

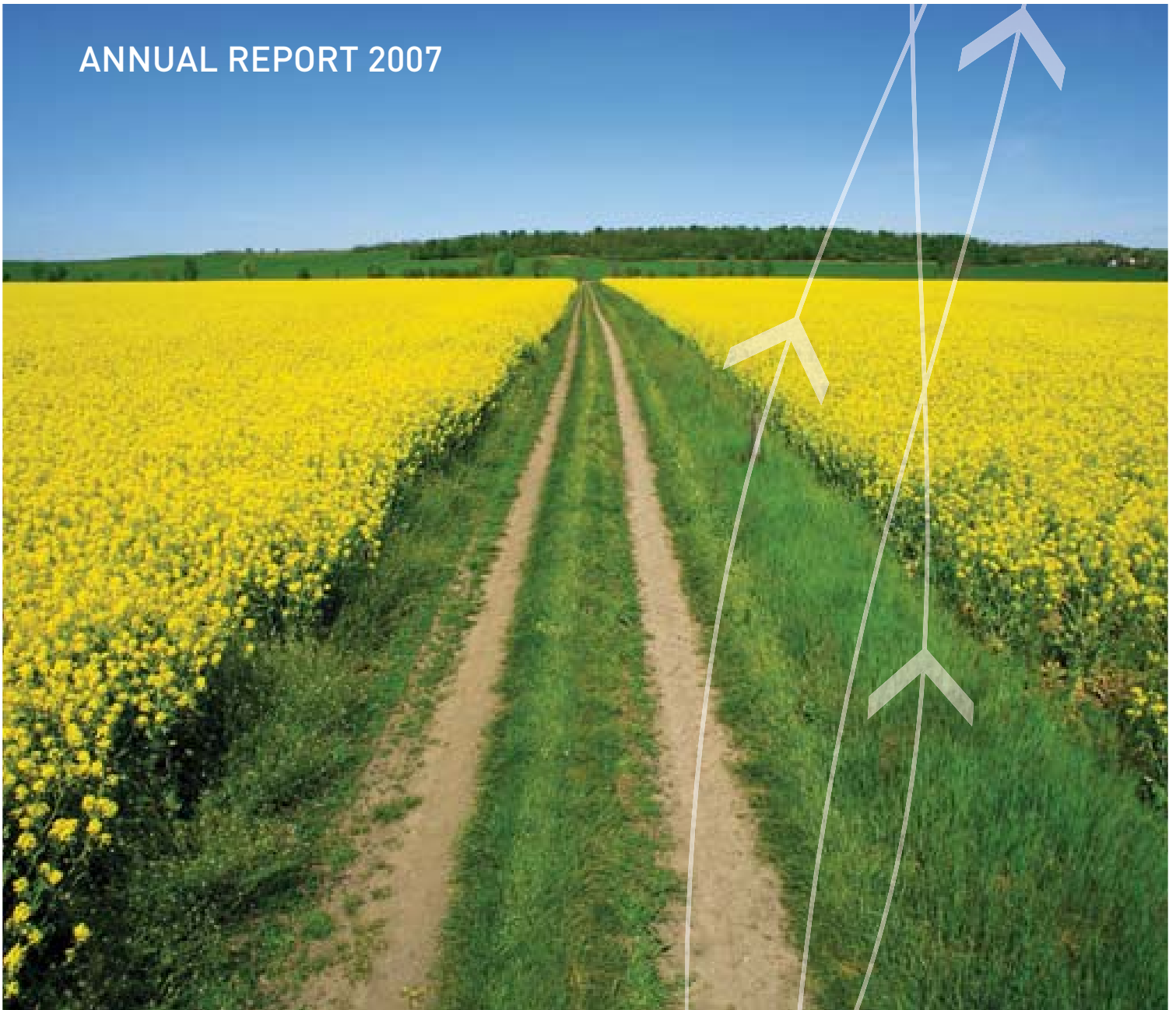


EGL

The Environmental Group Limited

MOVING AHEAD

ANNUAL REPORT 2007



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CHAIRMAN'S REPORT

On behalf of the Board of Directors of The Environmental Group Limited (EGL), I present this report for the financial year ended 30 June 2007.

During the 12 months since my last report, important steps have been taken to enhance shareholder value by accelerating the Company's transition to a provider of clean air and clean water products and services to industry through strategic acquisitions in this highly fragmented sector.

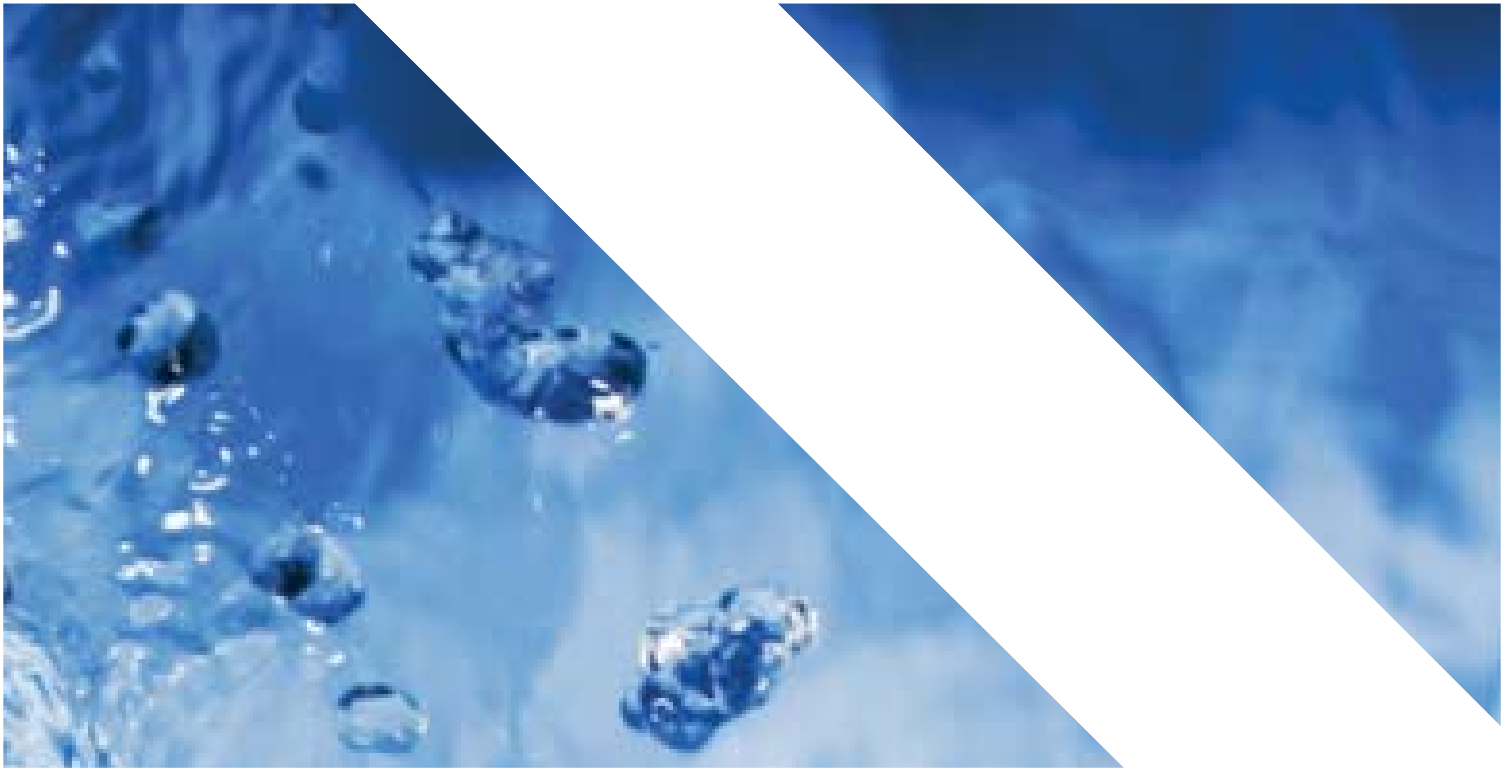
The year ended 30 June 2007 represented a difficult 12 months in achieving this long held ambition. Notwithstanding revenue growth of 3% to \$24 million, profitability slumped to a loss after tax for the period of \$971,166. The one redeeming feature was the strong improvement in recurring revenues and profits from the provision of products and services. Revenue from this segment grew from \$950,000 to \$9,169,541 whilst profitability before tax was a credible \$829,686. Far less pleasing was the loss attributable to the Company's historic activities in municipal water infrastructure contracting. The volatility in recognising revenues, profits and cash flows resulting from these largely civil based contracting activities disproportionately impact periodic profitability and cashflow and are therefore not suitable activities as the primary focus of a listed public company such as EGL.

The key initiatives occurred subsequent to balance date, with EGL announcing the acceleration of its acquisition program, the appointment of a new management team and a highly successful capital raising program.

These company transforming initiatives have produced immediate and tangible results with EGL announcing on 9 July 2007 the acquisition of Total Air Pollution Control Pty Limited (TAPC). TAPC importantly embodies the key attributes of recurrent revenue streams, profitability, brand recognition and a robust platform for future profitable growth. Also with effect from 9 July, the Company announced the appointment of Mr. Duncan Stone as Managing Director, a strengthening of EGL's internal management structure to provide management with a clear focus on delivering current period profitability, and access to a pipeline of potential future acquisitions to accelerate the Company's growth in the environmental sector. To give effect to these changes, EGL in association with its major shareholder, CVC Sustainable Investments Limited, concluded, on 25 September 2007, a very successful capital raising program raising up to \$9.5 million in new equity.

On behalf of the Board of Directors, I welcome Duncan to his new role of Managing Director and again extend our appreciation to our loyal shareholders for their continued tangible support most evident by their significant contribution to EGL's recent capital raising program.

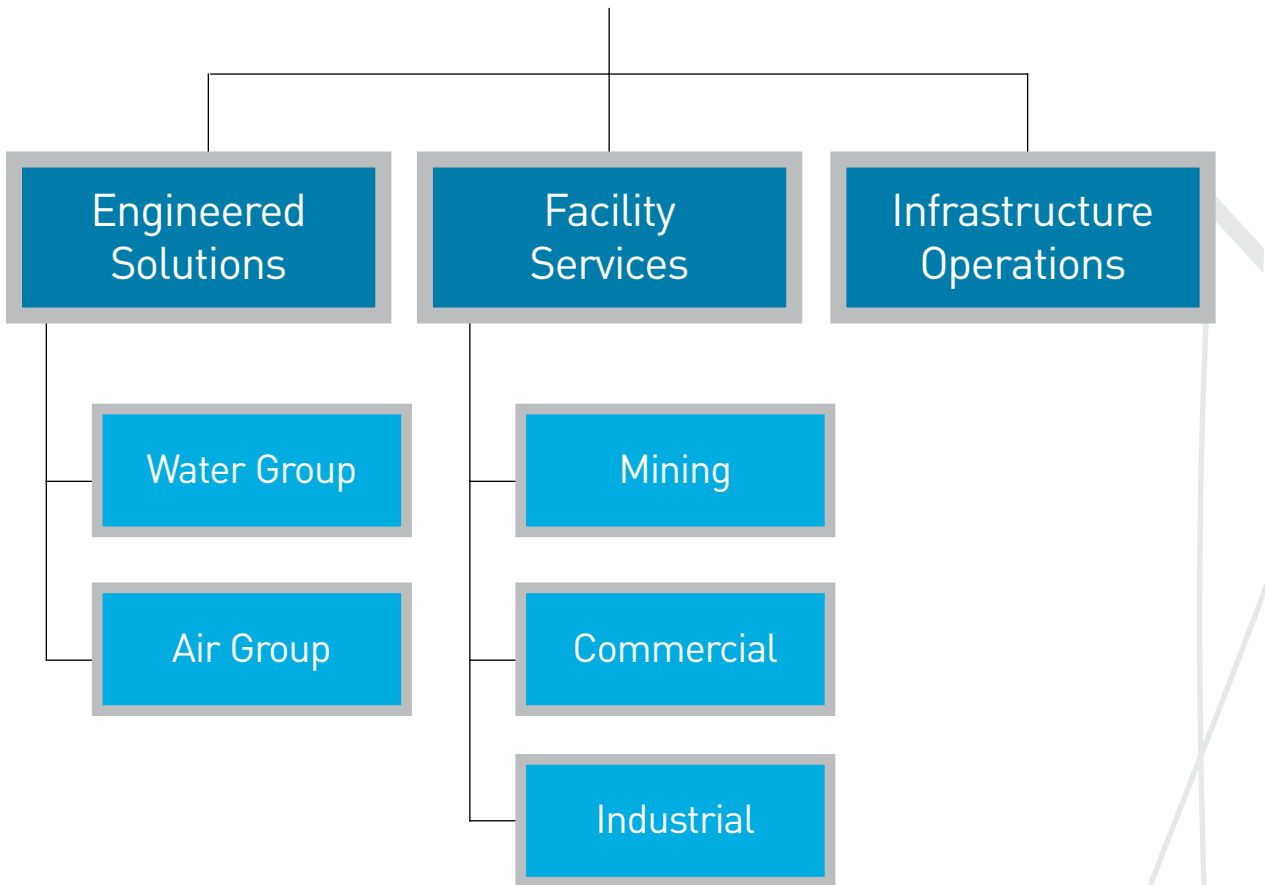
John D Read
Chairman



MANAGING DIRECTOR'S REPORT



EGL will continue to grow through acquisition of environmental businesses which have a proven history of profitability, excellent management, and strong synergies with EGL's existing environmental credentials.



EGL provides clean air and clean water solutions to industry by:

- Completing engineered solutions to enhance air and water quality including diagnostic studies, design, and construction activities.
- Providing environmental facility management to industry.
- Operating air and water infrastructure such as water and waste water treatment plants.

The Year In Review

In 2007 EGL failed to meet market expectations. Management had forecast a modest profit before tax in the 2007 financial year. However, a \$1.5m negative variance to budget primarily due to delays in the receipt of orders in the pressure sewer division, and one off restructuring costs of approximately \$500,000 resulted in a pre tax loss of \$1.47 million being recorded for the 2006/07 financial year.

Despite this underperformance the business is on a sound footing and provides an excellent foundation for growth. In particular during the 2007 financial year the Engineered Solutions Division, our Infrastructure Operations Division, and Mine Assist all operated at or above budget and this good performance is expected to continue into 2008.

Management have also worked hard since March to reduce costs including a rationalisation of premises, cutting insurance costs without increasing risk, and completing loss making water construction projects.

With the addition of TAPC, an innovative profitable business focused on removing particulates from air emissions, EGL is well placed to return to profitability in 2007/08 and beyond.

The biggest challenge for EGL is to provide shareholders with an adequate level of return given the Company's relatively modest revenue base. To address this deficiency EGL's announced strategy is to continue to grow through acquisition of environmental businesses which have a proven history of profitability, excellent management, and strong synergies with EGL's existing environmental credentials. Mine Assist and TAPC are both excellent examples of this approach.

FY2007 BUSINESS UNIT PERFORMANCE

The business is structured as outlined in the chart on the previous page and operates with three divisions.

Engineered Solutions

EGL's Engineered Solutions division complete diagnostics and engineering studies, detailed design, and construction of new air and water management installations.

The Engineered Solutions division is divided into an Air Group and a Water Group. In 2006/07 this division delivered an overall contribution of approximately \$760,000 before tax and corporate costs.

Air Group

The Air Group is based on our long standing Gas Cleaning business unit. This business unit made a gross margin contribution of approximately \$1.5m for the year under review. Our Gas Cleaning services are a market leader in Australia in the removal of harmful gases from air emissions and the business has provided consistent returns over 8 years under EGL ownership.

In the 2007/08 financial year the Air Group will also include the newly acquired TAPC (Total Air Pollution Control Pty Limited) business unit. TAPC's focus is the removal of particulates from air emissions which is a substantially larger market segment than EGL's traditional gas cleaning market segment. As a result of this strategic acquisition, EGL will be able to provide a full suite of air pollution services to industry and will now operate in a much larger market sector providing the opportunity for substantial organic growth.



Water Group

The year under review saw a negative pre tax contribution of \$731,000 from two ongoing loss making water construction projects. These projects involved a significant component of civil engineering works. Although the projects will be completed to the client's expectations they have incurred significant losses which have been borne by EGL's shareholders.

Provision has been made in the Company's financial statements to ensure that these two projects will not give rise to losses in future accounting periods.

Within the Water Group is also the Pressure Sewer business unit. Management had anticipated that this division would enter a period of substantial growth based on the Company's market development activities over the prior three years. As a result significant resources were applied to the business including opening up offices across the Country to service the expected demand. Unfortunately foreshadowed orders from large customers were delayed and the business did not deliver the expected growth. In the later part of 2006/07 the division was down sized to focus on servicing a small group of significant customers including Sydney Water and Shoalhaven Council. As a result of these changes to over-heads the result in 2007/08 is anticipated to be a return to profitability.

A highlight in the water group was EGL's Highly Commended at the Engineering Excellence Awards for our work at the Cessnock Waste Water Treatment Plant. The Cessnock project consisted of a design and construct waste water tertiary treatment plant plus UV sterilization to class 'B' re-use quality.

EGL will continue to provide products and services to the water sector in recognition of the exceptionally high growth potential of this market segment. It is forecast that \$20bn of new water projects are planned nationally between now and 2015. EGL's participation in this sector will be achieved by securing strategic acquisitions of identified high quality profitable businesses.

Facility Services

Our facilities services division focuses on providing maintenance services to existing facilities in the Mining, Industrial, and Commercial sectors.

Mining

Mine Assist provides a range of services to the Hunter Valley mining region including the provision of water pumping, the laying of high diameter poly piping for water transport, and specialist cleaning services for large mining equipment. The business performed ahead of expectations in 2006/07 providing a profit before tax of over \$600,000 since September 2006 when EGL acquired Mine Assist.

Mine Assist has well established systems and a solid management team and provides an excellent opportunity for organic growth through geographic expansion by providing its services in other mining markets in Australia.

In the future Mine Assist will also expand its capability to provide support and implementation for EGL's Air and Water Engineered Solutions to the burgeoning mining sector.

Other acquisitions are targeted in this division to expand our coverage to the Commercial and Industrial sectors.

Infrastructure Operations

EGL's third key division is Infrastructure Operations which manages a number of waste water treatment facilities for municipalities and industrial clients. It is expected that over the next 15 years many water and waste water treatment facilities will be privatised and accordingly this division has the potential to be an area of significant growth.

This division currently operates the Redcliffe, Wodonga, and Clarence Colliery waste water treatment plants servicing the wastewater needs of more than 200,000 Australians.

Infrastructure Operations made a positive contribution and was ahead of budget in 2006/07.

PEOPLE

What has impressed me most during my short tenure at EGL is the quality of our people many of whom are leaders in their field of technical expertise within Australia. One of EGL's challenges is to ensure we can continue to develop a working environment at EGL which ensures we can attract and retain high quality staff to underpin our growth aspirations.

I applaud EGL staff for their commitment and look forward to providing a constructive, safe and challenging work environment for all staff.

OUTLOOK

The outlook for EGL in financial year 2007/08 is encouraging.

- The existing business has been stabilised and with the addition of TAPC is forecast to return to profitability in 2007/08.
- As a result of our highly successful September capital raising EGL has raised up to \$9.5m in new equity and CVC Sustainable Investments Limited is now a 30% shareholder in the business. The CVC group has a history of achieving a return on equity in excess of 25% per annum since 1985 and their guidance and management support is expected to help improve returns for shareholders.
- EGL now has access to a pipeline of potential acquisitions which can enhance its stature as a significant provider of air and water environmental products and services to industry. All potential acquisitions must have a strong history of profitability, excellent ongoing management, and a clear alignment with EGL's strategy.

VISION

It is my goal that EGL grows to become an ASX300 company within eight years by providing environmental services to large industrial and commercial water users and air emitters in Australia. Achieving this target will require a 100% increase in revenue with a return to profitability in 2007/08, and then annual revenue and profit growth of around 25%.

Demand for environmental services is increasing as a result of the broader acknowledgement of climate change and the corresponding demand for environmental solutions from industry.

EGL's growth will be achieved by:

1. Building a committed, motivated, and aligned team.
2. Further improving our current activities to ensure they provide acceptable returns to our stakeholders.
3. Expanding our range of environmental services via acquisition.
4. Identifying and building alliances with the top 200 water users and air emitters in Australia.
5. Expanding our geographic coverage to ensure we can deliver a full range of solutions to our customers.

The result will be better environmental performance for Australian industry, successful and rewarding careers for our staff, and superior returns for shareholders.



Duncan Stone
Managing Director



EGL's work aims to provide better environmental performance for Australian industry, successful and rewarding careers for our staff, and superior returns for shareholders.



OUR ETHICAL STANDING

The ASX Corporate Governance Council's "Principles of Good Corporate Governance and Best Practice Recommendations" have been adopted by the ASX. As required by the ASX we include a statement disclosing the extent to which EGL has followed the best practice recommendations during the reporting period. This Corporate Governance Statement is included at the end of this section.



We believe this section of our Annual Report provides an objective assessment of our environmental and social performance.

EGL has maintained a four (out of five) star rating for environmental and social performance and the maximum possible five star rating for governance during the year. These ratings are determined by a leading independent ethical rating agency.

SOCIAL

Business Ethics

EGL is committed to maintaining the highest standard of conduct by adopting policies to guide directors, management and employees in carrying out their duties and responsibilities. The policies are integrated into the EGL Management System.

The policies cover such matters as:

- Honesty and fair trade;
- Conflict of interest;
- Fundamental ethical practices and principals;
- Culture of openness, honesty, trust, integrity and mutual respect;
- Responsibility to the environment and the community;
- Share trading by directors, employees and associates;
- Occupational Health and Safety;
- Rehabilitation;
- Quality;
- Internet and Email Policy.

Employer of Choice

Our structured staff training plan, incentive and share plans are designed to maintain a stable and committed workforce.

Equal opportunity, positive support, privacy, honesty and openness characterise the operations of the Company.

The aim of our Staff Training Program is to provide appropriate training hours per employee per year in a range of skill based and personal development areas.

EGL offers flexible employment arrangements including job sharing where appropriate.

At the start of the year the consolidated group employed 37 full time equivalent staff (FTE). The recent acquisition of Mine assist has increased this number to approximately 80 FTEs. Post balance date the acquisition of Total Air Pollution Control Pty Ltd is expected to increase this number to 90 FTEs.

Community Participation

As well as the positive environmental benefits that EGL brings to our communities the Company and individual employees also provide other benefits to our Communities.

Some of our initiatives through the year are set out below.

- During the year EGL sponsored "The Great Escape", the annual major fundraiser for Cystic Fibrosis Australia by providing gold sponsorship to Car 77, driven by Craig and Darrel Heiner of Albury Wodonga.
- During the year EGL supported the National Stroke Foundation's annual "Stroke of Art" charity dinner with a corporate table of EGL staff and partners.

Employee Share Plan and Share Option Plan

In a resolution approved by shareholders at the AGM on 29 November, 2000, EGL operates a discretionary staff share plan for the benefit of all eligible employees. All employees that have completed 12 months service are, at the discretion of the company, eligible at no cost to the employee to receive \$1,000 of EGL ordinary shares every 12 months.

Select key management personnel (KMP) are eligible to participate in the Share Option Plan (SOP) to purchase EGL shares. The conditions of the SOP may differ for each KMP individual. The Board has determined that these plans play a key role in aligning employee and stakeholder interest at this time.

Employees and Directors of EGL and their related entities own approximately 11% of outstanding shares either through the Staff Share Plan or individually.

OUR ETHICAL STANDING (CONTINUED)

ENVIRONMENT

Environmental and Consumer Regulations

EGL Operations are subject to various environmental and consumer regulations under both Commonwealth and State Legislation. The Directors are not aware of any breaches of any particular and significant environmental or consumer regulation affecting the Company's operations.

Environmental Management System

EGL is committed to achieving a high standard of environmental performance. During the year the company participated in the activities of a number of community based and business organisations committed to providing positive environmental outcomes.

EGL operates under a formal Environmental Management Plan which forms part of our Management System.

In our offices we recycle paper and other products wherever possible and attempt to purchase Australian made products with recycled content wherever appropriate and cost effective. This report is printed on paper containing 50% recycled content.

Our site based activities are usually controlled by site specific Environmental Management Plan.

EGL is currently evaluating the benefits of introducing an Environmental Management Plan in accordance with the ISO14000 series standards.

Waste Minimisation and Reuse

The water/wastewater and air treatment solutions offered by EGL all provide significant environmental benefits to the communities in which we operate.

EGL also offers environmentally friendly alternatives for disposal or reuse of the waste collected by these installations which are of increasing interest to our customers. In many cases, waste collected is reused as an input for production processes.

The pressure sewer technology replaces aging septic systems which are major polluters of groundwater and waterways throughout Australia. There are no waste products generated directly by the use of these products.

Energy Efficiency and Greenhouse Gas Emissions

One of the important criteria in the design of the environmental solutions we offer is the energy efficiency of the plant or process. EGL strives to offer the most energy efficient solutions at all times within the framework established by our customers.

EGL is not a large user of electricity or other forms of energy in our day to day operations. However, energy efficiency is taken into account in all aspects of our operations. Energy efficient lighting and appliances are used in our offices. Lighting and air conditioning are turned off when our offices are unattended. Modern fuel-efficient vehicles are used in our service fleet.

Many of the systems supplied by EGL prevent greenhouse gases being emitted to the atmosphere.



CORPORATE GOVERNANCE

The Directors of EGL are responsible for the corporate governance practices of the company.

The following statement sets out the main corporate governance practices in operation during the financial year designed to ensure that EGL meets the highest ethical, social and governance standards.

This section provides additional information to that mandated by the ASX's Corporate Governance Statement. The Corporate Governance Statement discloses the extent to which EGL has followed the best practice recommendations during the reporting period.

Role of the Board and Management

The Board carries out its responsibilities by:

- 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;
- Identify 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;
- Formulation of policies addressing operations and ethical standards;
- By constructing, approving and promulgating formal policies.

Independent Advice to Directors

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.

Composition of the Board

The Board has determined that the optimum number of directors, taking into account the increasing size of the Company, is four non-executive directors and two executive directors, one-being the Managing Director. The Chairman is an independent non-executive director with the necessary time commitment and qualifications to support the Managing Director.

Board Performance

The Board assesses its performance annually and sets objectives for improvement.

Directors are issued individual letters of appointment, which set out performance expectations. The Chairman reviews each director's individual performance annually. The Chairman's performance is assessed collectively by the Board.

Directors' Shareholding Policy

Board policy is to encourage directors to hold shares in the Company to ensure directors' interests are aligned with those of the shareholders, taking account of legal responsibilities under current laws and regulations. Details of the Directors' shareholding, options and remuneration are contained in the Directors' Report.

Board Committees

The Company has established the following Board Committees each with their own charter and individual chair.

Audit and Risk Committee

The Audit Committee provides an open forum for review of the Company's financial statements between the Board and the external auditors.

The main functions are:

- review of the half-year and the annual financial report;
- effectiveness of the financial, operational, management and internal control systems; and
- reviewing the efficiency of the external audit function.

Other than set out in the Corporations Act, no specific procedures exist for the nomination or appointment of external auditors.

The Committee is currently chaired by Mr Richard A Kell.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee advises the Board on the Company's remuneration policy and the appointment of directors, senior managers and the company secretary.

The Committee also evaluates the recommendation of Managing Director in respect of the remuneration of employees.

The Committee assists the Board in the design and implementation of performance based appraisal systems.

The Committee is currently chaired by Mr John D Read.

Corporate Social Responsibility Committee

The Corporate Social Responsibility Committee advises the Board on issues relating to corporate and social responsibility and in particular:

- EGL's social and environmental commitment to its stakeholders; and
- EGL's social and ethical performance.

The Committee is currently chaired by Dr Julian M Higgs.

Continuous Disclosure

EGL is committed to making timely and balanced disclosures of all material matters concerning the Company to all investors.

Company announcements to the ASX are factual and presented in a clear and balanced way.

The Managing Director has prime responsibility for deciding what information will be disclosed. All announcements are vetted by the Company Secretary prior to release to the ASX.

Risk Management

Risk management is an integral part of EGL's Management System with clear identified levels of authority and responsibilities.

All new employees go through a formal induction process, which includes training in the use of the Management System.

Quality Management System

Our Quality Management System, was upgraded to comply with the ISO 9001 : 2000 Standard, following review and approval by an independent auditor.

Occupational Health And Safety

As well as creating an interesting and rewarding workplace for all our employees, one of our highest priorities is to create a safe workplace.

EGL operates an Occupational, Health, Safety and Rehabilitation Scheme, which meets the requirements of the NSW Government O,H,& S Act and regulations. This is an integral part of our Management System.

A report on Lost Time Injuries is submitted at each Board Meeting as part of the Managing Director's Report. There were no lost time injuries during the year for EGL employees.

A safety conscious culture is encouraged and supported by continuous training and auditing.

Communication with Shareholders

The Annual Report is available to all shareholders, and sent to all shareholders that have requested a copy. 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 ASX and the Corporations Act.

Half yearly financial statements prepared and audited in accordance with the requirements of approved Accounting Standards and the Corporations Act are lodged with the Australian Securities Exchange Limited and the Australian Securities and Investments Commission. The financial statements are sent to any shareholder that requests them.

Timely and balanced disclosures 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 and the websites of internet based brokers.

Our Website

www.environmental.com.au provides information on EGL's products and services, annual reports, ASX releases and public announcements. The site is updated regularly.

Corporate Governance Statement

A COMPANY SHOULD:

DISCLOSURE STATEMENT

- | | |
|--|--|
| <p>1 Lay solid foundations for management and oversight
Recognise and publish the respective roles and responsibilities of the board and management.</p> | <p>Meet best practice recommendations.
See Corporate Governance Section of website.</p> |
| <p>2 Structure the board to add value
Have a board of effective composition, size and commitment to adequately discharge its responsibilities and duties.</p> | <p>Meet best practice recommendations.
See Corporate Governance Section of website.</p> |
| <p>3 Promote ethical and responsible decision-making
Actively promote ethical and responsible decision-making.</p> | <p>Meet best practice recommendations.
See Corporate Governance Section of website.</p> |
| <p>4 Safeguard integrity in financial reporting
Have a structure to independently verify and safeguard the integrity of the company's financial reporting.</p> | <p>Meet best practice recommendations.
See Corporate Governance Section of website.</p> |
| <p>5 Make timely and balanced disclosures
Promote timely and balanced disclosures of all material matters concerning the company.</p> | <p>Meet best practice recommendations.
See Corporate Governance Section of website.</p> |
| <p>6 Respect the rights of shareholders
Respect the rights of shareholders and facilitate the effective exercise of those rights.</p> | <p>Meet best practice recommendations.
See Corporate Governance and Shareholder Sections of website.</p> |
| <p>7 Recognise and manage risk
Establish a sound system of risk oversight and management and internal control.</p> | <p>Meet best practice recommendations.
See Corporate Governance Section of website.</p> |
| <p>8 Encourage enhanced performance
Fairly review and actively encourage enhanced board and management effectiveness.</p> | <p>Meet best practice recommendations.
See Corporate Governance Section of website.</p> |
| <p>9 Remunerate fairly and responsibly
Ensure that level and composition of remuneration is sufficient and reasonable and that its relationship to corporate and individual performance is defined.</p> | <p>Meet best practice recommendations.
See Corporate Governance Section of website.</p> |
| <p>10 Recognise the legitimate interests of stakeholders
Recognise legal and other obligations to all legitimate stakeholders.</p> | <p>Meet best practice recommendations.
See our Ethical Standing Section of website.</p> |

BOARD OF DIRECTORS'



The names of directors in office at Report date were as follows:

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 49, 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), an ASX top 500 company, CVC Private Equity Limited, CVC Sustainable Investments Limited, and numerous public and private corporations.

DR JULIAN M HIGGS

BE, PHD – EXECUTIVE DIRECTOR

Appointed to the Board on 29 March 2000.

Age 58, Dr Higgs has worked in the environmental field for most of his 29 years in the industry, in a range of technical senior management roles with both small and large engineering operations. Dr Higgs is an acknowledged expert in the field of gas and vapour emission control.

MR RICHARD A KELL

AM, BE, HON FIEAUST, FTSE

– NON EXECUTIVE DIRECTOR

Appointed to the Board 5 April 1999. Member of the Audit Committee.

Age 69, Civil Engineer. During his career he has directed or managed major engineering projects in Australia, Malaysia, Indonesia, Vietnam, Abu Dhabi, PNG and the Philippines. Mr Kell has established a network of contacts throughout Asia at both business and government level. He is a former Chairman of Cardno Limited (ASX: CDD) and a director of Cardno MBK International Pty Ltd and formally Non-Executive Chairman of Quality Assurance Services Pty Ltd. He is also Immediate Past President of the International Federation of Consulting Engineers (FIDIC).

MR CHRISTOPHER M FULLERTON

B. ECON. – NON EXECUTIVE DIRECTOR

Appointed to the Board 24 November 2005 Member of the Audit Committee.

Mr Fullerton, aged 56, is the Managing Director of Mandalay Capital Pty Ltd, an investor in private equity and listed securities, and a substantial shareholder, in EGL. He has extensive experience in management and investment banking and worked in Hong Kong and Singapore for 15 years before returning to Australia in 1992. He is currently Chairman of Cordlife Limited (ASX : CBB) and a Director of Working Systems Solutions Limited (ASX:WSS). His previous directorships include Health Communication Network Limited (Chairman) (ASX : HCN), Crossfield InTech Pty Limited (Chairman), Standard Chartered Australia Limited (Chairman) and the Federal Airports Corporation.



MR RICHARD A KELL



MR CHRISTOPHER
M FULLERTON



MR BJORN BORG

Subsequent to Balance Date

Subsequent to balance date the company appointed the following additional directors on 6 September, 2007.

MR DUNCAN STONE

BE (HONS) MBA – CEO & MANAGING DIRECTOR
Appointed to the Board 6 September 2007.

Age 42, Civil Engineer. During the past 12 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 Solar Energy Systems 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. In the past 12 months he has conducted a detailed review of opportunities in the water sector and much of this work will flow on into his role at EGL.

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 CHRISTIAN JENSEN

BCOM, LLB, CA – NON EXECUTIVE DIRECTOR
Appointed to the Board 6 September 2007.

Age 34, Chartered Accountant. Mr Christian Jensen is the portfolio manager responsible for the management of CVCSI. Mr Jensen has been a member of the CVC investment team for over five years and has significant experience sourcing, managing and exiting private equity and venture capital investments across a variety of sectors. Mr Jensen has spent considerable time working with companies developing and implementing growth strategies. He has experience across a range of investment structures and has been involved in a number of initial public offerings. Mr Jensen has experience as a board member of ASX listed 1300 Smiles Limited (ASX: ONT) and a number of unlisted companies.

Mr Jensen has a strong understanding of environmental investing, particularly in the areas of clean energy and water. He has presented at numerous conferences and provided editorial content in the area of private equity investing in the environmental or 'Cleantech' sector.

Mr Jensen has bachelor degrees in both Commerce and Law from the University of Queensland and is a member of the Australian Institute of Chartered Accountants.

Company Secretary

MR BJORN BORG

FAICD, FPNA – COMPANY SECRETARY & CHIEF FINANCIAL OFFICER

Age 29, Mr Borg was appointed to the position of Company Secretary and Chief Financial Officer on 1 July, 2005. Mr Borg is a Fellow of both the National Institute of Accountants and the Australian Institute of Company Directors.

THE DIRECTORS' REPORT

Your Directors submit their report for the year ended 30 June 2007.

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 and specified executives in the shares and options of The Environmental Group (EGL) Limited were:

	Number of Ordinary Shares	Number of Options over Ordinary Shares
J. Read	5,360,886	487,174
J. Higgs	4,020,856	333,851
R. Kell	1,165,184	105,925
C. Fullerton	11,101,850	1,009,259
D. Stone	4,166,667	833,333
C. Jensen	-	-
B. Borg	481,877	43,807
M. Spinks	1,234,750	112,250
M. Williamson	166,844	-

Principal Activities

The principal activities of the economic entity during the course of the financial year were:

- Design, application and servicing of innovative gas and vapour, 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.

The acquisition of Mine Assist increased the breadth of the Company's activities. EGL now offers its clients Supply of polyethylene (PE) welded pipe systems, environmental and industrial cleaning services, hire of skilled and semi-skilled labour, and the hire of machinery.

Review of Operations

2007 has been a year which required consolidation and restructuring of the Company's operations while at the same time delivering on the strategy of acquiring quality businesses in order to deliver future profits.

The Directors of EGL report a loss from operations (after tax) of \$971,166 for the financial year ended 30 June 2007. Revenue for the period was \$24 million, an increase of 3.45% over the previous corresponding period.

The loss for the year was below expectation and was due to: delays in securing the Mine Assist and TAPC acquisitions, excessive infrastructure and overheads in the Pressure Sewer Division, losses from completion of the large scale water construction contracts, and one off costs of rationalising the Pressure Sewer and Engineered Solutions divisions.

Management has focused on mitigating these issues in order to create a profitable position moving forward and has:

- Completed the acquisition of Mine Assist Pty Ltd, an environmental and industrial services provider operating in the resources sector and based in the Hunter Valley region. The Mine Assist business has been integrated into the existing group and profitability has exceeded budget.
- Arranged to complete the TAPC acquisition in the first week of October 2007.
- Substantially rationalised the Pressure Sewer business allowing all projects to be administered from our NSW location. This has significantly reduced overhead costs with little if any anticipated disruption to sales.
- Completed or fully provided for the major water contracts which will not negatively affect the profitability of the business going forward.

Due to the growth of EGL through its recent acquisitions the Company has created two reporting segments which incorporate the activities of the company. These Sectors provide an insight into the Company's overall strategy and highlight the strategic value associated with the recent acquisitions. EGL's future focuses on providing our clients with two broad product offerings.

EGL INFRASTRUCTURE

This sector encompasses our Engineered Solutions operations and assists our clients in the diagnosis, design and implementation of quality environmental infrastructure solutions. The principal business in this sector is our Gas Cleaning division which extracts gaseous pollutants from industrial air emissions. This sector also includes our pressure sewer operations which provide environmental infrastructure to primarily water authorities or municipal councils seeking to upgrade their sewage infrastructure. In total this segment generated \$14.8 million of revenues. Margins from this business were in line with expectations.

Gas Cleaning

The existing Gas Cleaning division continued to perform to expectation delivering \$9.5 million in revenues although the expected contribution of our air emission control operations was depressed due to the delay in acquiring Total Air Pollution Control Pty Limited. This acquisition is expected to be finalised in October 2007.

Water

Throughout the year all large scale water construction projects were completed or fully provided for providing a loss of \$730k. Going forward EGL does not intend to tender for large scale water projects with significant earth works and concrete components. EGL will however continue to provide specialist water technology solutions to its client where no civil component is required.

Pressure Sewer

Operations in the pressure sewer division were restructured to reduce overhead costs. The acquisition of Coriolis in 2006 has allowed the Company to maintain the revenues and margins without our state based offices. This has resulted in substantial overhead reduction as all contracts are now administered from our Head Office. Throughout the year this division contributed \$5.3 million of revenues although margin contribution was significantly less than budgeted due to excessive overhead costs.

EGL FACILITY SERVICES

This segment accounts for our Environmental Services operations which provide our clients with skilled labour to assist in the running of their existing infrastructure. The acquisition of Mine Assist was completed in September 2006 and allowed EGL to broaden its offering to provide services to clients in the resource sector. This sector contributed \$9 million of revenues throughout the year.

Mine Assist

The acquisition of Mine Assist has significantly increased the Facility Services Segment of EGL's business. This division generated \$3.3 million of revenues in 10 months of operations. The contribution of Mine Assist since acquisition was \$577,485. This contribution exceeded expectation and the Company is pleased with its performance.

EGLMS

This division includes the long term operation contracts of wastewater treatment facilities at Wodonga in Victoria for North East Regional Water Authority and at Redcliffe in Queensland for Redcliffe City Council. The division also operates treatment plants at Leongatha and Kurumburra in Victoria for South Gippsland Water as well as the water treatment plant at Clarence Colliery near Lithgow in New South Wales. This division contributed \$5.7 million of revenues with margins above expectations.

Financial Position at Year End

The Group ended the financial year under review with shareholders equity of \$9.15 million, up 16% over the previous corresponding period.

Significant Changes in 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 economic entity during the financial year under review.

Operating Results for the Year

The consolidated results for the financial year attributed to shareholders of The Environmental Group Limited are:

	2007	2006
	\$	\$
Revenue	24,019,889	23,218,677
(Loss) / profit before tax	(1,394,509)	314,933
Income tax benefit	423,343	38,939
(Loss) / profit after tax	(971,166)	353,872

Performance Indicators

Management and the Board monitor the group's overall performance, from its implementation of the mission statement and strategic plan through to the performance of the group against operating plans and financial budgets.

The Board, together with management, have identified key performance indicators (KPIs) that are used to monitor performance. Key management monitor KPIs on a regular basis. Directors monitor the group's performance against the established KPIs.

Liquidity and Capital Resources

The Consolidated Cash flow statement illustrates an increase in cash and cash equivalents in the year ended 30 June 2007 of \$1,811,891 of which \$1,587,545 was derived from operating activities. The 2007 year was a disappointing year in terms of profitability, however from a cash perspective the completion of several large projects has enabled the Company to claim the final instalments on these projects which generated a large cash surplus for the period.

Asset and Capital Structure

As at 30 June 2007, the Group had interest bearing loans totalling \$850,000.

Share Issues During the Year

In September 2006 the Company raised \$2,090,000 by issuing 23,222,222 ordinary shares. These funds were primarily used to fund the acquisition of Mine Assist Pty Limited. A further \$202,062 was raised with the issue of 1,347,000 ordinary shares.

Capital Expenditure

Capital expenditure for the period ended 30 June 2007 totalled \$182,221. The increase principally related to the newly acquired Mine Assist business which purchased a number of plant and equipment items in order to conduct work which it had successfully tendered.

Treasury Policy

The group has established a treasury function, co-ordinated within The Environmental Group (EGL) Limited, responsible for managing the group's currency risks and finance facilities. There are no material currency exposures at the date of this report.

Risk Management

The group takes a proactive approach to risk management. The Board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that the group's objectives are aligned with the risks and opportunities identified by the Board.

The group believes that it is crucial for all Board members to be a part of this process, and as such the Board has not established a separate risk management committee. Instead sub-committees are convened as appropriate in response to issues and risks identified by the Board as a whole, and allows the sub-committee to further examine the issue and report back to the Board.

The Board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the Board. These include the following:

- Board approval of a strategic plan, which encompasses the group's vision, mission and strategy statements, designed to meet stakeholder's needs and manage business risk.
- Implementation of Board approved operating plans and budgets and Board monitoring of progress against these budgets, including the establishment and monitoring of KPIs of both a financial and non-financial nature.
- The establishment of committees to report on specific business risks, including audit.

Significant Events After Balance Date

On 9 July the Company announced to the ASX that it entered into a share sale agreement to complete the acquisition of Total Air Pollution Control Pty Limited subject to shareholders consent. Shareholder consent was achieved 6 September 2007.

The Company also presented a Capital raising proposal to shareholders comprising of the following;

The capital raising proposal will raise a total of almost \$9.5 million, on the following basis:

(Rights Issue) EGL undertook a pro rata 5 for 6 non-renounceable rights issue of 56,160,969 shares at \$0.06 per share to raise \$3,369,658.

(Placement) A placement to CVC sustainable Investments (CVCSI) of 40,000,000 shares at an issue price of \$0.06 was completed, generating \$2.4 million.

(Options) for every 5 shares issued under the Placement and Rights Issue, EGL granted 1 Option to subscribe for a new share at an issue price of \$0.08 per share. The Options will expire in six months following the issue of the Placement Shares and Rights Issue Shares respectively and will not be admitted to quotation on ASX or transferable. The funds raised from the

exercise of the Options will be available to fund potential future acquisitions.

(Underwriting) CVC underwrote the Rights Issue shortfall of 28,750,167 shares raising \$1,725,010. CVC further agreed to meet any shortfall to the extent Options are not exercised by Option holders, by way of a placement of Shares at \$0.08 per Share to the extent of any such shortfall. CVCSI charged an underwriting fee of 5% of the funds raised under the Rights Issue and 2.5% of the funds raised on exercise of the Options, including those Options attaching to Rights issue Shares exercised by CVCSI. The underwriting fees may, at EGL's election, be paid in cash or satisfied by the issue of new Shares at an exercise price of \$0.06 per Share.

Further Details of the Capital raising are contained in the Notice of meeting, explanatory statement and Independent Directors' Report as lodged with the ASX on 7 August 2007 and the ASX announcement of 25 September 2007.

Mr Duncan Stone was appointed as Acting CEO on 9 July 2007.

Likely developments and expected results

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

The directors are hopeful that in 2008 the Company will return to profitability. The directors are confident that the 2008 year will see the completion of the TAPC acquisition and that other identified acquisitions will progress throughout the year.

Other information about likely developments in the operations of the consolidated entity 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 consolidated entity.

Environmental Regulation & 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.

Remuneration Report

Remuneration Policy (audited)

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 suitably 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.

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 fee may include superannuation contributions. Non-Executive Directors Remuneration is approved in aggregate from time to time by members in general meetings.

Remuneration Elements (audited)

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

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 may elect to make additional superannuation contributions and/or to have a fully maintained motor vehicle via a novated lease arrangement, with the full costs being met out of the fixed remuneration on a salary sacrifice basis.

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. No bonus is available to any employee unless financial and performance targets for the company as a whole have been met. 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 as a whole. The performance of all executives is reviewed annually with performance targets and KPI's set for the following year.

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.

Unissued Shares (audited)

As at 30 June 2007, there were 1 million unissued ordinary shares under option at reporting date.

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

Shares Issued as a Result of the Exercise of Options (audited)

During the financial year, no shares were issued as a result of options being exercised.

Company Performance, Shareholder Wealth 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 remunerations, key executive Directors and Executives are incentivised by the award of the 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 at the margin with shareholder wealth creation.

	2003	2004	2005	2006	2007
Revenue (\$)	16,999,365	22,369,400	18,916,936	23,061,120	24,019,889
Net Profit (\$)	745,454	520,433	(902,501)	353,872	(971,166)
Share Price at Year-end (cents)	22.5	22.5	9	9.7	9
Dividends Paid (\$)	-	-	-	-	-

Performance Income as a Proportion of Total Remuneration (audited)

The performance based component of senior executives income is not based upon a percentage of fixed salaries. In relation to the short term incentives, a defined bonus pool is made available once certain performance criteria have met with this pool being distributed between individuals on a discretionary basis. As such, the income from this scheme as a percentage of total remuneration varies widely between individuals and from year to year.

Contractual Arrangements of Executive Directors and Senior Executives (audited)

Chief Executive Officer

The CEO, Mr. Duncan Stone, is employed under contract. The current employment contract commenced on 9 July 2007 and terminates 9 July 2010, at which time the group may chose to commence negotiation to enter into a new employment contract with Mr. Stone.

- Mr. Stone receives a fixed remuneration of \$272,500 per annum.
- 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.
- Termination of contract by either party requires a 3 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.
- Termination of contract by either party requires a 12 month notification period.

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.

Non-executive Director Remuneration (audited)

Non-executive Directors are remunerated by way of fees paid. The fees paid are inclusive of any superannuation that the director may wish to provide for. The level of fees paid is based on the scope of the Director's responsibilities and on the size and nature of The Environmental Group. No additional compensation is currently provided for membership of Board Committees, however Directors may be compensated for the provision of extra services over and above those contemplated at the time of initial employment.

Directors fees are within the aggregate limit approved by shareholders in General Meeting. No retirement benefits are payable to any Director on retirement. Fees for the Chairman are currently set at \$100,000 per annum whilst those for non-executive directors are currently set at \$25,000 per annum.

The performance of the Board as a whole and of Directors individually is evaluated annually.

Remuneration Elements continued

Key Management Personnel

(a) Specified Directors' Remuneration (audited)

Directors		Primary Benefits			Post Employment	Share based payments		Total \$	% Performance Related
		Salaries & Fees	Cash Bonuses	Non-monetary bonuses	Superann. Items	Options	Shares		
J. D. Read	2007	76,675	-	-	-	-	-	76,675	-
Chairman	2006	100,000	-	-	-	-	-	100,000	-
M. J. Williamson	2007	188,143	-	-	48,655	-	-	236,798	-
Managing Director	2006	153,936	-	-	23,663	59,326	1,000	237,925	25%
J.M. Higgs	2007	119,723	-	-	10,775	-	-	130,498	-
Executive Director	2006	94,597	-	-	8,298	-	1,000	103,895	-
R. A. Kell	2007	19,494	-	-	1,754	-	-	21,248	-
Non-Executive Director	2006	22,936	-	-	2,064	-	-	25,000	-
C. M. Fullerton	2007	15,641	-	-	-	-	-	15,641	-
Non-Executive Director	2006	15,081	-	-	-	-	-	15,081	-
TOTAL	2007	419,676	-	-	61,184	-	-	480,860	
	2006	386,550	-	-	34,025	59,326	2,000	481,901	

* There were no retirement benefits paid throughout the year. No other directors or executives received remuneration than those specified above.

(b) Specified Executive Remuneration (audited)

Directors		Primary Benefits			Post Employment	Share based payments		Total \$	% Performance Related
		Salaries & Fees	Cash Bonuses	Non-monetary bonuses	Superann. Items	Options	Shares		
B. Borg	2007	156,018	-	-	14,042	17,250	-	187,310	9.2%
Chief Financial Officer & Company Secretary	2006	110,387	-	-	9,935	-	1,000	121,322	-
M. Spinks	2007	130,680	-	-	11,610	-	-	142,290	-
General Manager – Mine Assist	2006	-	-	-	-	-	-	-	-
S. Cobden	2007	146,789	-	-	13,211	17,250	-	177,250	9.7%
General Manager – Engineered Solutions	2006	140,903	-	-	12,436	-	-	153,339	-
TOTAL	2007	433,487	-	-	38,863	34,500	-	506,850	
	2006	251,290	-	-	22,371	-	1,000	274,661	

* There were no retirement benefits paid throughout the year. No other directors or executives received remuneration than those specified above.

M. Spinks became an executive of the Group at the time of the Mine Assist acquisition in August 2006.

c) Options Granted as Part of Remuneration (audited)

	Grant Date	Grant Number	Weighted Average Fair Value per Option at Grant Date	Fair Value of Options Granted During the Year	Fair Value of Options Exercised During the Year	Fair Value of Options Lapsed During the Year	Total Fair Value of Options Granted Exercised and Lapsed During the Year	% Remuneration Consisting of Options for the Year
B. Borg	1 July 2006	500,000	\$0.0345	\$17,250	-	-	\$17,250	9.2%
S. Cobden	1 July 2006	500,000	\$0.0345	\$17,250	-	-	\$17,250	9.7%

The fair value of the equity-settled share options granted is estimated as at the date of grant using a binominal model taking into account the terms and conditions upon which the options were granted. The options issued were granted by The Environmental Group Limited.

All options vested immediately when granted and may be exercised at any time.

There are no specific performance conditions associated with options on issue.

At report date, the unissued ordinary shares of EGL under options were as follows:

Grant Date	Date of Expiry	Exercise Price	Number under option	Fair Value per option
1-Jul-06	1-Jul-09	20 cents	500,000	\$0.0380
1-Jul-06	1-Jul-09	27.5 cents	500,000	\$0.0310
Total			1,000,000	

The weighted average exercise price of options outstanding at 30 June 2007 was 23.75 cents with a weighted average remaining contractual life of 2 years.

* Subsequent to balance date on 6 September, 2007, shareholders approved the issue of the following options to Mr. Duncan Stone:

Number	Issue Price	Vesting Date	Expiry Date
2,500,000	8 cents	6 September, 2007	6 September, 2012
2,500,000	8 cents	6 September, 2008	6 September, 2013
2,500,000	8 cents	6 September, 2009	6 September, 2014

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.

Staff Share Plan

The Managing Director and senior executives are also eligible to participate in the Staff Share Plan, as are all other eligible employees. To be eligible executives and employees must have at least twelve months service with the company. The staff share plan allows for the Board to approve the issuing of up to \$1,000 of shares per employee in the Company on an annual basis. The issuing of shares in any year is at the discretion of the Board. It is however Board policy to issue shares under this plan in most if not all years. The cost to the Company is modest, and the holding of shares by the majority of employees is seen as a significant incentive generating loyalty and commitment.

Litigation

As at the date of this report there is currently no litigation against the Company.

Dividends

No dividends were paid or payable at the end of the financial year.

Directors' Meetings

	Meetings Of Committees							
	Directors' Meetings		Audit		Nomination & Remuneration		Corporate Social Responsibility	
Number of Meetings:	Eligible to Attend	Number Attended	Eligible to Attend	Number Attended	Eligible to Attend	Number Attended	Eligible to Attend	Number Attended
J.D. Read	14	14	2	2	1	1	-	-
M.J. Williamson	14	14	-	-	-	-	1	1
J.M. Higgs	14	14	-	-	-	-	1	1
R.A. Kell	14	14	2	2	1	1	1	1
C.M. Fullerton	14	14	2	2	1	1	-	-

Committee Membership

As at the date of this report, the company had a Nomination and Remuneration Committee, Audit and Risk Committee and a Corporate Social Responsibility Committee of the Board of Directors.

Members acting on the committees of the Board during the year were:

	Nomination and Remuneration	Audit	Corporate Social Responsibility
J.D. Read	✓	✓	-
M.J. Williamson	-	-	✓
J.M. Higgs	-	-	✓
R.A. Kell	✓	✓	✓
C.M. Fullerton	✓	✓	-
C. Jensen	-	-	-

Non-audit Services

The Board of Directors is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons;

- All non-audit services are reviewed and approved by the Board of Directors prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- The nature of the services provided do not compromise the general principles relating to auditor independence as set out in the Institute of Chartered Accountants in Australia and CPA Australia's Professional Statement F1; Professional Independence.

No non-audit services were paid to the external auditor during the year ending 30 June 2007.

Auditor's Independence Declaration

The auditor's independence declaration for the year ended 30 June 2007 has been received and can be found on the following page of the financial report.

Dated at this 28 day of September 2007. Signed in accordance with a resolution of Directors.



Duncan Stone
Managing Director and CEO

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

In relation to our review of the financial report of The Environmental Group Limited for the year ended 30 June 2007 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



Ian Campbell
Partner
28 September 2007

We present the financial statements for The Environmental Group Limited, for the year ended 30 June 2007.

	Note	Economic Entity		Company	
		June 2007 \$	June 2006 \$	June 2007 \$	June 2006 \$
Revenues and other income	2	24,019,889	23,218,677	-	-
Expenses					
Subcontracting and material costs		17,968,046	17,456,017	-	-
Employee expenses		4,009,572	3,764,743	-	-
Rent and related expenses		378,384	443,722	-	-
Marketing and advertising		38,655	30,192	-	-
Professional fees		595,724	540,773	-	-
Depreciation on plant and equipment		191,165	59,646	-	-
Amortisation of intangibles		186,786	187,529	-	-
Other expenses		2,046,066	1,427,217	-	-
Total expenses	3	25,414,398	23,909,839	-	-
Discount resulting from acquisition		-	1,006,095	-	-
(Loss) / Profit before income tax benefit		(1,394,509)	314,933	-	-
Income tax benefit	5	423,343	38,939	-	-
Net (loss) / profit attributable to members of the parent entity		(971,166)	353,872	-	-
Basic earnings per share (cents)	20	(1.00)	0.45		
Diluted earnings per share (cents)	20	(1.00)	0.45		
Dividends per share (cents)		-	-		

The accompanying notes form part of these financial statements.

	Note	Economic Entity		Company	
		June 2007 \$	June 2006 \$	June 2007 \$	June 2006 \$
Current Assets					
Cash and cash equivalents		1,606,696	46,430	10	10
Trade and other receivables	6	3,373,543	5,282,085	-	2,530,530
Other financial assets	7	791,817	957,748	-	73,110
Inventories	8	760,513	508,802	-	-
Other current assets	9	210,126	234,807	-	66,768
Total current assets		6,742,695	7,029,872	10	2,670,418
Non current assets					
Trade and other receivables	6	-	-	5,575,870	-
Other financial assets	7	-	-	4,120,220	4,120,220
Plant and equipment	10	916,946	300,771	-	-
Deferred tax assets	11	1,870,832	1,524,972	1,572,553	1,381,136
Intangible assets	12	5,468,485	3,411,246	2,710	2,710
Total non current assets		8,256,263	5,236,989	11,271,353	5,504,066
Total assets		14,998,958	12,266,861	11,271,363	8,174,484
Current liabilities					
Short term borrowings		-	251,625	-	-
Interest bearing liabilities	13	150,941	-	-	-
Trade and other payables	14	3,776,556	3,535,280	872,094	29,777
Provisions	16	653,833	332,540	-	-
Total current liabilities		4,581,330	4,119,445	872,094	29,777
Non current liabilities					
Interest bearing liabilities	13	999,718	-	-	-
Deferred tax liabilities	15	167,360	244,843	-	-
Provisions	16	99,895	69,814	-	-
Total non current liabilities		1,266,973	314,657	-	-
Total liabilities		5,848,303	4,434,102	872,094	29,777
Net assets		9,150,655	7,832,759	10,399,269	8,144,707
Equity					
Issued capital	17	9,031,216	6,776,654	9,031,216	6,776,654
Retained earnings	18	25,383	996,549	1,368,053	1,368,053
Reserves		94,056	59,556	-	-
Total equity		9,150,655	7,832,759	10,399,269	8,144,707

The accompanying notes form part of these financial statements.

	Note	Economic Entity		Company	
		June 2007 \$	June 2006 \$	June 2007 \$	June 2006 \$
Cash flows from operating activities					
Receipts from customers		27,651,272	23,069,674	-	-
Payments to suppliers and employees		(25,867,149)	(26,488,615)	-	-
Interest paid		(96,039)	(1,322)	-	-
Income taxes paid		(100,539)	-	-	-
Net cash provided by / (used in) operating activities	28	1,587,545	(3,420,263)	-	-
Cash flows from investing activities					
Interest received		67,154	122,070	-	-
Payment for purchase of subsidiaries acquired, net of cash acquired	19a	(2,062,026)	481,608	-	-
Contingent consideration paid		(474,072)	-	-	-
Purchases of plant and equipment		(182,221)	(5,385)	-	-
Research and development activities		(216,917)	(83,813)	-	-
Decrease / (increase) in fixed term deposit		165,931	131,109	-	-
Capitalised acquisition costs		(80,030)	-	-	-
Movement in intercompany loan		-	-	(2,254,562)	-
Net cash (used in) / provided by investing activities		(2,782,181)	645,589	(2,254,562)	-
Cash flows from financing activities					
Proceeds from share issue		2,292,062	-	2,292,062	-
Transaction costs of issue of shares		(37,500)	-	(37,500)	-
Proceeds from borrowings		1,000,000	-	-	-
Repayment of borrowings		(182,000)	-	-	-
Lease repayments		(66,035)	-	-	-
Net cash provided by financing activities		3,006,527	-	2,254,562	-
Net increase / (decrease) in cash and cash equivalents		1,811,891	(2,774,674)	-	-
Cash at beginning of financial year		(205,195)	2,569,479	10	10
Cash at end of financial year	28	1,606,696	(205,195)	10	10

The accompanying notes form part of these financial statements.

Consolidated	Share Capital \$	Retained Earnings \$	Reserves \$	Total \$
Balance at 1 July 2005	6,776,654	642,677	-	7,419,331
Total income and expense for the period recognised directly in equity	-	-	-	-
Profit for the year	-	353,872	-	353,872
Total income and expense for the period	-	353,872	-	353,872
Equity transactions:				
Options issued during the year – share based payments	-	-	59,556	59,556
Balance at 30 June 2006	6,776,654	996,549	59,556	7,832,759
Total income and expense for the period recognised directly in equity	-	-	-	-
(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
Company				
Balance at 1 July 2005 (as previously reported)	6,776,654	1,228,107	-	8,004,761
Effect of restatements	-	139,946	-	139,946
Balance at 1 July 2005 (restated)	6,776,654	1,368,053	-	8,144,707
Total income and expense for the period recognised directly in equity	-	-	-	-
Profit for the year (restated)	-	-	-	-
Total income and expense for the period	-	-	-	-
Equity transactions:				
Options issued during the year – share based payments	-	-	-	-
Balance at 30 June 2006 (restated)	-	1,368,053	-	1,368,053
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
Total income and expense for the period recognised directly in equity	-	-	-	-
Profit for the year (restated)	-	-	-	-
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

The accompanying notes form part of these financial statements.

1. Corporate Information

This financial report of The Environmental Group Limited for the year ended 30th June 2007 was authorised for issue by the Directors in accordance with a resolution of the Directors on 28 September 2007.

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

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

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. The financial information in this financial report has been presented in Australian dollars.

Basis of Preparation

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRSs), other authoritative pronouncements of the Australian Accounting Standards Board, and the Corporations Act 2001.

Statement of Compliance

The financial report complies with Australian Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). The financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

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 2007. The Directors have yet to finalise their assessment of the impact of these new or amended standards (to the extent relevant to the Group) and their interpretation.

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.

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.

Mine Assist and Pump Assist consolidation

The acquisitions of Mine Assist Pty Ltd and Pump Assist Pty Ltd on 31 August 2006 have been accounted for using the purchase method of accounting. The purchase method of accounting involves allocation 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. Accordingly, the consolidated financial statements include the results of these acquired entities since the acquisition date.

B) Intangible Assets

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.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

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.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. When the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash-generating unit (group of cash-generating units) and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash generating unit retained.

Research & Development

Expenditure during the research phase of a project is recognised as an expense when incurred.

Development costs on an individual project are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at a cost less any accumulated amortisation and accumulated impairment losses.

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

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

	Trade Mark	Licence	Goodwill	Development costs
Useful lives	Indefinite	Indefinite	Indefinite	Finite
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

C) Share Based Transactions

The group provides benefits to employees (including directors) of the group in the form of share-based payment transactions, 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:

- (i) the Employee Share Option Plan (ESOP), which provides benefits to directors and senior executives, and
- (ii) 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 performance conditions, other than conditions linked to the price of shares of The Environmental Group Limited.

The cost of equity-settled transactions is recognised together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for the equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as at the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where 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 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 earnings per share. For each share plan the share based payment transaction is recorded by the entity to which the employee has provided the service. The parent company does not increase the value of its investment with respect to these transactions.

D) Revenue Recognition

Interest revenue is recognised as interest accrues using the effective interest method.

For details with respect to construction contract profits refer to (H).

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

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.

E) Borrowing Costs

Borrowing costs are recognised as an expense when incurred.

F) Leases

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 property 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. Lease incentives under operating leases are recognised as a liability and amortised on a straight line basis over the life of the lease.

G) Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash includes cash on hand and at all call depositions with banks and other financial institutions with an original maturity of three months or less, net of bank overdraft, investments in money market instruments and cash in transit.

H) Trade and Other Receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An allowance for doubtful debts is made when there is objective evidence that the group will not be able to collect the debts.

Bad debts are written off when identified.

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.

I) Inventories**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 on a weighted average basis.

J) Impairment of Assets

Goodwill and 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 reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The 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 which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

K) Income Tax

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

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 assets and unused tax losses, to the extent that it is probably 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 investment 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.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

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.

The Environmental Group Limited and its wholly owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. The Environmental Group Limited is responsible for recognising the current and deferred tax assets and liabilities for the tax consolidated group. The tax consolidation group has entered into a tax funding agreement whereby each company in the group recognises income tax expense in proportion to their contribution to the net profit before tax of the tax consolidated group.

L) Goods and Services Tax (GST)

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 are classified as operating cash flows.

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

M) Plant and Equipment

Plant and Equipment is measured at historical cost less, where applicable, any accumulated depreciation or amortisation. Historical cost includes expenditure that is directly attributable to the acquisition of the item.

Depreciation and Amortisation of Plant Equipment

Plant and equipment are depreciated over their estimated useful lives to the economic entity, using either the reducing value or straight line method. Depreciation rates used are:

Class of Fixed Asset	Depreciation Rate
Leasehold Improvements	10%
Plant Equipment	7.5% - 40%
Motor Vehicles	15% - 22.5%

The carrying value of plant and equipment is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1 (J)).

N) Trade and Other Payables

These amounts represent liabilities for goods and services provided to the group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

O) Provisions

Provisions are recognised when the group has a present obligation (legal or constructive) 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.

When the group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

When discounting is used, the increase in the provision due to passage of time is recognised as a borrowing cost.

P) Employee Leave Benefits**(i) Wages, salaries, annual leave and sick leave**

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

(ii) Long Service Leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payment to be made in respect of services provided by employees up to the reporting date using the projected unit in 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 and currencies that match, as closely as possible, the estimated future cash outflows.

Q) Issued Capital

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.

R) Earnings Per Share

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) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

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

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses;
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; and
- divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

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.

S) 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, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill (refer to note 1 (B)). 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.

T) Financial Instruments**Recognition**

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

Financial assets at fair value through profit and loss

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

Loans and receivables

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

Held-to-maturity investments

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

Available-for-sale financial assets

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

U) Comparative Figures

When required by accounting standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

For further discussion associated with the above comparative adjustments refer to note 31.

Critical Accounting Estimates and Judgements

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

Key Estimates**Impairment of Goodwill**

The group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 1 (J). The recoverable amounts of cash generating units have been determined based on value in use and fair value less costs to sell calculations. These calculations require the use of assumptions. Refer to note 12b for details of these assumptions and the potential impact of changes to the assumptions.

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.

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 29.

	Economic Entity		Company	
	June 2007 \$	June 2006 \$	June 2007 \$	June 2006 \$
2. Revenue and Other Income				
Design and construction work	18,152,002	18,659,215	-	-
Stock sales	1,389,281	2,331,855	-	-
Service	4,411,452	1,947,980	-	-
Interest Income	67,154	122,070	-	-
Other income	-	157,557	-	-
Total Revenues and Other Income	24,019,889	23,218,677	-	-
3. Expenses				
Subcontracting and material costs	17,968,046	17,456,017	-	-
Employee share based payments	34,500	59,556	-	-
Employee expenses	3,975,072	3,705,187	-	-
Rent and related expenses	378,384	443,722	-	-
Marketing and advertising expenses	38,655	30,192	-	-
Professional fees	595,724	540,773	-	-
Depreciation of equipment	151,292	46,282	-	-
Depreciation of motor vehicles	29,342	7,208	-	-
Amortisation of leasehold vehicles	10,531	10,455	-	-
Amortisation of intangibles	186,786	187,529	-	-
Other expenses	2,046,066	1,422,918	-	-
Total Expenses from Ordinary Activities	25,414,398	23,909,839	-	-
4. (Loss) / profit for the year				
Net (loss) / profit has been determined after:				
Employee entitlements expense	44,379	32,038	-	-
Research & development cost written off / expensed	186,786	144,996	-	-
Rental expense on operating leases – Minimum lease payments	213,201	368,210	-	-
The above expenses are included within the total expenses disclosed in note 3.				
5a. Income Tax Benefit / (Expense)				
Current tax	169,410	(226,499)	-	-
Deferred tax	237,176	296,764	-	-
Under (over) provided in prior years	16,757	(31,326)	-	-
	423,343	38,939	-	-

	Economic Entity		Company	
	June 2007 \$	June 2006 \$	June 2007 \$	June 2006 \$
5b. The prima facie tax on profit / loss before income tax is reconciled to the income tax benefit as follows				
Prima facie tax on profit / loss before income tax calculated at 30%: (2006: 30%):	418,352	(94,479)	-	-
Add:				
Tax effect of:				
Amortisation of intangibles – non-deductible	(10,768)	(56,259)	-	-
Non-deductible entertainment expenses	(4,999)	(1,696)	-	-
Less:				
Tax effect of:				
Eligible research & development expenditure	16,262	55,206	-	-
Recognition of timing differences not previously brought to account	(6,758)	31,326	-	-
Other items	11,254	104,841	-	-
Income tax benefit attributable to profit / (loss) ordinary activities before income tax	423,343	38,939	-	-
5c. Tax Losses				
Unused tax losses for which no deferred tax asset has been recognised				
Potential tax benefit @ 30%	3,026,193	3,026,193	3,026,193	3,026,193
All unused tax losses were incurred by Australian entities				

5d. Tax Consolidation

(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.

(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 consolidate 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. To the extent that there is a difference between the amount allocated under the tax funding agreement and the allocation under UIG 1052, the head entity accounts for these as equity transactions.

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. Movements in intercompany balances resulting from adjustments in accordance with the tax funding agreement are disclosed at note 11.

	Economic Entity		Company	
	June 2007 \$	June 2006 \$	June 2007 \$	June 2006 \$
6. Trade and Other Receivables				
Current				
Trade debtors	2,877,900	4,543,851	-	-
Allowance for impairment loss	(192,068)	-	-	-
Sundry debtors	186,010	463,242	-	-
Amount due from project work	501,701	274,992	-	-
Amounts due from wholly owned subsidiaries	-	-	-	2,530,530
	3,373,543	5,282,085	-	2,530,530
Non-Current				
Amounts due from wholly owned subsidiaries	-	-	5,575,870	-
	-	-	5,575,870	-
6(a) Contract cost incurred	10,255,214	16,606,702	-	-
Recognised profits to date	3,199,235	2,052,513	-	-
	13,454,449	18,659,215	-	-
Progress billings	(12,952,748)	(18,384,223)	-	-
Amount due from customers for contract work	501,701	274,992	-	-

6b. Terms and conditions

Trade debtors and sundry debtors are non-interest bearing and are generally on 30 – 90 day terms. An allowance for impairment loss is recognised when there is objective evidence that a trade debtor or sundry debtor is impaired. The allowance for impairment loss relates to trade debtors at 30 June 2007.

Amounts due from contract work relate to work performed which has not been billed to customers.

Amounts due from wholly owned subsidiaries are non-interest bearing and repayable on demand.

	Economic Entity		Company	
	June 2007 \$	June 2006 \$	June 2007 \$	June 2006 \$
7. Other Financial Assets				
Current				
Term deposits and bank bills	791,817	957,748	-	73,110
Non-Current				
Shares in subsidiaries at cost	-	-	4,120,220	4,120,220
8. Inventories				
Raw materials and finished goods at cost	760,513	508,802	-	-
	760,513	508,802	-	-
9. Other Assets				
Current				
Prepayments	141,092	232,329	-	-
Deferred acquisition costs	63,634	-	-	-
Other Assets	5,400	2,478	-	66,768
	210,126	234,807	-	66,768
10. Plant & Equipment				
Equipment and vehicles – at cost	1,538,872	734,132	-	-
Accumulated depreciation	(676,163)	(495,529)	-	-
	862,709	238,603	-	-
Leasehold improvements – at cost	116,593	113,993	-	-
Accumulated amortisation	(62,356)	(51,825)	-	-
	54,237	62,168	-	-
Total Plant and Equipment	916,946	300,771	-	-

	Economic Entity		Company	
	June 2007 \$	June 2006 \$	June 2007 \$	June 2006 \$
10a. Movements in Carrying Amount				
Equipment and Vehicles – at Cost				
Balance at beginning	734,132	660,949	-	-
Additions	179,621	73,183	-	-
Acquired	625,493	-	-	-
Disposal	(374)	-	-	-
Balance at end of year	1,538,872	734,132	-	-
Equipment and Vehicles – Depreciation				
Balance at beginning	495,529	442,039	-	-
Depreciation Expense	180,634	53,490	-	-
Disposal	-	-	-	-
Balance at end of year	676,163	495,529	-	-
Leasehold Improvements -at cost				
Balance at beginning	113,993	113,993	-	-
Additions	2,600	-	-	-
Disposal	-	-	-	-
Balance at end of year	116,593	113,993	-	-
Leasehold Improvements – Amortisation				
Balance at beginning of year	51,825	41,370	-	-
Amortisation Expense	10,531	10,455	-	-
Disposal	-	-	-	-
Accumulated amortisation – Leasehold improvements	62,356	51,825	-	-
Written down value – Equipment and vehicles	862,709	238,603	-	-
Written down value – Leasehold improvements	54,237	62,168	-	-
Total written down value – plant and equipment	916,946	300,771	-	-

	Economic Entity		Company	
	June 2007 \$	June 2006 \$	June 2007 \$	June 2006 \$
11. Deferred Tax Assets				
The balance comprised temporary differences attributable to:				
Relocation Costs	7,215	3,296	-	-
Accruals – General	1,250	1,250	-	-
Accruals – Superannuation	4,217	6,584	-	-
Accruals – Annual Leave	111,648	81,832	-	-
Accruals – Audit fees	19,500	12,000	-	-
Accruals – Fringe benefits tax	6,857	1,950	-	-
Provision – Warranty	35,548	8,825	-	-
Provision – Long service leave	51,465	28,099	-	-
Provision – Doubtful debts	57,620	-	-	-
Provision – Other	2,959	-	-	-
	298,279	143,836	-	-
Tax losses for current and prior years	1,572,553	1,381,136	1,572,553	1,381,136
Total	1,870,832	1,524,972	1,572,553	1,381,136
Movements				
Opening balance at 1 July	1,524,972	774,054	1,381,136	528,370
Credited / charged to the income statement	314,659	112,842	-	-
Acquisition of subsidiary (note 18a)	31,201	638,076	-	-
Intercompany transfer from subsidiary per tax funding agreement	-	-	191,417	852,766
Closing balance at 30 June	1,870,832	1,524,972	1,572,553	1,381,136

	Economic Entity		Company	
	June 2007 \$	June 2006 \$	June 2007 \$	June 2006 \$
12. Intangible Assets				
Trade mark	2,710	2,710	2,710	2,710
Goodwill	4,810,593	2,783,484	-	-
License – at cost	315,241	315,241	-	-
Accumulated Amortisation and impairment – License		(193,297)	(193,297)	-
Development Costs	1,084,964	868,047	-	-
Accumulated Amortisation – Development Costs	(551,726)	(364,939)	-	-
	5,468,485	3,411,246	2,710	2,710

Development costs have been capitalised at cost. 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. 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.

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 licence provider may withdraw their consent at any time.

Goodwill acquired through business combinations and licences have been allocated to 2 individual cash generating units, for impairment testing as follows:

- EGL Infrastructure Operations cash generating unit; and
- EGL Facility Services 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 26.

	Trademark \$	Goodwill \$	Licences \$	Development \$	Total \$
12a. Movement of Intangibles					
Year ended 30 June 2006					
Opening net book amount	2,710	2,271,748	121,944	471,976	2,868,378
Additions	-	41,574	-	-	41,574
Acquired through business combinations	-	470,162	-	126,919	597,081
Amortisation charge	-	-	-	(95,787)	(95,787)
Closing net book value	2,710	2,783,484	121,944	503,108	3,411,246
At 30 June 2006					
Cost	2,710	2,783,484	315,241	868,047	3,969,482
Accumulated amortisation and impairment	-	-	(193,297)	(364,939)	(558,236)
Net Book amount	2,710	2,783,484	121,944	503,108	3,411,246
Year ended 30 June 2007					
Opening net book amount	2,710	2,783,484	121,944	503,108	3,411,246
Additions	-	2,027,109	-	216,917	2,244,025
Amortisation charge	-	-	-	(186,787)	(186,787)
Closing net book value	2,710	4,810,593	121,944	533,238	5,468,485
At 30 June 2007					
Cost	2,710	4,810,593	315,241	1,084,964	6,213,508
Accumulated amortisation and impairment	-	-	(193,297)	(551,726)	(745,023)
Net Book amount	2,710	4,810,593	121,944	533,238	5,468,485

Intangible assets other than goodwill, licences and trademarks, have finite lives. The current amortisation charges for intangible assets are included under depreciation and amortisation expense per the Income statement. Goodwill and Trademarks have an indefinite life. Prior to the purchase, EGL was a beneficiary of a licence with Anglian Water Pty Limited. Development costs are amortised over a 5 year period.

An additional amount of \$306,440 was recognised as goodwill as a result of payments made and accrued under the Coriolis earn out agreement specified at Note 21.

An additional amount of \$286,623 was recognised as goodwill as a result of payments made and accrued under the Mine Assist earn out agreement specified at Note 21.

12b. Impairment Testing

Goodwill is allocated to the group's cash-generating units (CGU's) identified according to business division.

A divisional-level summary of the goodwill and other intangibles with indefinite lives allocation is presented below.

	EGL Infrastructure Operations \$	EGL Facility Services \$	Total \$
Licences	121,944	-	121,944
Goodwill	3,091,960	1,718,633	4,810,593
Trademark	2,710	-	2,710

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 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%.

No growth rate has been applied to the cash flow.

The EGL Facility Services division is forecast to contribute in excess of \$3 million of profit before tax over the next five financial periods.

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.

	Note	Economic Entity		Company	
		June 2007 \$	June 2006 \$	June 2007 \$	June 2006 \$
13. Interest Bearing Liabilities					
Current					
Finance Leases	23	150,941	-	-	-
		150,941	-	-	-
Non-Current					
Finance Leases	23	149,718	-	-	-
Commercial Bill		850,000	-	-	-
		999,718	-	-	-

The commercial bill relates to a bank loan facility which has a rolling maturity of 90 days. The loan is extended each maturity date and is not expected to be repaid within 12 months. The loan is secured over the assets of the economic entity.

	Economic Entity		Company	
	June 2007 \$	June 2006 \$	June 2007 \$	June 2006 \$
14. Trade and Other Payables				
Current				
Trade Creditors	3,037,626	3,078,567	-	-
Sundry Creditors	420,743	456,713	-	-
Other	318,187	-	-	29,777
Amounts due from wholly owned subsidiaries	-	-	872,094	-
	3,776,556	3,535,280	872,094	29,777

14a. Terms and conditions

Trade payables and sundry creditors are non-interest bearing and normally settled on 30 day terms.

Amounts due from wholly owned subsidiaries are non-interest bearing and repayable on demand.

	Economic Entity		Company	
	June 2007 \$	June 2006 \$	June 2007 \$	June 2006 \$
15. Tax Liabilities				
Current				
Income tax payable	-	-	-	-
The balance of franking account at year end adjusted for franking credits arising from payment of income tax payable.	1,130,878	466,460	1,130,878	466,460
Non Current				
Deferred tax liability	167,360	244,843	-	-
15a. Deferred Tax Liabilities				
The balance comprises temporary differences attributable to:				
Retention debtors	3,915	98,481	-	-
Capitalised development costs	163,445	146,362	-	-
Total	167,360	244,843	-	-
Movements				
Opening balance at 1 July	244,843	172,551	-	-
Credited / Charged to the income statement	(77,483)	72,292	-	-
Closing balance at 30 June	167,360	244,843	-	-

	Economic Entity		Company	
	June 2007 \$	June 2006 \$	June 2007 \$	June 2006 \$
16. Provisions				
Current				
Employee benefits	512,484	296,622	-	-
Provision for warranties	118,494	29,418	-	-
Provision - other	22,855	6,500	-	-
	653,833	332,540	-	-
Non Current				
Employee benefits	99,895	69,814	-	-
Aggregate employee benefits	612,379	366,436	-	-
Number of employees	68	27	-	-

	Warranties	
	June 2007 \$	June 2006 \$
16a. Provisions		
Opening balance as at 1 July 2006	29,418	74,533
Additional Provisions	112,598	288,000
Amounts used	(23,522)	(333,115)
Balance at 30 June 2007	118,494	29,418

Provision for warranty

A provision of \$118,494 at 30 June 2007 has been recognised for estimated warranty claims associated with contract work performed during the financial year.

	Economic Entity		Company	
	June 2007 \$	June 2006 \$	June 2007 \$	June 2006 \$
17. Issued Capital				
Number of ordinary shares authorised and on issue 101,893,363 (2006: 77,324,141)	9,031,216	6,776,654	6,776,654	6,776,654
At the beginning of the financial year	6,776,654	6,776,654	6,776,654	6,776,654
Ordinary shares issued during the year:				
– Share issue costs	(37,500)	-	(37,500)	-
– 23,222,222 in September 2006 fully paid	2,090,000	-	2,090,000	-
– 1,347,000 in December 2006 fully paid	202,062	-	202,062	-
At the end of the year	9,031,216	6,776,654	9,031,216	6,776,654
* Authorised capital has no par value.				
18. Retained Earnings				
Retained Earnings at beginning of financial year	996,549	642,677	1,368,053	1,368,053
Net (loss) / profit attributable to members of Parent Entity	(971,166)	353,872	-	-
At end of year	25,383	996,549	1,368,053	1,368,053

19a. Change in Composition of Entity

On 31 August 2006, The Environmental Group Limited acquired 100% of the voting shares of Mine Assist Pty Limited an unlisted company based in Australia specialising in the provision of products and services to the mining industry.

The fair value of the identifiable assets and liabilities of Mine Assist Pty Limited as at the date of acquisition were:

	Recognised on acquisition \$
Cash and cash equivalents	260,757
Trade receivables	844,786
Inventory	280,028
Plant & Equipment	373,909
Deferred tax asset	31,201
Motor Vehicles	251,584
	2,042,265
Trade payables	281,173
Accruals	201,980
Provision for Income Tax	100,539
Employee entitlements	104,004
Leases	199,773
Other liabilities	31,081
Short term borrowings	32,916
	951,466
Fair value of net assets	1,090,799
Consideration:	
Cash	2,263,966
Contingent consideration accrued to date	286,623
Shares	202,062
Costs associated with the acquisition	58,817
Total consideration	2,811,468
Goodwill on acquisition	1,720,669
The cash outflow relating to the acquisition is as follows:	
Net cash acquired with subsidiary	260,757
Cash paid in current and prior periods	(2,322,783)
Net cash outflow (excluding contingent consideration)	(2,062,026)

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

The consolidated net loss and consolidated revenues that would have resulted had the acquisition been made on 1 July 2006 would have been approximately \$855,638 and \$25,115,347 respectively.

Since acquisition date the profit before tax of this entity included in EGL's consolidated result was \$577,485.

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

An additional amount of \$286,623 was accrued during the year as contingent consideration under the Mine Assist earn out agreement specified at Note 22. Total goodwill associated with the Mine Assist acquisition is \$1,720,669. Further contingent consideration amounts are not estimatable at 30 June 2007.

19b. Acquisition of Pump Assist Pty Limited

The acquisition of Mine Assist Pty Limited also resulted in the acquisition of Pump Assist Pty Limited, a dormant company which has no material assets or liabilities.

19c. Acquisition of Total Air Pollution Control Pty Limited

On 9 July 2007 the Company announced to the ASX that it entered into a share sale agreement to complete the acquisition of Total Air Pollution Control Pty Limited subject to shareholders consent. Shareholder consent was achieved 6 September 2007. Completion occurred five working days after consent was achieved.

The financial impact of the acquisition has not been disclosed as due diligence is being finalised at the date of this report. Consideration will comprise \$3,000,000 in cash, \$500,000 in the company's shares, a contingent consideration amount calculated on the profit each year for five years and a working capital adjustment.

	Economic Entity		Company	
	June 2007 \$	June 2006 \$	June 2007 \$	June 2006 \$
20. Earnings Per Share				
Basic earnings per share (cents)	(1.00)	0.45		
Diluted earnings per share (cents)	(1.00)	0.45		
Weighted Average Numbers of Ordinary Shares				
The weighted average number of ordinary shares outstanding during the year used in the calculation of:				
Basic earnings per share	96,512,818	77,324,141		
Diluted earnings per share	96,512,818	77,324,141		
Of the 1,000,000 options outstanding none are considered dilutive and are therefore not considered in the calculation of EPS.				
Earnings				
Earnings used in the calculation of basic EPS and diluted EPS.	(971,166)	353,872		
Basic earnings per share and Diluted earnings per share were calculated using the number of shares outstanding as at the end of the financial year.				
21. Auditor's Remuneration				
Auditors of the Company:				
Audit and review of financial reports	68,500	55,000	68,500	55,000
Other services	-	20,597	-	20,597
The audit fee in 2006 was paid to PKF. PKF continued to provide non-audit services in 2007.				
22. Contingent Liabilities				
Estimates of material amounts of contingent liabilities, not provided for in the financial reports arising from:				
Bank guarantees given in respect of performance guarantees in favour of third parties.	1,194,063	1,535,919	-	-

Under the terms of the share sale agreement the former shareholders of Coriolis Water Services (Australia) Pty Ltd are entitled to a share of certain future profits generated by the business. The payments are forecast to begin on the 31 March 2007 to cease on the 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 Ltd and Pump Assist Pty Ltd are entitled to a share of certain future profits generated by the business during the financial years 30 June 2007 to 30 June 2010. 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 estimate the potential financial effect of this contingent liability, as it can not be reliably measured.

23. Financial Instruments

The Group's principal financial instruments, other than derivatives, comprise bank loans and overdrafts, finance leases and hire purchase contracts, and cash and short-term deposits.

The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. The Group also enters into derivative transactions, including principally interest rate swaps and forward currency contracts. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken. The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. Company policies are consistent with the Group determined financial policies.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate.

The Group has limited exposure to foreign exchange. When the company is required to settle debt in foreign currency forward contracts are entered into.

Existing loan facilities with the Commonwealth Bank of Australia consist of a rolling new bill facility on 90 day terms. There are no fixed terms or rates associated with the bill facility.

Consolidated												
	Weighted Average Effective Interest Rate		Floating Interest Rate		Fixed rate within 1 Year		Fixed rate within 1-5 Years		Non-interest Bearing		Total	
	2007 %	2006 %	2007 \$	2006 \$	2007 \$	2006 \$	2007 \$	2006 \$	2007 \$	2006 \$	2007 \$	2006 \$
Financial Assets												
Cash and cash equivalents	6.0	5.0	1,606,696	46,430	-	-	-	-	-	-	1,606,696	46,430
Receivables	-	-	-	-	-	-	-	-	3,373,543	5,282,085	3,373,543	5,282,085
Other financial assets	7.0	6.0	-	-	791,817	957,748	-	-	-	-	791,817	957,748
Total Financial Assets			1,606,696	46,430	791,817	957,748	-	-	3,373,543	5,282,085	5,772,056	6,286,263
Financial Liabilities												
Short term borrowings	11.5	10.5	-	251,625	-	-	-	-	-	-	-	251,625
Trade and other payables	-	-	-	-	-	-	-	-	3,776,556	3,535,280	3,776,556	3,535,280
Finance leases	8.5	-	-	-	150,941	-	149,718	-	-	-	300,659	-
Bank loans	10	-	-	-	-	-	850,000	-	-	-	850,000	-
Total Financial Liabilities			-	251,625	150,941	-	999,718	-	3,776,556	3,535,280	4,927,215	3,786,905

Company

The company has intercompany receivables totalling \$5,186,012 and payables totalling \$872,097. These balances are non interest bearing.

(a) Credit Risk

The maximum exposure to credit risk, excluding the value of any collateral or other security at balance date to recognised financial assets is the carrying amount, net of any provisions for doubtful debts where applicable, as disclosed in the statement of financial positions and the notes to the financial statements.

(b) Net Fair Values

For all assets and liabilities in the financial statements the net fair value approximates their carrying value.

(c) Liquidity Risk

The group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans and operating leases.

(d) Price Risk

The Economic entity and Company is not exposed to any material price risk.

(e) Foreign Currency Risk

The economic entity and Company has minimal exposure to fluctuations in foreign currency.

	Economic Entity		Company	
	June 2007 \$	June 2006 \$	June 2007 \$	June 2006 \$
24. Commitments for Expenditure				
(a) Operating Lease Commitments:				
Payable not later than one year	333,335	146,085	-	9,438
Later than one year but not later than 5 years	365,416	302,429	-	36,567
	698,751	448,514	-	46,005

The leases reflect non-cancellable property and equipment leases. The property leases are payable one month in advance and expire in total on 31 December 2007. There are no options to extend the term of the leases under the property lease agreements currently in place. Equipment leases are generally taken over a 48 month period.

(b) Finance Lease Commitments				
Commitments in relation to finance leases are payable as follows:				
Within one year	171,428	-	-	-
Later than one year but not later than 5 years	175,628	-	-	-
Minimum lease payments	347,056	-	-	-
Less: Future finance charges	46,397	-	-	-
Total lease liabilities	300,659	-	-	-
Representing lease liabilities				
Current (note 13)	150,941	-	-	-
Non-current (note 13)	149,718	-	-	-
	300,659	-	-	-

Finance leases relate to motor vehicles and items of plant and equipment. These leases have an average term of 5 years.

25. Particulars in relation to Controlled Entities

Company	Country of Incorporation	Percentage of Shares Held	
		2007 (%)	2006 (%)
The Environmental Group Limited	Aust.	2007 (%)	2006 (%)
Controlled Entities			
The Environmental Group Share Plans Pty Limited	Aust.	100	100
Environmental Group (Operations) Pty Limited (formerly Environmental Systems Pty Limited)	Aust.	100	100
Horizon APC Australia Pty Limited (formerly Activated Carbons Australia Pty Limited)	Aust.	100	100
Environmental Products Pty Limited	Aust.	100	100
Coal and Carbon Industries (Australia) Pty Limited	Aust.	100	100
Environmental Systems International Pty Limited (formerly Stannary Hills Mining Pty Limited)	Aust.	100	100
Jetflote Australia Pty Limited	Aust.	100	100
Water Environment Systems Pty Limited	Aust.	100	100
EGL Developments Pty Limited	Aust.	100	100
EGL Water Operations Pty Limited	Aust.	100	100
EGL Management Services Pty Limited (formerly Anglian Water Pty Limited)	Aust.	100	100
Coriolis Water Services (Australia) Pty Limited	Aust.	100	100
Mine Assist Pty Limited	Aust.	100	-
Pump Assist Pty Limited	Aust.	100	-

26. Segment Reporting

The Economic entity operates solely in Australia and the environmental sector. Revenue, profit and assets all relate to operations in Australia.

	EGL Infrastructure	EGL Facility Services	Other	Total
Year ended 30 June 2007				
Revenue				
Revenues and income	14,783,194	9,169,541	67,154	24,019,889
Result				
Finance costs	(77,442)	(21,267)	-	(98,709)
Segment results (PBT)	(2,291,349)	829,686	67,154	(1,394,509)
Income tax benefit	-	-	423,343	423,343
Net profit after tax	-	-	-	(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	-	1,587,545
Net cash from investing activities	(2,639,775)	(209,560)	67,154	(2,782,181)
Net cash from financing activities	3,191,148	(184,621)	-	3,006,527
Year ended 30 June 2006				
Revenue				
Revenues and income	21,953,944	949,619	157,557	23,061,120
Result				
Discount on acquisition	-	-	1,006,090	1,006,090
Finance costs	(1,322)	-	-	(1,322)
Segment results (PBT)	(1,328,806)	480,087	1,163,652	314,933
Income tax benefit	-	-	38,939	38,939
Net profit after tax	-	-	-	353,872
Assets				
Segment assets	10,129,773	2,137,088	-	12,266,861
Liabilities				
Segment liabilities	4,087,057	347,045	-	4,434,102
Other Segment information				
Capital expenditure	73,183	-	-	73,183
Depreciation and amortisation	247,175	-	-	247,175
Cash Flow Information				
Net cash from operating activities	(3,598,789)	178,526	-	(3,420,263)
Net cash from investing activities	523,519	-	122,070	645,589
Net cash from financing activities	-	-	-	-

During the year the Group determined that it operated in two reportable segments as noted above. The distinction was not made in the 30 June 2006 financial report where results and financial position were attributed to one segment being the Environmental sector.

27a. Share Transactions of Key Management Personnel

The Directors for the period were J.D. Read, J.M. Higgs, R.A. Kell, C.M. Fullerton and M. Williamson (retired 30 June 2007). D. Stone and C. Jensen were appointed to the Board on 6 September 2007. The specified executives were B. Borg, M. Spinks and S. Cobden.

Key management personnel and their related entities hold directly, indirectly or beneficially as at the reporting date, the following share holdings:

	Held at beginning of period	Granted as compensation	Resulting from change during the reporting period	Received on exercise of options	Held at reporting date
J.D. Read – Chairman	2,702,794	-	222,220*	-	2,925,014
J.M. Higgs – Executive Director	2,296,047	-	55,554*	-	2,351,601
R.A. Kell – Non-executive Director	580,000	-	55,555*	-	635,555
C.M. Fullerton – Non-executive Director	6,000,000	-	55,555*	-	6,055,555
M. Spinks – General Manager	-	-	673,500^	-	673,500
B. Borg – Company Secretary and CFO	-	-	-	-	-
S. Cobden – General Manager	-	-	-	-	-
M. Williamson – former CEO/Director	61,289	-	-	-	61,289
	11,640,130	-	1,062,384	-	12,702,514

* Resulting from change during the reporting period relates to general trading activity.

^ Provided to M. Spinks as part of the Mine Assist acquisition consideration.

27b. Compensation of Key Management Personnel

The Environmental Group Limited has applied the option under the Corporations Amendments Regulation 2006 to transfer key management personnel remuneration disclosures 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.

	Economic Entity		Company	
	June 2007 \$	June 2006 \$	June 2007 \$	June 2006 \$
Short term employee benefits	852,983	637,840	-	-
Post employment benefits	100,047	56,396	-	-
Other long term benefits	-	-	-	-
Termination benefits	-	-	-	-
Share based payments	34,500	62,326	-	-
	987,530	756,562	-	-

27c. Share Option Holdings

Details of Share Option Holdings are disclosed in note 30b. During the year 1,000,000 share options were issued to key management personnel.

27d. Loans held by key Management Personnel

No loans were held by Key Management Personnel throughout the financial year.

28. Cash Flow Information

Reconciliation of cash flow from operations with profit/(loss) after income tax.

	Economic Entity		Company	
	June 2007 \$	June 2006 \$	June 2007 \$	June 2006 \$
(Loss) / profit from operation activities after tax	(971,166)	353,872	-	-
Non-cash flows in (loss) / profit from operating activities:				
– Depreciation & amortisation	377,951	247,175	-	-
– Interest income classified as Investing activities	(67,154)	122,070	-	-
– Other non-cash flow items	(4,195)	505,686	-	-
– Discount on acquisition	-	(1,006,095)	-	-
– Options Issued	34,500	59,326	-	-
Changes in assets and liabilities:				
(Increase) / decrease in Receivables	2,753,328	801,590	-	-
(Increase) / decrease in Inventories	28,316	120,957	-	-
(Increase) / decrease in Prepayments	22,203	(97,664)	-	-
(Increase) / decrease in Deferred tax assets	(314,658)	(750,918)	-	-
(Decrease) / increase in Payables	(241,877)	(3,140,702)	-	-
(Decrease) / increase in Provisions	247,370	(463,712)	-	-
(Decrease) / increase in Tax Liabilities	(209,103)	72,292	-	-
(Decrease) / increase in Other assets/liabilities	(67,970)	-	-	-
Net cash provided by operating activities	1,587,545	(3,420,263)	-	-
Cash at Bank and in hand	1,606,696	(205,195)	10	10
Reconciliation of cash				
Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet as follows:				
Cash and cash equivalents	1,606,696	46,430	10	10
Bank overdraft	-	(251,625)	-	-
	1,606,696	(205,195)	10	10

A bank overdraft facility is available to the economic entity. The bank overdraft is limited to \$500,000.

29. Employee Benefits

a) 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 the 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 year ended 30 June 2007.

b) Employee share option agreement

As at 30 June 2006, there were options outstanding to Directors and specified executives. 1,000,000 options were issued throughout the year ended 30 June 2007 to specified executives.

Movement and the number of The Environmental Group Limited share options held by employees are as follows:

	Note	Economic Entity		Weighted Average Exercise Price	
		June 2007 \$	June 2006 \$	June 2007 \$	June 2006 \$
Opening Balance		1,500,000	1,750,000	0.20	0.20
Granted during the year	30b	1,000,000	1,000,000	0.24	0.20
Lapsed during the year		(1,500,000)	(1,250,000)	0.20	0.20
Closing Balance		1,000,000	1,500,000	0.24	0.20

No options were exercised during the year. All options on issue may be exercised at 30 June 2007. Share options on issue are not quoted on a marketable exchange. Options lapsed were a result of expiry.

30. Related Party Transactions

Share-base Payments Plans

a) Employee Share Option Plan

Share options are granted to senior executives with more than 12 months' service. 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.

b) Summary of options grant under ESOP

In July 2006, the following options were granted to senior executives under the Employee Share Option Plan.

Employee	Issue date	Amount	Expiry Period	Vesting Period	Exercise Price
Bjorn Borg	1 July 2006	250,000	3 Years	1 July 2006	20 cents
Simon Cobden	1 July 2006	250,000	3 Years	1 July 2006	20 cents
Bjorn Borg	1 July 2006	250,000	3 Years	1 July 2006	27.5 cents
Simon Cobden	1 July 2006	250,000	3 Years	1 July 2006	27.5 cents

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.

All options have vested and are able to be exercised at 30 June 2007. There are no specific performance conditions associated with the above granted options. The weighted average life for the share options outstanding is 2.5 years. The weighted average fair value of options granted during the year was \$0.034.

30. Related Party Transactions (continued)

The following table lists the inputs to the model used for the year ended 30 June 2007.

Weighted average share price	9.7 cents
Dividend Yield	-
Expected Volatility	82%
Risk free interest rate	5.88%
Contractual Life (years)	3

The options listed above are the only options on issue as at 30 June 2007. The exercise price for options outstanding at the year end was 20 cents to 27.5 cents.

c) Employee Share Purchase Plan

The Acting CEO and senior executives are also eligible to participate in the Staff Share Plan, as are all other eligible employees. To be eligible executives and employees must have at least twelve months service with the company. The staff Share Plan allows for the Board to approve the issuing of up to \$1,000 of shares per employee in the Company on an annual basis. The issuing of shares in a any year is at the discretion of the board. It is however board policy to issue shares under this plan in most if not all years. The cost to the Company is modest, and the holding of shares by the majority of the employees is seen as a significant incentive generating loyalty and commitment. The shares are held in trust by The Environmental Group Share Plans Pty Limited with the beneficial ownership of the shares transferring to the employees from grant date. As at 30 June 2007, 202,613 shares were held on behalf of employees.

d) Intercompany Loans

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 2007 was \$5,186,012.(2006 \$3,402,624).

The Environmental Group Limited utilises interest free loans from its subsidiaries. As at 30 June 2007 the total loans held totalled \$872,094 (2006 \$872,094).

The list below provides the loans held by provider:

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

31. Subsequent Events

On 9 July the Company announced to the ASX that it entered into a share sale agreement to complete the acquisition of Total Air Pollution Control Pty Limited subject to shareholders consent. Shareholder consent was achieved 6 September 2007.

The Company also presented a Capital raising proposal to shareholders comprising of the following:

The capital raising proposal will raise a total of almost \$9.5 million, on the following basis:

- **(Rights Issue)** EGL undertook a pro rata 5 for 6 non-renounceable rights issue of 56,160,969 shares at \$0.06 per share to raise \$3,369,658.
- **(Placement)** A placement to CVC sustainable Investments (CVCSI) of 40,000,000 shares at an issue price of \$0.06 was completed, generating \$2.4 million.
- **(Options)** for every 5 shares issued under the Placement and Rights Issue, EGL granted 1 Option to subscribe for a new share at an issue price of \$0.08 per share. The Options will expire in six months following the issue of the Placement Shares and Rights Issue Shares respectively and will not be admitted to quotation on ASX or transferable. The funds raised from the exercise of the Options will be available to fund potential future acquisitions.
- **(Underwriting)** CVC underwrote the Rights Issue shortfall of 28,750,167 shares raising \$1,725,010. CVC further agreed to meet any shortfall to the extent Options are not exercised by Option holders, by way of a placement of Shares at \$0.08 per Share to the extent of any such shortfall. CVCSI charged an underwriting fee of 5% of the funds raised under the Rights Issue and 2.5% of the funds raised on exercise of the Options, including those Options attaching to Rights issue Shares exercised by CVCSI. The underwriting fees may, at EGL's election, be paid in cash or satisfied by the issue of new Shares at an exercise price of \$0.06 per Share.

Further Details of the Capital raising are contained in the Notice of meeting, explanatory statement and Independent Directors' Report as lodged with the ASX on 7 August 2007 and the ASX announcement of 25 September 2007..

Mr Duncan Stone was appointed as Acting CEO on 9 July 2007.

32. Restatement of prior year reported amounts**(a) Change in accounting policy – subcontracting and material costs and employee expenses**

The comparative amounts for subcontracting and material costs and employee expenses have been adjusted to reflect management's change in policy of classifying all employee costs as overheads and not applying certain employee costs to projects unless they specifically relate to labour associated with a specific project.

The subcontracting and material costs disclosed for the 30 June 2006 has been reduced by \$1,986,985 with a corresponding increase disclosed within employee expenses for the same year. This adjustment is applicable to the economic entity consolidated income statement. The adjustment does not impact the Company income statement. This adjustment has no impact on the profit and loss before income tax benefit recorded. The adjustment also has no balance sheet impact for the year ended 30 June 2006.

(b) Restatement of deferred tax balances – company accounts

Historically group deferred tax balances relating to temporary differences and tax losses available for use by the Group, have been recognised by The Environmental Group Limited. The Environmental Group Limited is the head entity of the tax consolidated group. UIG 1052 'Tax Consolidation' requires subsidiaries in the group to recognise the deferred tax balances in their financial statements, since amounts are attributed to their assets and liabilities for tax purposes – even though the tax transactions occur (from a legal perspective) in the head entity instead. Application of the UIG 1052 principles results in the deferred tax balances associated with temporary differences are required to be recorded in the financial statements of subsidiaries in the tax consolidated group and not by The Environmental Group Limited. The following 30 June 2006 reported balances company balances have been adjusted to reflect the application of UIG 1052:

	Previously reported 30 June 2006	Adjusted disclosure 30 June 2006
Deferred tax asset	1,524,372	1,381,136
Deferred tax liability	244,843	-
Income tax benefit	38,939	-
Profit after income tax benefit	38,939	-
Retained earnings 1 July 2005	1,228,107	1,368,053
Retained earnings 30 June 2006	1,267,046	1,368,053

Directors' Declaration

In accordance with a resolution of the directors of The Environmental Group Limited, I state that:

1. In the opinion of the directors:
 - (a) the financial statements, notes and the additional disclosures included in the directors' report designed 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 2007 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 2007.

On behalf of the Board



28 September 2007
Director

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

We have audited the accompanying financial report of The Environmental Group Limited and its consolidated entities, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, 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.

The company has disclosed information as required by paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard 124 *Related Party Disclosures* ("remuneration disclosures"), under the heading "Remuneration Report" on pages 5 to 8 of the directors' report, as permitted by Corporations Regulation 2M.6.04.

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 1, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards. The directors are also responsible for the remuneration disclosures contained in the directors' report.

Auditor's Responsibility

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

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 directors², 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.

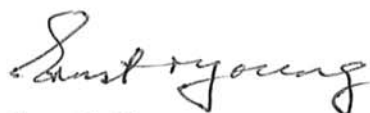
Independence

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.

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 2007 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
2. the financial report also comply complies with International Financial Reporting Standards as disclosed in Note 1.
3. the remuneration disclosures that are contained on 5 to 8 of the directors' report comply with Accounting Standard AASB 124 *Related Party Disclosures*.



Ernst & Young



Ian Campbell
Partner
Sydney
28 September 2007

Shareholding Statistics

The following is made up to 28 September 2007.

(a) Distribution of Share and Option Holders

The total number of shares and option holders and their distribution was as follows:

Holding Range	Share Holders	%	Option holders	%
1-1,000	951	0.16	136	0.18
1,001-5,000	536	0.61	120	1.38
5,001-10,000	188	0.69	68	2.20
10,001-100,000	520	9.12	127	14.53
100,001 and over	218	89.43	26	81.70
Totals	2,413	100	477	100

There were 226,804,500 shares on issue at 28 September 2007.

There were 33,482,103 options on issue at 28 September 2007.

(b) Marketable Parcel

The number of shareholdings held in less than marketable parcel is 2,412.

(c) Substantial Shareholders

The number of shares and options held by the substantial shareholders listed in the economic entity's Register of Substantial shareholders were:

	Ordinary Shares	Options
CVC Sustainable Investments Limited	68,474,265	12,583,741

(d) Voting Rights

Voting rights of members are governed by the Company Constitution. In summary, 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.

20 Largest Shareholders as at 25 September 2007

Name	Number of Ordinary Shares Held	Percentage of Ordinary Shares Issued
C V C SUSTAINABLE INVESTMENTS LIMITED	68,474,265	30.191
MANDALAY CAPITAL PTY LTD	11,101,850	4.895
J P MORGAN NOMINEES AUSTRALIA LIMITED	7,930,541	3.497
MR CLARENCE JOHN KELLY & MRS ROBYN SUZANNE KELLY & MR WILLIAM GEORGE CLARK	5,601,850	2.470
BROS NOMINEES PTY LTD	5,483,701	2.418
BLAIRONIA PTY LTD	5,012,134	2.210
ACE PROPERTY HOLDINGS PTY LTD	4,900,000	2.160
KENMARICO PTY LTD	4,817,184	2.124
MR DUNCAN STONE	4,166,667	1.837
CANNINGTON CORPORATION PTY LIMITED	3,990,039	1.759
DOLDORY PTY LTD	3,286,350	1.449
INSTIL ENTERPRISES PTY LTD	2,810,183	1.239
CLAPSY PTY LTD	2,478,767	1.093
ANZ NOMINEES LIMITED	2,349,166	1.036
325TH P&C NOMINEES PTY LTD	2,328,495	1.027
J P MORGAN NOMINEES AUSTRALIA PTY LTD	2,291,666	1.010
325TH P & C NOMINEES PTY LTD	1,692,361	0.746
MR MICHAEL ARTHUR HOW & MRS SUSAN HOW	1,605,184	0.708
LOTSA WEALTH PTY LTD	1,500,000	0.661
DEPOFO PTY LTD	1,320,000	0.582

CONTACT DETAILS

Board of Directors

Mr John D Read (Chairman)
Mr Duncan Stone (Managing Director)
Dr Julian M Higgs (Executive Director)
Mr Richard A Kell, AM (Non Executive Director)
Mr Christopher M Fullerton (Non Executive Director)
Mr Christian Jensen (Non Executive Director)
Mr Bjorn Borg (Company Secretary & Chief Financial Officer)

Auditors

Ernst & Young
680 George Street
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Bankers

Commonwealth Bank
25-35 George Street
Parramatta NSW 2150

Lawyers

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Share Register

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Stock Exchange

The Environmental Group Limited
is listed on the Australian Securities Exchange
Listing Code: EGL

ABN 89 000 013 427



EGL

The Environmental Group Limited

www.environmental.com.au



Printed on 50% recycled paper and 50% oxygen bleached pulp from sustainable plantation forests.