2007 \$	2008 \$	2007 \$
Contract cost incurred	11,231,674	10,255,214	-	-
Recognised profits to date	4,833,753	3,199,235	-	-
	16,065,427	13,454,449	-	-
Progress billings	(19,801,075)	(12,952,748)	-	-
Amount due from customers for contract work *	(3,735,648)	501,701	-	-

* 2008 balance of \$(3,735,648) is included in Trade and other payables under Note 18.

NOTE 13. CURRENT ASSETS – INVENTORIES

	CONSOLIDATED		PARENT ENTITY	
	2008 \$	2007 \$	2008 \$	2007 \$
Work-in-progress (at cost)	99,412	-	-	-
Raw materials and finished goods (at lower of cost and net realisable value)	513,304	760,513	-	-
Total inventories at lower of cost and net realisable value	612,716	760,513	-	-

Inventory write-down

Write-downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2008 amounted to \$68,071 (2007: \$Nil). The expense has been included in 'subcontracting and material costs' in the income statement.

NOTE 14. OTHER CURRENT ASSETS

	CONSOLIDATED		PARENT ENTITY	
	2008 \$	2007 \$	2008 \$	2007 \$
Prepayments	140,155	141,092	-	-
Deferred acquisition costs	-	63,634	-	-
Other assets	-	5,400	-	-
	140,155	210,126	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 15. NON-CURRENT ASSETS – PLANT AND EQUIPMENT

CONSOLIDATED	EQUIPMENT & VEHICLES \$	LEASEHOLD IMPROVEMENTS \$	TOTAL \$
At 1 July 2006			
Cost	734,132	113,993	848,125
Accumulated depreciation and amortisation	(495,529)	(51,825)	(547,354)
Net book amount	238,603	62,168	300,771
Year ended 30 June 2007			
Opening Net book amount	238,603	62,168	300,771
Additions	179,621	2,600	182,221
Acquired	625,493	-	615,493
Disposals	(374)	-	(374)
Depreciation and amortisation charge	(180,634)	(10,455)	(191,089)
Closing net book amount	862,709	54,237	916,946
At 1 July 2007			
Cost	1,538,872	116,593	1,655,465
Accumulated depreciation and amortisation	(676,163)	(62,356)	(738,519)
Net book amount	862,709	54,237	916,946
Year ended 30 June 2008			
Opening net book amount	862,709	54,237	916,946
Additions	849,215	-	849,215
Acquired	274,075	148,664	422,739
Disposals	(12,423)	-	(12,423)
Depreciation and amortisation charge	(248,079)	(10,252)	(258,331)
Closing net book amount	1,725,497	192,649	1,918,146
At 30 June 2008			
Cost	2,642,162	268,491	3,484,737
Accumulated depreciation and amortisation	(916,413)	(75,842)	(1,566,591)
Net book amount	1,725,497	192,649	1,918,146

The net carrying amount of assets under finance lease at 30 June 2008 was \$487,550 (2007: \$301,455).

The parent entity held no items of plant and equipment at 30 June 2008 (2007: Nil) and there were no movements in relation to plant and equipment in the parent entity during the year ended 30 June 2008 (2007: Nil).

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 16. NON-CURRENT ASSETS – INTANGIBLE ASSETS AND GOODWILL**(A) RECONCILIATION OF CARRYING AMOUNTS**

CONSOLIDATED	GOODWILL \$	TRADEMARK \$	LICENCES \$	DEVELOPMENT \$	TOTAL \$
At 1 July 2006					
Cost	2,783,484	2,710	315,241	868,047	3,969,482
Accumulated amortisation and impairment	-	-	(193,297)	(364,939)	(558,236)
Net book amount	2,783,484	2,710	121,944	503,108	3,411,246
Year ended 30 June 2007					
Opening Net book amount	2,783,484	2,710	121,944	503,108	3,411,246
Additions	2,027,109	-	-	216,917	2,244,026
Amortisation charge	-	-	-	(186,787)	(186,787)
Net book amount	4,810,593	2,710	121,944	533,238	5,468,485
At 30 June 2007					
Cost	4,810,593	2,710	315,241	1,084,964	6,213,508
Accumulated amortisation and impairment	-	-	(193,297)	(551,726)	(745,023)
Net book amount	4,810,593	2,710	121,944	533,238	5,468,485
Year ended 30 June 2008					
Opening Net book amount	4,810,593	2,710	121,944	533,238	5,468,485
Reclassification	57,422	-	(57,422)	-	-
Additions	4,209,945	-	-	-	4,209,945
Transfers	57,246	-	(57,246)	-	-
Amortisation charge	-	-	-	(208,694)	(208,694)
Net book amount	9,135,206	2,710	7,276	324,544	9,469,736
At 30 June 2008					
Cost	9,135,206	2,710	61,357	754,232	9,953,505
Accumulated amortisation and impairment	-	-	(54,081)	(429,688)	(483,769)
Net book amount	9,135,206	2,710	7,276	324,544	9,469,736

(B) DESCRIPTION OF THE GROUP'S INTANGIBLE ASSETS AND GOODWILL*(i) Goodwill*

After initial recognition, goodwill acquired in a business combination is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is subject to impairment testing on an annual basis or whenever there is an indication of impairment.

(ii) Licences

Licences have been acquired through business combinations and are carried at cost less accumulated impairment losses. These intangible assets have been determined to have indefinite useful lives. The licences have been granted on an ongoing basis with no expiry date, however the license provider may withdraw their consent at any time.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 16. NON-CURRENT ASSETS – INTANGIBLE ASSETS AND GOODWILL (CONT.)*(iii) Development costs*

Development costs are carried at cost less accumulated amortisation and accumulated impairment losses. This intangible asset has been assessed as having a finite life and is amortised using the straight line method over a period of 5 years. The current amortisation charges for intangible assets are included under depreciation and amortisation expense per the Income statement. If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

(C) IMPAIRMENT TEST FOR GOODWILL AND INTANGIBLES WITH INDEFINITE USEFUL LIVES

Goodwill acquired through business combinations and licences have been allocated to 4 individual cash generating units, for impairment testing as follows:

- EGL Infrastructure Operations cash generating unit;
- EGL Management Services cash generating unit;
- EGL Facility Services cash generating unit; and
- EGL Pollution Control cash generating unit

For the purposes of impairment testing these cash generating units are at a lower level than the reportable segments disclosed at note 5. Goodwill and other intangibles with indefinite lives is allocated to the group's cash generating units identified according to business division, a summary of which is presented below:

	EGL INFRASTRUCTURE OPERATIONS \$	EGL MANAGEMENT SERVICES \$	EGL FACILITY SERVICES \$	EGL POLLUTION CONTROL \$	TOTAL \$
Goodwill	2,834,266	470,162	2,323,732	3,507,046	9,135,206
Trademark	2,710	-	-	-	2,710
Licences	7,276	-	-	-	7,276

EGL Infrastructure Operations Cash Generating Unit

The recoverable amount of the EGL infrastructure Operations cash generating unit has been determined based on a fair value less costs to sell model. Management's analysis involved using an EBITDA multiple valuation technique. The EBITDA multiple used in the fair value calculation is based upon an observable market price. This multiple was based on recent known business acquisitions in the same market as the EGL Infrastructure Operations cash generating unit.

The EBITDA is based on the forecasted financial performance of the EGL Infrastructure Operations cash generating unit. These forecasts are based on management budgets and historical performance adjusted for abnormal items.

Management have reviewed the key assumptions used in the fair value less costs to sell model in order to determine the sensitivity of the assumptions used. Management believe the likelihood of a reasonably possible change in each of the key assumptions will not result in impairment. Management will review the assumptions used at the conclusion of each reporting period to ensure the assumptions remain in line with the circumstances and developments for this cash generating unit.

EGL Management Services Cash Generating Unit

The recoverable amount of the EGL Management Services Cash Generating Unit has been determined using a value in use calculation which is based on financial cash flow projections over a five year period. The pre tax discount rate applied to the cash flow projections is 19% (2007: 19%). The growth rate used to extrapolate the cash flows beyond the budget period is 5.0%.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 16. NON-CURRENT ASSETS – INTANGIBLE ASSETS AND GOODWILL (CONT.)

Management have reviewed the key assumptions used in the value in use model in order to determine the sensitivity of the assumptions used. Management believe the likelihood of a reasonably possible change in each of the key assumptions will not result in impairment. Management will review the assumptions used at the conclusion of each reporting period to ensure the assumptions remain in line with the circumstances and developments for this cash generating unit.

EGL Facility Services Cash Generating Unit

The recoverable amount of the EGL Facility Services Cash Generating Unit has been determined using a value in use calculation which is based on financial cash flow projections over a five year period. The pre tax discount rate applied to the cash flow projections is 19% (2007: 19%). The growth rate used to extrapolate the cash flows beyond the budget period is 5.0%.

Management have reviewed the key assumptions used in the value in use model in order to determine the sensitivity of the assumptions used. Management believe the likelihood of a reasonably possible change in each of the key assumptions will not result in impairment. Management will review the assumptions used at the conclusion of each reporting period to ensure the assumptions remain in line with the circumstances and developments for this cash generating unit.

EGL Pollution Control Cash Generating Unit

The recoverable amount of the EGL Pollution Control cash generating unit has been determined based on a fair value less costs to sell model. Management's analysis involved using an EBITDA multiple valuation technique. The EBITDA multiple used in the fair value calculation is based upon an observable market price. This multiple was based on recent known business acquisitions in the same market as the EGL Pollution Control cash generating unit.

The EBITDA is based on the forecasted financial performance of the EGL Pollution Control cash generating unit. These forecasts are based on management budgets and historical performance adjusted for abnormal items.

Management have reviewed the key assumptions used in the fair value less costs to sell model in order to determine the sensitivity of the assumptions used. Management believe the likelihood of a reasonably possible change in each of the key assumptions will not result in impairment. Management will review the assumptions used at the conclusion of each reporting period to ensure the assumptions remain in line with the circumstances and developments for this cash generating unit.

NOTE 17 OTHER FINANCIAL ASSETS

	CONSOLIDATED		PARENT ENTITY	
	2008 \$	2007 \$	2008 \$	2007 \$
<i>Current</i>				
Term deposits and Bank bills	856,224	791,817	-	-
<i>Non-Current</i>				
Investments in subsidiaries (note 24)	-	-	4,120,220	4,120,220

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 18. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	CONSOLIDATED		PARENT ENTITY	
	2008 \$	2007 \$	2008 \$	2007 \$
Trade payables	3,124,963	3,037,626	-	-
Sundry creditors	551,924	420,743	-	-
Other payables	274,418	318,187	-	-
Amounts due from wholly owned subsidiaries	-	-	872,094	872,094
Deferred purchase consideration accruals (see note 25)	702,728	-	-	-
Progress claims [see note 12 (c)]	3,735,648	-	-	-
	8,389,681	3,776,556	872,094	872,094

Information regarding interest rate, foreign exchange and liquidity risk exposure is set out in note 4.

NOTE 19. INTEREST-BEARING LOANS AND BORROWINGS

	CONSOLIDATED		PARENT ENTITY	
	2008 \$	2007 \$	2008 \$	2007 \$
<i>Current</i>				
Obligations under finance leases and hire purchase contracts (note 26)	116,167	150,941	-	-
Commercial Bill (c)	650,000	-	-	-
	766,167	150,941	-	-
<i>Non Current</i>				
Obligations under finance leases and hire purchase contracts (note 26)	300,626	149,718	-	-
Commercial Bill (c)	-	850,000	-	-
	300,626	999,718	-	-

(A) FAIR VALUES

The carrying amount of the Group's current and non-current borrowings approximate their fair value.

(B) INTEREST RATE AND LIQUIDITY RISK

Details regarding interest rate, foreign exchange and liquidity risk is disclosed in note 4.

(C) COMMERCIAL BILL FACILITY

The commercial bill relates to a bank loan facility which has a rolling maturity of 90 days. The loan was refinanced during July 2008 on similar terms as current at 30 June 2008, requiring quarterly principle reductions of \$50,000 per quarter.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 20. LIABILITIES – PROVISIONS

	CONSOLIDATED		PARENT ENTITY	
	2008 \$	2007 \$	2008 \$	2007 \$
<i>Current</i>				
Long service leave	106,363	21,258	-	-
Annual leave	432,785	491,226	-	-
Maintenance provision	218	118,494	-	-
Other provisions	-	22,855	-	-
	539,366	653,833	-	-
<i>Non Current</i>				
Long service leave	182,595	99,895	-	-
	182,595	99,895	-	-

Maintenance provision

A provision of \$218 (2007: \$118,494) at 30 June 2008 has been recognised for estimated repairs associated with contract work performed during the financial year.

Movements in provisions

Movement in each class of provision during the financial year, other than provision relating to employee benefits, are set out below:

CONSOLIDATED (CURRENT)	MAINTENANCE PROVISION \$	OTHER PROVISIONS \$	TOTAL \$
At 1 July 2007	118,494	22,855	141,349
Arising during the year	-	-	-
Utilised	(118,276)	(22,855)	(141,131)
At 30 June 2008	218	-	218

NOTE 21. CONTRIBUTED EQUITY**(A) SHARE CAPITAL**

	CONSOLIDATED		PARENT ENTITY	
	2008 \$	2007 \$	2008 \$	2007 \$
Ordinary shares				
235,027,291 fully paid shares (2007: 101,893,363)	16,707,670	9,031,216	16,707,670	9,031,216

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 21. CONTRIBUTED EQUITY (CONT.)**(B) MOVEMENTS IN ORDINARY SHARE CAPITAL:**

DATE	DETAILS	NUMBER OF ORDINARY SHARES	SHARE CAPITAL
			\$
1 Jul 2006	Opening Balance	77,324,141	6,776,654
1 Sep 2006	Share issue	14,777,778	1,330,000
25 Sep 2006	Share issue	8,444,444	760,000
12 Dec 2006	Share issue – Part consideration for purchase of Mine Assist Pty Limited	1,347,000	202,062
	Transaction costs	-	(37,500)
30 Jun 2007	Balance	101,893,363	9,031,216
21 Sep 2007	Share issue – Placement and Right issue *	124,911,136	7,494,668
11 Jan 2008	Share issue – Exercise of right issue options	69,281	5,542
15 Feb 2008	Share issue – Part consideration for purchase of Total Air Pollution control Pty Limited	7,407,407	500,000
3 Apr 2008	Share issue – Exercise of right issue options	196,104	15,735
3 Apr 2008	Share issue – Part consideration for purchase of Mine Assist Pty Limited	550,000	45,000
	Transaction Costs	-	(384,491)
30 Jun 2008	Closing Balance	235,027,291	16,707,670

* At the Company's general meeting held on 6 September, shareholders approved a capital raising program which included:

- A pro rata 5 for 6 non-renounceable rights issue of 56,160,969 shares at \$0.06 per share raising \$3,369,658
- A placement to CVC sustainable Investments (CVCSI) of 40,000,000 shares at an issue price of \$0.06 to raise \$2,400,000.
- A Placement and Rights Issue, granting 1 Option to subscribe for a new share at an issue price of \$0.08 per share.
- The underwriting by CVCSI of any Rights Issue shortfall of 28,750,167 shares raising \$1,725,010.

(C) CAPITAL MANAGEMENT

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders. Management aims to maintain a capital structure that ensures the lowest cost of capital available to the entity. The table below summarises total capital managed by the Company:

	CONSOLIDATED		PARENT ENTITY	
	2008 \$	2007 \$	2008 \$	2007 \$
Total borrowings *	9,480,119	4,927,215	872,094	872,094
Less cash and cash equivalents	(5,512,973)	(1,606,696)	(4,000,256)	(10)
Net debt	3,967,146	3,320,519	(3,128,162)	872,084
Total equity	17,442,977	9,150,655	17,406,795	10,399,269
Total capital	21,410,123	12,471,174	14,278,633	11,271,353

* Includes interest bearing liabilities, borrowings and trade and other payables

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 22. RETAINED EARNINGS AND RESERVES**(A) MOVEMENTS IN RETAINED EARNINGS WERE AS FOLLOWS:**

	CONSOLIDATED		PARENT ENTITY	
	2008 \$	2007 \$	2008 \$	2007 \$
Balance 1 July	25,383	996,549	1,368,053	1,368,053
Net profit (loss) for the year	342,425	(971,166)	(942,371)	-
Options cancelled during the year	13,760	-	13,760	-
Balance 30 June	381,568	25,383	439,442	1,368,053

(B) MOVEMENTS IN RESERVES WERE AS FOLLOWS*Employee benefits reserve*

	CONSOLIDATED		PARENT ENTITY	
	2008 \$	2007 \$	2008 \$	2007 \$
Balance 1 July	94,056	-	-	-
Share based payment	273,443	94,056	273,443	-
Options cancelled during the year	(13,760)	-	(13,760)	-
Balance 30 June	353,739	94,056	259,683	-

The employee benefits reserve is used to record the value of share based payments provided to employees, including key management personnel, as part of their remuneration. Refer to note 32 for further details of these plans.

NOTE 23. CASH FLOW STATEMENT RECONCILIATION

	CONSOLIDATED		PARENT ENTITY	
	2008 \$	2007 \$	2008 \$	2007 \$
Profit / (loss) from operating activities after tax	342,425	(971,166)	(942,371)	-
<i>Non-cash flows in (loss) / profit from operating activities:</i>				
Depreciation & amortisation	467,025	377,951	-	-
Other non-cash flow items	200,461	(72,165)	30	-
Options Issued	273,443	34,500	273,443	-
<i>Changes in assets and liabilities:</i>				
(Increase) / decrease in Receivables	(3,147,151)	2,753,328	(21,010)	-
(Increase) / decrease in Inventories	486,730	28,316	-	-
(Increase) / decrease in Prepayments	187,822	22,203	-	-
(Increase) / decrease in Deferred tax assets	241,323	(314,658)	(319,874)	-
(Decrease) / increase in Payables	3,160,990	(241,877)	-	-
(Decrease) / increase in Provisions	(144,186)	247,370	-	-
(Decrease) / increase in Tax Liabilities	(134,264)	(209,103)	-	-
Net cash from operating activities	1,934,618	1,654,699	(1,009,782)	-

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 24. SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2(a):

NAME OF ENTITY	COUNTRY OF INCORPORATION	CLASS OF SHARES	EQUITY HOLDING	
			2008 %	2007 %
The Environmental Group Share Plans Pty Limited	Australia	Ordinary	100	100
Environmental Group (Operations) Pty Limited <i>(formerly Environmental Systems Pty Limited)</i>	Australia	Ordinary	100	100
Horizon APC Australia Pty Limited <i>(formerly Activated Carbons Australia Pty Limited)</i>	Australia	Ordinary	100	100
Environmental Products Pty Limited	Australia	Ordinary	100	100
Coal and Carbon Industries (Australia) Pty Limited	Australia	Ordinary	100	100
Environmental Systems International Pty Limited <i>(formerly Stannary Hills Mining Pty Limited)</i>	Australia	Ordinary	100	100
Jetflote Australia Pty Limited	Australia	Ordinary	100	100
Water Environment Systems Pty Limited	Australia	Ordinary	100	100
EGL Developments Pty Limited	Australia	Ordinary	100	100
EGL Water Operations Pty Limited	Australia	Ordinary	100	100
EGL Management Services Pty Limited <i>(formerly Anglian Water Pty Limited)</i>	Australia	Ordinary	100	100
Coriolis Water Services (Australia) Pty Limited	Australia	Ordinary	100	100
Mine Assist Pty Limited	Australia	Ordinary	100	100
Pump Assist Pty Limited	Australia	Ordinary	100	100
Total Air Pollution Control Pty Limited	Australia	Ordinary	100	-

NOTE 25. BUSINESS COMBINATIONS**(A) ACQUISITION OF TOTAL AIR POLLUTION CONTROL PTY LIMITED**

On 11 September 2007, The Environmental Group Limited acquired 100% of the voting shares of Total Air Pollution Control Pty Limited ("TAPC"), an unlisted company based in Australia specialising in the removal of particulates from air pollution streams.

The acquired business contributed revenues of \$4,131,743 and profit before tax of \$944,063 to the Group for the period 12 September 2007 to 30 June 2008. The consolidated revenue and net profit that would have resulted had the acquisition been made on 1 July 2007 is not disclosed as their estimation is unreliable due to the impact of certain expenses of a private company nature during the period prior to acquisition.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 25. BUSINESS COMBINATIONS (CONT.)**(A) ACQUISITION OF TOTAL AIR POLLUTION CONTROL PTY LIMITED (CONT.)**

Details of the net assets acquired and goodwill are as follows:

	\$
Purchase consideration	
Cash	3,000,000
Short term borrowings	930,704
Shares issued	500,000
Contingent consideration accrued to date	357,352
Costs associates with the acquisition	218,637
Total purchase consideration	5,006,693
Fair value of net identifiable assets acquired (refer below)	1,499,649
Goodwill	3,507,044

The goodwill is attributable to the workforce and the high profitability of the acquired business and the synergies expected to arise after the company's acquisition of the new subsidiary.

The assets and liabilities arising from the acquisition are as follows:

	\$
Cash and cash equivalents	588,468
Other financial assets	77,265
Trade receivables	1,041,403
Inventory	338,933
Fixed Assets	336,973
Other assets	117,851
Deferred tax assets	39,292
Trade and other payables	(647,151)
Provision for income tax	(178,710)
Provisions	(112,419)
Other liabilities	(102,256)
Fair value of net assets	1,499,649

The carrying amounts are equal to the fair value of the assets and liabilities as at acquisition date.

The cash outflow relating to the acquisition is as follows:

	\$
Net cash acquired with subsidiary	588,468
Cash paid in current and prior period	(4,053,199)
Net cash outflow	(3,464,731)

An additional amount of \$357,352 was accrued during the year as contingent consideration under the Total Air Pollution Control earn out agreement specified at Note 33. Total goodwill associated with the acquisition is \$3,507,044. Further contingent consideration amounts are not estimatable at 30 June 2008.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 25. BUSINESS COMBINATIONS (CONT.)**(B) ACQUISITION OF MORANBAH ENGINEERING PTY LIMITED (CONT.)**

On 12 November 2007, The Environmental Group Limited, through its wholly owned subsidiary Mine Assist Pty Ltd, completed the acquisition of the business assets of Moranbah Engineering Pty Limited, an unlisted company based in Australia specialising in the provision of products and services to the mining industry.

The acquired business contributed revenues of \$1,549,181 and profit before tax of \$108,451 to the Group for the period 13 November 2007 to 30 June 2008. The consolidated revenue and net profit that would have resulted had the acquisition been made on 1 July 2007 is not disclosed as their estimation is unreliable due to the impact of certain expenses of a private company nature during the period prior to acquisition.

Details of the net assets acquired and goodwill are as follows:

	\$
Purchase consideration	
Cash	320,000
Costs associates with the acquisition	28,522
Total purchase consideration	348,522
Fair value of net identifiable assets acquired (refer below)	85,766
Goodwill	262,756

The goodwill is attributable to the workforce, profitability of the acquired business and the synergies expected to arise after the company's acquisition of the new subsidiary.

The assets and liabilities arising from the acquisition are as follows:

	\$
Plant & Equipment	85,766
Fair value of net assets	85,766

The carrying amounts are equal to the fair value of the assets and liabilities as at acquisition date.

The cash outflow relating to the acquisition is as follows:

	\$
Net cash acquired with subsidiary	0
Cash paid	(348,522)
Net cash outflow	(348,522)

(C) PRIOR PERIOD ACQUISITIONS

During the year ended 30 June 2008 costs associated with the acquisition of Mine Assist Pty Ltd increased Goodwill by \$45,881. In addition an amount of \$296,836 was recognised as goodwill as a result of payments accrued under the Mine Assist Pty Limited earn out agreement specified at note 33.

During the year ended 30 June 2008 an amount of \$48,540 was recognised as goodwill as a result of payments accrued under the Coriolis earn out agreement specified at note 33.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 26. COMMITMENTS**Leasing commitments***Operating lease commitments*

The Group has entered into commercial leases on certain items of property and equipment. Equipment leases are generally taken over a 48 month period. Property leases have been taken out for up to 10 years.

Future minimum rentals payable under non-cancellable operating leases as at 30 June 2008 are as follows:

	CONSOLIDATED		PARENT ENTITY	
	2008 \$	2007 \$	2008 \$	2007 \$
Within one year	376,949	333,335	-	-
Later than one year but not more than five years	498,463	365,415	-	-
After more than five years	331,046	-	-	-
	1,206,458	698,750	-	-

Finance leases and hire purchase commitments

The Group leases motor vehicles and items of plant and equipment. These leases have an average term of 4.5 years

Commitments in relation to finance and hire purchase arrangements are as follows:

	CONSOLIDATED		PARENT ENTITY	
	2008 \$	2007 \$	2008 \$	2007 \$
Within one year	147,770	171,428	-	-
Later than one year but not more than five years	338,432	175,628	-	-
After more than five years	-	-	-	-
Total minimum lease payments	486,202	347,056	-	-
Less amounts representing finance charges	(69,409)	(46,397)	-	-
Total lease liabilities	416,793	300,659	-	-
<i>Representing lease liabilities:</i>				
Current	116,167	150,941	-	-
Non-current	300,626	149,718	-	-
	416,793	300,659	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 27. DIVIDENDS**(A) RECOGNISED AMOUNTS**

The consolidated entity has not declared or paid dividends during the year ended 30 June 2008 (2007: Nil)

(B) UNRECOGNISED AMOUNTS

	CONSOLIDATED		PARENT ENTITY	
	2008 \$	2007 \$	2008 \$	2007 \$
Dividends on ordinary shares:				
Franked dividend declared subsequent to year-end: 0.3 cents	705,082	-	705,082	-

The directors have declared a franked dividend of 0.3 cents per fully paid share (2007 - Nil) payable 10 October 2008 to shareholders registered as at 5:00pm on 30 September 2008. These amounts have not been recognised as a liability in the year ended 30 June 2008 and will be brought to account in the 2009 financial year.

(C) FRANKING CREDIT BALANCE

The amount of franking credits available for the subsequent financial year are:

	PARENT ENTITY	
	2008 \$	2007 \$
Franking account balance as at the end of the financial year:	1,215,269	1,081,005
Impact on franking account of dividends declared but not recognised as a distribution to equity holders during the period:	(302,178)	-
	913,091	1,081,005

(D) TAX RATES

Dividends proposed will be franked at the rate of 30%

NOTE 28. EVENTS AFTER THE BALANCE SHEET DATE

On 22 July the Company announced to the ASX that through its subsidiary it had completed the acquisition of Lenmac Engineering for \$400,000 with a net cash outflow of \$300,000 paid on settlement and \$100,000 to be paid on an earn out deferred settlement basis. The carrying amount of identifiable net assets recognised at the date of acquisition was \$74,197, consisting of vehicles \$37,000 and equipment \$37,197. The carrying amount on acquisition reflects their fair value. Initial goodwill recognised on acquisition amounts to \$225,803. The acquisition of the business is expected to generate approximately \$250,000 of profit before tax in the next 12 months.

On 9 September 2008, the Company announced to the ASX that the Directors had resolved to accelerate the Company's acquisition and corporate program and to this end had appointed a corporate advisor to advise the Company on corporate opportunities for acquisitive growth, mergers and divestures.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 29. KEY MANAGEMENT PERSONNEL DISCLOSURES**(A) DETAILS OF KEY MANAGEMENT PERSONNEL**

(I) DIRECTORS	
John Read	Chairman (non-executive)
Duncan Stone	Managing Director – appointed 6 Sep 07 (chief executive officer from 9 July 2008)
Elliott Kaplan	Director (non executive) – appointed 29 Nov 07
Rhett Butler	Director (non executive) – appointed 15 Feb 08
Chris Fullerton	Director (non executive) – resigned 30 Apr 08
Julian Higgs	Director (executive) – resigned 29 Nov 07
Richard Kell	Director (non executive) – resigned 29 Nov 07
Christian Jensen	Director (non executive) - appointed 6 Sep 07: resigned 31 Jan 08

(II) EXECUTIVES	
Ashley Arnott	Company Secretary & Chief Financial Officer – appointed 1 Nov 07
Bjorn Borg	General Manager – Environmental Group (Operations) Pty Ltd
Simon Cobden	General Manager: Gas & Vapour
Frank Placko	General Manager: Water
Mark Spinks	General Manager: Mining Services
Gary Hardie	General Manager: Air Pollution – appointed 11 Sep 07

There have been no changes of the KMP after reporting date and before the date the financial report was authorised for issue.

(B) COMPENSATION FOR KEY MANAGEMENT PERSONNEL

	CONSOLIDATED		PARENT ENTITY	
	2008 \$	2007 \$	2008 \$	2007 \$
Short term employee benefits	1,320,699	853,163	524,276	-
Post-employment benefits	192,066	100,047	28,527	-
Termination benefits	-	-	-	-
Share-based payments	273,443	34,500	273,443	-
Total compensation	1,786,208	987,710	826,246	-

The company has applied the option under *Corporations Amendments Regulation 2006* to transfer KMP remuneration disclosures required by AASB 124 *Related Party Disclosures* paragraphs Aus 25.4 to Aus 25.7.2 to the Remuneration Report section of the Directors' report. These transferred disclosures have been audited.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 29. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONT.)**(C) SHARE AND OPTION HOLDINGS OF KEY MANAGEMENT PERSONNEL***(i) Options provided as remuneration and shares issued on exercise of such options*

The number of options over ordinary shares in The Environmental Group Ltd provided as remuneration and shares issued on exercise of such options during the financial year by each director of The Environmental Group Ltd and the key management personnel of the Group, including their personally-related entities, are set out below:

NAME	NUMBER OF OPTIONS GRANTED DURING THE YEAR		NUMBER OF OPTIONS EXERCISED DURING THE YEAR	
	2008	2007	2008	2007
Directors				
John Read	400,000	-	-	-
Duncan Stone	7,500,000	-	-	-
Elliott Kaplan	1,000,000	-	-	-
Chris Fullerton	400,000	-	-	-
Executives				
Bjorn Borg	-	500,000	-	-
Simon Cobden	-	500,000	-	-
Total	9,300,000	1,000,000	-	-

(ii) Option holdings

The number of options over ordinary shares in the company held during the financial year by each director of The Environmental Group Ltd and other key management personnel of the Group, including their personally related parties, are set out below.

2008

NAME	BALANCE AT START OF YEAR	GRANTED DURING YEAR AS COMPENSATION	EXERCISED DURING THE YEAR	OTHER CHANGES DURING THE YEAR	BALANCE AT END OF YEAR	VESTED AND EXERCISABLE AT END OF YEAR
Directors						
John Read	-	400,000	-	-	400,000	400,000
Duncan Stone	-	7,500,000	-	-	7,500,000	2,500,000
Elliott Kaplan	-	1,000,000	-	-	1,000,000	1,000,000
Chris Fullerton	-	400,000	-	(400,000)	-	-
Executives						
Bjorn Borg	500,000	-	-	-	500,000	500,000
Simon Cobden	500,000	-	-	-	500,000	500,000

2007

NAME	BALANCE AT START OF YEAR	GRANTED DURING YEAR AS COMPENSATION	EXERCISED DURING THE YEAR	OTHER CHANGES DURING THE YEAR	BALANCE AT END OF YEAR	VESTED AND EXERCISABLE AT END OF YEAR
Directors						
Mike Williamson	1,500,000	-	-	(1,500,000)	-	-
Executives						
Bjorn Borg	-	500,000	-	-	500,000	500,000
Simon Cobden	-	500,000	-	-	500,000	500,000

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 29. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONT.)**(C) SHARE AND OPTION HOLDINGS OF KEY MANAGEMENT PERSONNEL (CONT.)***(iii) Share holdings*

The number of shares held during the financial year by each director of The Environmental Group Ltd and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

2008

NAME	BALANCE AT START OF YEAR	RECEIVED DURING YEAR ON EXERCISE OF OPTIONS	OTHER CHANGES DURING THE YEAR	BALANCE AT END OF YEAR
Directors				
John Read	2,925,014	-	2,435,872	5,360,886
Duncan Stone	-	-	4,166,667	4,166,667
Elliott Kaplan	-	-	-	-
Rhett Butler	-	-	-	-
Chris Fullerton *	6,055,555	-	-	-
Julian Higgs *	2,351,601	-	-	-
Richard Kell *	635,555	-	-	-
Christian Jensen *	-	-	-	-
Executives				
Ashley Arnott	-	-	-	-
Bjorn Borg	-	-	-	-
Simon Cobden	-	-	-	-
Frank Placko	-	-	-	-
Mark Spinks	673,500	-	1,111,250	1,784,750
Gary Hardie	-	-	7,407,407	7,407,407

* Messrs Fullerton, Higgs, Kell and Jensen resigned during the year and as such their holding does not form part of the key management personnel balance at reporting date.

2007

NAME	BALANCE AT START OF YEAR	RECEIVED DURING YEAR ON EXERCISE OF OPTIONS	OTHER CHANGES DURING THE YEAR	BALANCE AT END OF YEAR
Directors				
John Read	2,702,794	-	222,220	2,925,014
Mike Williamson	61,289	-	105,555	166,844
Chris Fullerton	6,000,000	-	55,555	6,055,555
Julian Higgs	2,296,047	-	55,554	2,351,601
Richard Kell	580,000	-	55,555	635,555
Executives				
Bjorn Borg	-	-	-	-
Simon Cobden	-	-	-	-
Mark Spinks	-	-	673,500	673,500

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 29. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONT.)**(D) LOANS TO KEY MANAGEMENT PERSONNEL**

In 2008 no loans were made to directors of The Environmental Group Limited or other key management personnel of the group, including their personally related parties.

(E) OTHER TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

During the year ended 30 June 2008 the company paid management fees to CVC Managers Pty Ltd totalling \$22,546 in relation to director services of Elliott Kaplan (\$14,652) and Christian Jensen (\$7,894).

Except for the above, no other transactions occurred with directors of The Environmental Group Limited or other key management personnel of the group, including their personally related parties.

NOTE 30. RELATED PARTY DISCLOSURE**(A) PARENT ENTITY AND SUBSIDIARIES**

The parent entity of the Group is The Environmental Group Ltd. Interests in subsidiaries are set out in note 24.

(B) KEY MANAGEMENT PERSONNEL

Details relating to key management personnel, including remuneration paid are included in note 29.

(C) LOANS TO/ FROM RELATED PARTIES

The Environmental Group Limited provides an interest free loan to its subsidiary, The Environmental Group (Operations) Pty Limited, which is repayable on demand. The loan balance as at 30 June 2008 was \$7,143,062 (2007: \$5,186,012).

The Environmental Group Limited utilises interest free loans from its subsidiaries. The list below provides the loans held by provider as at 30 June:

	2008 \$	2007 \$
Environmental Systems International Pty Limited	31,000	31,000
Water Environment Services Pty Limited	203,018	203,018
EGL Management Services Pty Limited	638,076	638,076
	872,094	872,094

NOTE 31. REMUNERATION OF AUDITORS

The auditor of The Environmental Group Limited is Ernst & Young. During the year the following fees were paid or payable for services provided by the auditor of the parent entity and its related practices and non-related audit firms:

	CONSOLIDATED		PARENT ENTITY	
	2008 \$	2007 \$	2008 \$	2007 \$
Amounts received or due and receivable by Ernst & Young (Australia) for:				
• an audit or review of the financial report of the entity and any other entity in the consolidated group	87,900	68,500	87,900	68,500

The Group has not employed Ernst & Young on any assignments additional to their statutory audit duties.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 32. SHARE BASED PAYMENT PLANS**(A) RECOGNISED SHARE BASED PAYMENT EXPENSES**

Total expense recognised for share-based payment transactions during the year is shown in the table below: follows:

	CONSOLIDATED		PARENT ENTITY	
	2008 \$	2007 \$	2008 \$	2007 \$
Expense arising from share-based payment transactions	273,443	34,500	273,443	-

The share-based payment plans are described below. There have been no cancellations or modifications to any of the plans during 2008 and 2007.

(B) TYPES OF SHARE BASED PAYMENT PLANS AND SUMMARY OF OPTION GRANTED*Employee Share Plan*

In a resolution approved by shareholders at the AGM of 29 November 2000, the Company operates a Staff Share Plan for the benefit of all employees. A total of 621,111 ordinary shares have been issued since commencement of the scheme at no cost to the employees. A further 195,812 shares were purchased "on market" at no cost to the employees. No shares have been purchased or issued during the years ended 30 June 2007 and 2008.

Employee Share Option Plan ("ESOP")

Options are granted under the ESOP for no consideration and, entitle the holder to subscribe for one fully paid ordinary share upon exercise at the exercise price. The Environmental Group board of directors have authority to grant options to employees and to determine the exercise price of the options granted. The ESOP is designed to align participants' interests with those of shareholders by increasing the value of the Company's shares.

When a participant ceases employment prior to the vesting of the share options, the share options are forfeited unless cessation of employment is due to termination initiated by the Group or death. In the event of a change of control the performance period end date will be brought forward to the date of the change of control and awards will vest subject to performance.

Options are not transferable and do not confer voting rights, nor an entitlement to share dividends or to participate in any new issues of shares until exercised.

Set out below is the summary of options granted under the plan. The table also indicates the movement in the numbers of employee options over the year ended 30 June 2008.

GRANT DATE	EXPIRY DATE	EXERCISE PRICE	OPENING BALANCE	ISSUED	EXERCISED	EXPIRED	CLOSING BALANCE
1 Jul 06	30 Jun 09	\$0.20	250,000	-	-	-	250,000
1 Jul 06	30 Jun 09	\$0.20	250,000	-	-	-	250,000
1 Jul 06	30 Jun 09	\$0.275	250,000	-	-	-	250,000
1 Jul 06	30 Jun 09	\$0.275	250,000	-	-	-	250,000
Total			1,000,000	-	-	-	1,000,000
Weighted average exercise price:			\$0.24	-	-	-	\$0.24

The total number of outstanding ESOP options represents 0.4% (2007: 1.0%) of the total number of issued ordinary shares in the capital of The Environmental Group Ltd.

The fair value of the options granted is estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. No other options are on issue than those noted above. No options were granted during the year under this plan.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 32. SHARE BASED PAYMENT PLANS (CONT.)**(B) TYPES OF SHARE BASED PAYMENT PLANS AND SUMMARY OF OPTION GRANTED (CONT.)**

All options have vested and are able to be exercised at 30 June 2008. There are no specific performance conditions associated with the above granted options. The weighted average life for the share options outstanding is 1.5 years. The weighted average fair value of options granted during 2007 was \$0.034.

Other Options granted and on issue

Other options on issue relate to outstanding board and executive options. Set out below is the summary of executive options on issue and the movement in the numbers of options over the year ended 30 June 2008.

GRANT DATE	EXPIRY DATE	EXERCISE PRICE	OPENING BALANCE	ISSUED	EXERCISED	EXPIRED	CLOSING BALANCE	DATES EXERCISABLE
06 Sep 07	05 Sep 12	\$0.08	-	2,500,000	-	-	2,500,000	06 Sep 07
06 Sep 07	05 Sep 13	\$0.08	-	2,500,000	-	-	2,500,000	06 Sep 08
06 Sep 07	05 Sep 14	\$0.08	-	2,500,000	-	-	2,500,000	06 Sep 09
01 Feb 08	31 Jan 13	\$0.08	-	1,800,000	-	(400,000)	1,400,000	01 Feb 08
Total			-	9,300,000	-	(400,000)	8,900,000	
Weighted average exercise price:			-	\$0.08	-	\$0.08	\$0.08	

The total number of outstanding board and executive options represents 3.8% (2007: 0%) of the total number of issued ordinary shares in the capital of The Environmental Group Ltd.

The following terms apply to board and executive options:

- each option entitles the holder to subscribe for one fully-paid ordinary share in The Environmental Group Ltd upon exercise at the exercise price;
- they must be exercised by the expiry date or they lapse;
- they do not confer voting rights nor an entitlement to share dividends declared and paid by The Environmental Group Ltd;
- they do not confer a right to participate in any share issue of any other body corporate.

The fair value of the options granted is estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model for the year ending 30 June 2008.

Weighted average share price	\$0.080
Dividend yield	Nil
Exercise period of options from issue	2.5 years
Expected volatility	60%
Weighted average risk free interest rate at date of grant	6.87%

The weighted average life for the share options outstanding is 5.2 years. The weighted average fair value of options granted during 2008 was \$0.039

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 33. CONTINGENCIES*Guarantees*

The group has given bank guarantees to unrelated parties in respect of performance guarantees. No liability is expected to arise from these guarantees and accordingly no provision has been recognised in these financial statements. The total performance guarantees for the Group at 30 June 2008 are \$849,899 (2007: \$1,194,063).

Earn out agreements from business combinations

Under the terms of the share sale agreement, the former shareholders of Coriollis Water services (Australia) Pty Limited are entitled to a share of certain future profits generated by the business. Payments are expected to occur during the period commencing 31 March 2007 and concluding 31 March 2010. The payment amount is calculated on the gross profit recorded each year

Under the terms of the share sale agreement, the former shareholders of Mine Assist Pty Limited and Pump Assist Pty Ltd are entitled to a share of certain future profits generated by the business during the financial years ending 30 June 2007, 2008, 2009 and 2010. The payment amount is calculated on the profit before tax recorded each year.

Under the terms of the share sale agreement, the former shareholders of Total Air Pollution Control Pty Limited are entitled to a share of certain future profits generated by the business during the five years commencing on 10 October 2007 and concluding 9 October 2012. The payment amount is calculated on the profit before tax recorded each year.

As at the date of this report, it was not practicable to reliably estimate the potential financial effect of these contingent liabilities.

DIRECTORS' DECLARATION

The directors of The Environmental Group Limited declare that:

1. In the opinion of the directors:

- (a) the financial statements, notes and the additional disclosures included in the directors' report designated as audited, of the company and of the consolidated entity are 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 2008 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ending 30 June 2008.

On behalf of the Board



JOHN D. READ
CHAIRMAN



DUNCAN STONE
MANAGING DIRECTOR & CEO

Sydney, 24 September 2008



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Independent auditor's report to the members of The Environmental Group Limited

Report on the Financial Report

We have audited the accompanying financial report of The Environmental Group Limited, which comprises the balance sheet as at 30 June 2008, 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, 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.

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 the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls 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 2, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our 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, we consider internal controls 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 controls. 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.

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

Independence

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration.

Licensee (issued by a technical approval)
under Professional Standards Legislation

Auditor's Opinion

In our opinion:

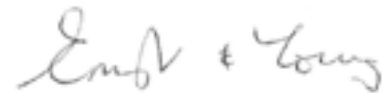
1. the financial report of The Environmental Group Limited is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the financial position of The Environmental Group Limited and the consolidated entity at 30 June 2008 and of their performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 7 to 11 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of The Environmental Group Limited for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001*.



Ernst & Young



Daniel Cunningham
 Partner
 Sydney
 24 September 2008

SHAREHOLDING STATISTICS

The following information is current as at 3rd October 2008.

(A) DISTRIBUTION OF EQUITY SECURITIES

(i) Ordinary share capital

235,027,292 fully paid ordinary shares are held by 2,359 individual shareholders.

Voting rights: On a show of hands, every member present in person or by proxy, shall have one vote and upon a poll every such attending member shall be entitled to one vote for every share held.

(ii) Options

4,900,000 options are held by 5 individual option holders.

Voting rights: Options do not carry a right to vote.

The number of equity security holders by size of holding, in each class are:

	FULLY PAID ORDINARY SHARES	%	OPTIONS	%
1-1,000	951	0.15	-	-
1,001-5,000	516	0.56	-	-
5,001-10,000	182	0.65	-	-
10,001-100,000	490	8.25	-	-
100,001 and over	217	90.39	5	100
Totals	2,356	100	5	100

(B) MARKETABLE PARCEL

The number of shareholdings held in less than marketable parcel is 1,304.

(C) SUBSTANTIAL SHAREHOLDERS

Substantial shareholders of ordinary shares in the company are set out below:

NAME	NUMBER OF ORDINARY SHARES HELD	PERCENTAGE OF ORDINARY SHARES ISSUED
CVC Sustainable Investments Limited	73,224,524	31.16%

(D) TWENTY LARGEST HOLDERS OF QUOTED EQUITY SECURITIES

NAME	NUMBER OF ORDINARY SHARES HELD	PERCENTAGE OF ORDINARY SHARES ISSUED
C V C Sustainable Investments Limited	73,224,524	31.16%
Mandalay Capital Pty Ltd	9,826,850	4.18%
Mr Gary Denis Hardie & Mrs Karen Anne Hardie	7,407,407	3.15%
Mr Clarence John Kelly & Mrs Robyn Suzanne Kelly	6,815,186	2.90%
Ace Property Holdings Pty Ltd	6,500,000	2.77%
Bros Nominees Pty Ltd	5,483,701	2.33%
Doldory Pty Ltd	4,286,350	1.82%
Mr Duncan Stone	4,166,667	1.77%
Cannington Corporation Pty Limited	4,943,372	2.10%
Instil Enterprises Pty Ltd	3,820,000	1.63%
CVC Limited	3,719,093	1.58%
Sysuper Pty Ltd	3,496,102	1.49%
Kenmarico Pty Ltd	3,317,184	1.41%
Clapsy Pty Ltd	2,478,767	1.05%
ANZ Nominees Limited	2,409,166	1.03%
325th P&C Nominees Pty Ltd	4,020,856	1.71%
Mr Peter Neil McIntyre & Mrs Frances Marilyn McIntyre	2,300,000	0.98%
Mr John Read	2,002,000	0.85%
Mr Mark Spinks	1,784,750	0.76%
Mr Michael Arthur How & Mrs Susan How	1,605,184	0.68%
	153,607,159	65.36%



EGL

The Environmental Group Limited

CORPORATE DETAILS

THE ENVIRONMENTAL GROUP LIMITED
ABN: 89 000 013 427

Directors Mr John Read (Chairman)
Mr Duncan Stone (Managing Director)
Mr Elliott Kaplan (Non-Executive)
Mr Rhett Butler (Non-Executive)

**Company Secretary
& Chief Financial Officer** Mr Ashley Arnott

Auditors Ernst & Young
680 George Street
Sydney NSW 2000

Bankers Westpac Banking Corporation
Level 5, 24-32 Lexington Drive
Bella Vista NSW 2153

Lawyers Thomson Playford Cutlers
Australia Square Tower, Level 25
264 George Street Sydney NSW 2000

Registered Office Unit 3, 9 Packard Avenue
Castle Hill NSW 2154
Telephone: (02) 8858 3499
Facsimile: (02) 9899 3463
Email: mail@environmental.com.au
www.environmental.com.au

Share Register Registries Limited
Level 7, 207 Kent Street
Sydney NSW 2000
Telephone: (02) 9290 9600
Facsimile: (02) 9279 0664

Stock Exchange The Environmental Group Limited's
shares are listed on the Australian
Securities Exchange.
Listing Code: EGL