The Environmental Group Limited
Commentary on ASX Appendix 4E
Preliminary Final Report

SALES AND PROFITS EXCEED FORECAST

Overview

The Directors of The Environmental Group Limited (EGL) are pleased to announce record revenue, order intake and forward order book for the financial year ended 30 June, 2004.

The year was a critical one year in the development of EGL. It was a year of investment in which profitability and sales exceeded forecast.

More importantly the building blocks to underpin long term, profitable growth have been put in place. The revenue growth, product diversity, decreased dependency on major customers, and improved recurrent income envisaged in the Company's Strategic Plan have all been achieved.

Growth in revenue and order intake has now averaged an impressive 40% p.a. over the last 3 years.

EGL recorded another year of profitability and positive cash flow. Profit before Tax (PBT) of $750,000 was 14 % ahead of the guidance given to the market on 5 March, 2004.

Profit however, lagged the growth in revenue due to a number of new initiatives undertaken during the year. These initiatives included restructuring to form an operations division, expanding the market reach of our pressure sewer business and a focus on R & D. Underlying Profit before Tax would have exceeded $1.4 million, equivalent to an EBIT margin of 6.5%, had these investments in future profitability been deferred.

Highlights for the year were:

• Record Revenue	$22.4 Million
• Record Order Intake	$26.8 Million
• Record Forward Order Book	$15 Million
• EGL restructure lowers cost base by 27%	
• Management team to take EGL forward strengthened	
• Gas Cleaning market doubled	
• Water Division reaches $20 million in aggregate sales	
• Market leadership in Pressure Sewer	
• R & D program on target	

Restructuring EGL

During the year EGL was restructured. An integrated Operations Division responsible for all day to day operations of the Company was created. The one-off costs involved in restructuring EGL were significant, and decreased profit during the year by more than $360,000. The benefit of the restructuring in terms of lowering overheads from 19 to 14 % (a decrease of 27%) of revenue will first be realised in the 2004/2005 financial year.

Management Team

The management team needed to grow EGL to become a sustainable, profitable business has been strengthened and is exceptional for a company of our size.

The management team have all had senior management responsibilities in their respective fields and are all capable of taking more senior profit centre roles as EGL grows. A program to provide career paths from more junior roles to senior management is in place throughout the Company.

The Divisions

Gas Cleaning*

EGL has doubled the range of technologies and market coverage of the Gas Cleaning Division after signing an exclusive 5 year license with Wheelabrator Air Pollution Control Inc. (Wheelabrator) of Pittsburgh, USA for the Australian, New Zealand and Pacific markets. Wheelabrator, one of the world's leading brands in the clean air business has built thousands of installations world wide. The Wheelabrator technologies complement EGL's current range of technologies with almost no overlap.

Water

Following the successful integration of the team from PURAC Australia and the acquisition of the PURAC AB technology licence, EGL has emerged as a provider of innovative solutions in water and wastewater treatment applications.

Since April, 2003 EGL has secured $20 million worth of work covering a broad range of applications and customers. EGL is now widely viewed as one of the Top 3 Australian water industry companies.

Pressure Sewer

The opportunities for growth in the pressure sewer business are exciting. Significant opportunities are also emerging to become more involved in the land development process which involves pressure sewer and in the management of the infrastructure assets on completion. To take advantage of these opportunities and to retain market leadership the management and sales team were strengthened during the year rather than waiting until profitability increased. These one-off initiatives decreased profit during the period by approximately $340,000. The benefits of these initiatives are already apparent and will improve profitability from the 2004/2005 financial year onwards.

R & D

A significant amount of R & D was undertaken during the year to broaden the product range and applications for our divisions. Commercialisation of the R & D, largely focused on our proprietary Jameson Cell technology for water reuse applications and products and services for pressure sewer has already begun. It is anticipated that the outcomes of the R & D projects will make significant contributions to EGL's growth over the coming years. R & D expenditure qualified for the 175% tax benefit during the period resulting in a lower income tax expense.

Order Intake and Forward Order Book

Order intake increased to $26.8 million, a record for EGL. Further significant orders are expected in the first quarter of the 2004/2005 financial year.

The Forward Order Book at 30 June, 2004 increased by 42% compared to the previous corresponding period, to $15 million. A record for EGL. Work is spread across each of the three divisions.

The Forward Order Book excludes the value of a number of long term equipment supply agreements which are expected to yield more than $5 million in revenue over the next 5 years.

Acquisitions and New Initiatives

EGL continues to look at both acquisitions and new initiatives to improve the reliability of our earnings and profitability.

A key objective for this year is to advance our search for a fourth business to significantly increase scale, both in terms of revenue and profitability and to further improve the stability of earnings. Several suitable targets that meet our investment criteria have been identified and are under evaluation.

Outlook

Building on the strong Forward Order Book, solid revenue growth is expected to continue during the year with each of the three divisions enjoying good demand for their products and services.

A number of exciting opportunities to expand into more profitable niche markets associated with the current business and for substantial growth by acquisition are expected to present themselves during the coming year.

The initiatives taken during the period to lower overhead costs as a percentage of revenue, enter new profitable niche markets and maintain market leadership in pressure sewer should see a significant improvement in EBIT margin and profitability.

EGL remains committed to creating a sustainable, profitable business providing a diverse range of environmental solutions, whilst operating to the highest ethical standard.

Further Information

For further information contact Howard Johnson on 02 8858 3499 or visit EGL's website at www.environmental.com.au.

JOHN READ
CHAIRMAN

HOWARD JOHNSON
MANAGING DIRECTOR AND CEO

- *The Gas and Vapour Divisions was renamed the Gas Cleaning Division in August, 2004 in recognition of the increased product range and market reach.*

APPENDIX 4E

Preliminary Final Report

Name of entity

THE ENVIRONMENTAL GROUP LIMITED (EGL)

ABN

89 000 013 427

Current reporting period

Year ended 30 June 2004

Previous reporting period

Year ended 30 June 2003

Results for announcement to the market

				$A'000
Revenues from ordinary activities	up	31.6%	to	22,369
Profit (loss) from ordinary activities before tax	Down	34.7%	to	750
Profit (loss) from ordinary activities after tax attributable to members	Down	30.2	to	520
Net profit (loss) for the period attributable to members	Down	30.2	to	520

Dividends	Amount per security	Franked amount per security
Final dividend proposed	0c	0c
Interim dividend paid	0c	0c

Record date for determining entitlements to the dividends	Not applicable

Brief explanation of any of the figures reported above.

Refer to attached commentary

The Environmental Group Limited

Consolidated statement of financial performance

	Notes	June 2004 $	June 2003 $
Revenue from ordinary activities		**22,369,400**	**16,999,365**
Expenses			
Ordinary activities			
Cost of services provided		17,459,635	12,453,424
Employee expenses		1,606,324	1,590,818
Rent and related expenses		395,902	313,390
Marketing and advertising expenses		30,322	53,455
Professional fees		558,508	315,685
Depreciation on plant and equipment		67,849	65,936
Amortisation of intangibles		254,012	196,146
Other expenses		1,247,142	861,236
Profit from ordinary activities before income tax expense		**749,706**	**1,149,275**
Income tax expense	5	(229,273)	(403,821)
Profit from ordinary activities after income tax expense and net profit attributable to the members of The Environmental Group Limited		**520,433**	**745,454**
Basic earnings per share (cents)		**0.74**	**1.15**
Diluted earnings per share (cents)		**0.73**	**1.08**

The Environmental Group Limited

Consolidated statement of financial position

	Notes	June 2004 $	June 2003 $
Current Assets			
Cash assets		1,101,488	909,656
Receivables		6,056,098	6,600,799
Investments	8	2,016,367	1,973,064
Inventories		628,177	278,826
Other		163,033	137,996
Total Current Assets		**9,965,163**	**9,900,341**
Non Current Assets			
Plant and equipment		294,618	316,356
Deferred tax assets	9	355,255	361,217
Intangible assets	10	2,421,611	2,649,252
Other		418,011	83,623
Total Non Current Assets		**3,489,495**	**3,410,448**
Total Assets		**13,454,658**	**13,310,789**
Current Liabilities			
Payables		5,860,208	6,661,833
Current Tax liabilities	11	-	244,507
Provisions		450,805	311,460
Total Current Liabilities		**6,311,013**	**7,217,800**
Non Current Liabilities			
Deferred Tax Liabilities	11	202,355	27,449
Provisions		9,958	21,308
Total Non Current Liabilities		**212,313**	**48,757**
Total Liabilities		**6,523,326**	**7,266,557**
Net Assets		**6,931,332**	**6,044,232**
Equity			
Contributed equity	3	5,386,154	5,019,487
Retained profits	4	1,545,178	1,024,745
Total Equity		**6,931,332**	**6,044,232**

The Environmental Group Limited

Consolidated statement of cash flows

	June 2004 $	June 2003 $
Cash flows from operating activities		
Receipts from customers	23,933,615	14,817,425
Payments to suppliers and employees	(23,433,810)	(14,263,774)
Interest received	100,696	68,229
Interest paid	(3,061)	(20,612)
Income taxes paid	(321,718)	(303,292)
Net cash provided by operating activities	**275,722**	**297,976**
Cash flows from investing activities		
Payment of business acquired	(15,000)	(58,333)
Proceeds from sale of plant and equipment	14,000	5,887
Loans proceeds to other entities	-	(684,505)
Purchases of plant and equipment	(53,751)	(159,974)
Research & development activities	(323,336)	(36,014)
Decrease / (increase) in fixed term deposits	(43,303)	524,619
Net cash used in investing activities	**(421,390)**	**(408,320)**
Cash flows from financial activities		
Proceeds from issues of securities	337,500	600,000
Net cash provided by financing activities	**337,500**	**600,000**
Net increase in cash and cash equivalents	**191,832**	**489,656**
Cash at beginning of financial year	**909,656**	**420,000**
Cash at end of financial year	**1,101,488**	**909,656**

The Environmental Group Limited

1. Summary of accounting policies

This Preliminary Report has been prepared in accordance with ASX Listing Rule 4.3A and the disclosure requirements of ASX Appendix 4E. There have been no changes in accounting policies since 30 June 2003, as set out in the published Annual Report for that year.

2. Dividends

No dividends were paid or declared since the end of the previous financial year. The value of the franking credits available as at 1 July 2004 is $695,033.

3. Movement in contributed equity

	June 2004 $	June 2003 $
Paid-up capital	**5,386,154**	**5,019,487**
71,312,141 (2003: 68,959,801)		
Ordinary shares fully paid		
At the beginning of the financial year	5,019,487	3,730,320
Shares issued during the year:		
- 164,785 in December 2002	-	29,167
- 3,000,000 in February 2003	-	600,000
- 3,000,000 in April 2003	-	660,000
- 1,500,000 in September 2003	225,000	-
- 250,000 in October 2003	37,500	-
- 602,340 in December 2003	104,167	
At the end of the financial year	**5,386,154**	**5,019,487**

4. Retained Profits

	June 2004 $	June 2003 $
Retained profits at the beginning of financial year	1,024,745	279,291
Net profit attributable to members of company	520,433	745,454
Retained profits at the end of financial year	**1,545,178**	**1,024,745**

The Environmental Group Limited

Notes to the statements of financial performance

5. Income Tax Expense

Change prima facie tax on the operating profit before income tax is reconciled to the income tax expense as follows:

	June 2004 $	June 2003 $
Prima facie tax on profit from ordinary activities before income tax calculated at 30%	(224,912)	(344,782)
Add:		
Tax effect of:		
Amortisation of goodwill	(76,203)	(58,844)
Non-deductible entertainment expenses	(3,023)	(2,789)
	(304,138)	(406,415)
Less:		
Tax effect of:		
Eligible research & development expenditure	68,150	2,594
Recognition of timing differences not previously brought to account	6,715	-
Income tax expense attributable to profit from ordinary activities before income tax	(229,273)	(403,821)

6. Earnings per security (EPS)

	June 2004	June 2003
Earnings used in the calculation of Basic EPS	520,433	745,454
Weighted average number of shares used in the denominator	70,670,484	64,483,527
Earnings used in the calculation of Dilutive EPS	520,433	745,454
Weighted average number of shares used in the denominator	71,199,896	68,983,527

7. Asset backing per security

	June 2004	June 2003
Net Tangible asset backing per ordinary security (cents)	6.3	4.9
Net asset backing per ordinary share (cents)	9.7	8.7

8. Investments

	June 2004 $	June 2003 $
Term deposits & bank bills	2,016,367	1,973,064

9. Deferred tax assets

	June 2004 $	June 2003 $
Future income tax benefit	355,255	361,217

10. Intangibles

	June 2004 $	June 2003 $
Trade mark	2,710	2,710
Goodwill – at cost	3,153,391	3,108,591
Accumulated amortisation	(882,346)	(674,493)
Licence – at cost	282,435	349,677
Accumulated depreciation	(134,579)	(137,233)
	2,421,611	**2,649,252**

11. Tax Liabilities

	June 2004 $	June 2003 $
Current		
Income Tax Provision	-	244,507
Non Current		
Deferred Tax Liability	202,355	27,449

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12. Contingent Liabilities

	June 2004 $	June 2003 $
Bank guarantees given in respect of performance guarantees in favour of third parties	**2,880,826**	**1,341,093**

13. Cash Flow Information

Reconciliation of profit from ordinary activities after income tax to net cash provided by operating activities.

	June 2004 $	June 2003 $
Profit from operating activities after tax	520,433	745,454
Non-cash flows in profit from operating activities:		
- Depreciation & amortisation	321,861	262,082
- Net (profit) on disposal of property, plant & equipment	(6,016)	(239)
- Other non-cash flow items	(6,713)	-
Changes in assets and liabilities:		
(Increase)/decrease in Receivables	544,701	(4,913,906)
(Increase) in Inventories	(349,351)	(121,718)
(Increase) in Deferred tax assets	(5,962)	(259,860)
Increase/(decrease) in Payables	(801,625)	4,423,296
Increase in Provisions	127,995	79,943
Increase/(decrease) in Tax liabilities	(69,601)	82,924
Net cash provided by operating activities	**275,722**	**297,976**

14. Control gained over entities having material effect

Name of entity	N/A
Date control gained	
Contribution of the entity to the profit from ordinary activities during the period (if material)	-
Profit/loss of the entity during the previous reporting period (if material)	-

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15. Loss of control of entities having material effect

Name of entity (or group of entities)	N/A
Date control lost	
Contribution of the entity to the profit from ordinary activities during the period (if material)	
Profit/loss of the entity during the previous reporting period (if material)	

16. Details of associates and joint venture entities

Name of joint venture entities and percentage holding in the entities	N/A
Aggregate share of profits of these entities, details of contributions to net profit (if material)	

17. International Financial Reporting Standards

The company is currently reviewing the application of A-IFRS and the impact on the company's financial reporting.

At this stage, the company cannot reliably quantify the impact of the transition to A – IFRS on the company's financial position or financial performance. A report will be made available in the company's Annual Report.

18. Commentary on the results

Refer to attached commentary

The Environmental Group Limited

Compliance statement

1 This report has been prepared in accordance with AASB Standards, other AASB authoritative pronouncements and Urgent Issues Group Consensus Views or other standards acceptable to the ASX.

Identify other standards used	N/A

2 This report, and the accounts upon which the report is based, use the same accounting policies.

3 This report does give a true and fair view of the matters disclosed.

This report is based on accounts to which one of the following applies:-

- The accounts have been audited.
- The accounts have been subject to review.
- The accounts are in the process of being audited or subject to review. ☑
- The accounts have *not* yet been audited or reviewed

Signature: H Johnson

Print Name: Howard Johnson

Position: Managing Director / CEO

- Date: 27 August 2004