

Media Release

EGL announces \$0.9million turnaround in operating profit

Sydney 27 February 2008 - ASX-listed environmental services provider EGL (ASX: EGL) today announced an increase in operating profit before tax, up 120%, to \$148,232 for the half year ending 31 December 2007. This sees EGL's operating profit before tax for the period, excluding executive option expenses, improve by over \$1 million.

EGL Chairman, John Read said "The past six months has seen the tangible results of EGL's migration from a primarily design and construct focused business to a diverse environmental services company. This has resulted in improved revenues and profitability for the Company and its shareholders."

"EGL has a strong position in the market and we expect that our operational profitability will continue to improve in the second half of this financial year."

Financial results highlights

- Total revenue is up 15% to \$11.5 million
- EBITDA up 135% from negative (\$535,507) to \$188,193
- Operating profit before tax up 120% from a loss of (\$725,405) to \$148,232
- Operating profit after tax up 115% from a loss of (\$461,746) to \$67,113

EGL currently has record Shareholders' Equity in excess of \$16.9 million and over \$5 million in cash. The Company intends to further exploit its balance sheet strength to accelerate its announced acquisition program.

EGL's improved result was achieved by increasing revenue by 15%, to \$11.5 million, which also underpinned positive cash flow from operations during the six month period. EGL's revenue from services increased by \$1.3 million and profits from provision of services was up 25% over the previous corresponding period.

"The major turnaround in EGL's profitability reflects the increasing contribution from our recent acquisitions and a consequential improvement in revenues and more predictable margins." commented Duncan Stone, CEO, EGL.

"The contribution from EGL's core operations and EGL's cash position creates a strong platform for continued growth within EGL and through targeted acquisitions.

- Gas Cleaning
- Water/Wastewater Treatment
- Pressure Sewer

We are confident that our operational performance in the second half of the financial year will continue to show improvements in business profitability.”

While profitability was constrained during the past six month period due to additional management overheads and the expense incurred through pursuing new acquisitions, this is expected to be rewarded through stronger operating performance and profitability in the second half of this financial year.

Overview of business projects and focus:

- Gas Cleaning secured in excess of \$11 million of new work since 1 July 2007. These solid results are expected to continue for the 2009 financial year based on current work in hand.
- Total Air Pollution Control Pty Limited provided a significant contribution to operating profit for the period since its acquisition in mid September 2007. This contribution is expected to improve for the June 2008 half year.
- EGLMS won a significant claim which resulted in improved profitability, which has increased the expectations on the division's future performance.
- Mine-Assist continued to operate strongly and in line with budget for the full half year. Mine-Assist's operations were further boosted through the acquisition of Moranbah Engineering Pty Limited late last year.

About EGL

EGL is an Australian facility services and environmental solutions company that provides clean air and clean water solutions to industry. EGL operates air and water infrastructure, completes engineered solutions to enhance air and water quality and provides environmental facility management to industry. For further information on EGL visit www.egl.com.au

For further information on this media release please contact:

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half year
condensed
financial
report

31 December
2007

ASX HALF-YEAR INFORMATION : 31 DECEMBER 2007

Lodged with the ASX under Listing Rule 4.2A.

This information should be read in conjunction with The Environmental Group Limited's 30 June 2007 Annual Report and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.



EGL

The Environmental Group Limited

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The Environmental Group Limited (“EGL”) is a company limited by shares, incorporated and domiciled in Australia. It is listed on the Australian Securities Exchange (ASX Code: EGL).

All press releases, financial statements and other information is available on our website at www.environmental.com.au . If you have any questions in relation to our reporting, please email the company secretary at mail@environmental.com.au

CORPORATE PARTICULARS

THE ENVIRONMENTAL GROUP LIMITED

ABN: 89 000 013 427

Directors	<p>Mr John Read (Chairman)</p> <p>Mr Duncan Stone (Managing Director)</p> <p>Mr Christopher Fullerton (Non-Executive)</p> <p>Mr Elliott Kaplan (Non-Executive)</p> <p>Mr Rhett Butler (Non-Executive)</p>
Company Secretary & Chief Financial Officer	Mr Ashley Arnott
Registered Office	<p>Unit 3, 9 Packard Avenue</p> <p>Castle Hill NSW 2154</p> <p>Telephone: (02) 8858 3400</p> <p>Facsimile: (02) 9899 3463</p> <p>Email: mail@environmental.com.au</p> <p>Website: www.environmental.com.au</p>
Share Register	<p>Registries Limited</p> <p>Level 7, 207 Kent Street</p> <p>Sydney NSW 2000</p> <p>Telephone: (02) 9290 9600</p> <p>Facsimile: (02) 9279 0664</p>
Stock Exchange	<p>The Environmental Group Limited's shares are listed on the Australian Securities Exchange.</p> <p>Listing Code: EGL</p>

RESULTS FOR ANNOUNCEMENT TO THE MARKET

	Current Reporting Period \$	Previous Reporting Period \$	Change
Revenues from ordinary activities <i>(Appendix 4D Item 2.1)</i>	11,494,635	9,988,438	Up 15% \$1,506,197
Earnings before interest, tax, depreciation and amortisation expense	188,193	(535,507)	Up 135% \$723,700
Profit / (loss) from ordinary activities before tax	148,232	(725,405)	Up 120% \$873,637
Profit / (loss) from ordinary activities after tax attributable to members <i>(Appendix 4D Item 2.2)</i>	67,113	(461,746)	Up 115% \$528,859
Net profit / (loss) for the period attributable to members <i>(Appendix 4D Item 2.3)</i>	67,113	(461,746)	Up 115% \$528,859

Dividends / Distributions

(Appendix 4D Items 2.4, 2.5, and 2.6)

No dividends have been paid or declared during the period and the Directors do not recommend the payment of a dividend in respect of the half-year ended 31 December 2007. Dividends are not expected to be paid or declared in the immediate term.

Explanation of figures reported above

(Appendix 4D Item 2.6)

Refer to attached half year report and covering commentary.

THE ENVIRONMENTAL GROUP LIMITED HALF YEAR REPORT

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2007 and any public announcements made by The Environmental Group Limited ("EGL") during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001. EGL's public announcements, financial statements, and other information is available on its website at www.environmental.com.au.

The Director's Report

Your Directors present their report on the consolidated entity consisting of The Environmental Group Limited ("EGL") and the entities it controlled at the end of, or during, the half-year ended 31 December 2007.

Directors

Mr John Read (Chairman) and Mr Christopher Fullerton were directors of EGL during the whole of the half-year and up to the date of this report.

Mr Duncan Stone was appointed Managing Director on 6 September 2007 and continues in this office at the date of this report.

Mr Elliott Kaplan was appointed a director on 29 November 2007 and continues in this office at the date of this report.

Mr Rhett Butler was appointed a director on 15 February 2008 and continues in this office at the date of this report.

Dr Julian Higgs was a director from the beginning of the financial year until his resignation on 29 November 2007.

Mr Richard Kell was a director from the beginning of the financial year until his resignation on 29 November 2007.

Mr Christian Jensen was appointed a director on 6 September 2007 and held this office until his resignation on 31 January 2008.

Company Secretary

Mr Bjorn Borg was company secretary from 1 July 2007 until 31 October 2007. Mr Ashley Arnott was appointed company secretary from 1 November 2007 and continues in this office until the date of this report.

Review and Results of Operations

As foreshadowed at the Company's 2007 AGM, EGL today declared a profit before tax of \$148,232 for the period ended 31 December 2007 an improvement of 120% over the previous corresponding period. Cash flows from operations for the period under review were also positive.

The result was achieved on a 15% increase in revenues to \$11.5 million for the half year. Of note was the continued improvement in revenues and profits from services during the period with revenue from services up \$1.3 million and profits from the provision of services up 25% over the previous corresponding period.

Operating profit for the period was adversely impacted by the cost of executive options issued during the period to EGL's new managing director as approved by shareholders in general meeting in September 2007. Without the impost of executive option expense, operating profit before tax for the period would have exceeded \$280,000 an improvement of over \$1.0 million over the previous corresponding period.

Significant contributions were made by each of the Company's operating divisions. Amongst the highlights for the period were:

- EGL's traditional Gas Cleaning Division has secured in excess of \$11 million of new work since 1 July 2007. The receipt of such strong orders during the period is expected to underpin the division's trading performance in the 2007/08 and 2008/09 fiscal years.

- The Company's water and waste water treatment operations won a significant claim during the period resulting in improved profitability and the expectation of future enhanced performance.
- EGL's recently acquired subsidiary, Total Air Pollution Control Pty Limited, provided significant contribution to operating profit in the period since its acquisition in mid September 2007. A stronger contribution is expected in the full six month period ending 30 June 2008.
- The Company's Mine Assist division continued to operate strongly and to budget. As announced, Mine Assist's performance was further boosted late in the first half by the acquisition of Moranbah Engineering Pty Limited. The expanded division is expected to make a strong contribution to second half profits.
- EGL's pressure sewer division made a marginal contribution to first half performance. Based on orders won in the first half year and on hand at balance date, the division is expected to make an improved contribution to second half profits.

Profitability was constrained during the period under review by additional management overhead incurred in pursuing new acquisition opportunities as detailed to shareholders in the September 2007 recapitalisation of the EGL group. This additional investment in management and acquisitions is expected to be rewarded by a positive contribution to Group performance in 2008.

At balance date, EGL enjoyed a very strong balance sheet with cash in excess of \$5 million and record Shareholders' Equity in excess of \$16.9 million. In 2008 the Company intends to further exploit its balance sheet strength to accelerate its announced acquisition program.

Based on orders received at balance date, management forecast stronger operating performance and profitability in the second half of the financial year ending 30 June 2008.

Dividends

No dividends have been declared or paid since the start of the financial year. No recommendation for payment of dividends has been made.

Significant Events after balance sheet date

No significant events have occurred in the state of affairs of the consolidated entity since the end of the financial period under review, to report date.

Auditor Independence

A copy of the auditor's Independence declaration as required under s307C of the Corporations Act 2001 is set out on page 8.

This report is signed in accordance with a resolution of the board of Directors.



John Read
Chairman



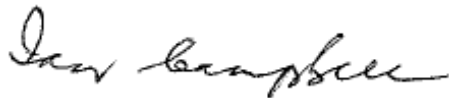
Duncan Stone
Managing Director

Sydney
26 February 2008

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 half-year ended 31 December 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
26 February, 2008

Condensed Consolidated Income Statement

For the Half Year Ended 31 December 2007

	2007 \$	2006 \$
Revenue from continuing operations	11,494,634	9,988,438
Cost of Sales	7,749,126	7,335,403
Gross Profit	3,745,509	2,653,035
Other expenses	3,382,130	2,956,998
Finance costs	215,147	421,442
Profit / (Loss) before income tax	148,232	(725,405)
Income tax benefit / (expense)	(81,119)	263,659
Net Profit / (loss) after tax for the period	67,113	(461,746)
Profit / (loss) attributable to equity holders of The Environmental Group Limited	67,113	(461,746)
Earnings per share		
Basic earnings per share	0.04 cents	(0.50) cents
Diluted earnings per share	0.04 cents	(0.50) cents

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

Consolidated Balance Statement

For the Half Year Ended 31 December 2007

	31 Dec 2007 \$	30 Jun 2007 \$
Current Assets		
Cash and cash equivalents	5,229,958	1,606,696
Trade and other receivables	4,525,970	3,373,543
Other financial assets	876,488	791,817
Inventories	810,345	760,513
Other current assets	422,115	210,126
Total Current Assets	11,864,876	6,742,695
Non Current Assets		
Plant and equipment	1,497,353	916,946
Deferred tax assets	1,952,425	1,870,832
Intangible assets	8,705,176	5,468,485
Total Non Current Assets	12,154,953	8,256,263
Total Assets	24,019,830	14,998,958
Current Liabilities		
Short term borrowings	765,690	-
Interest bearing liabilities	851,075	150,941
Trade and other payables	4,312,554	3,846,215
Tax Liabilities	136,320	-
Provisions	542,566	584,174
Total Current Liabilities	6,608,205	4,581,330
Non Current Liabilities		
Interest bearing Liabilities	211,731	999,718
Deferred tax liabilities	128,323	167,360
Provisions	104,102	99,895
Total Non Current Liabilities	444,156	1,266,973
Total Liabilities	7,052,360	5,848,303
Net Assets	16,967,469	9,150,655
Equity		
Issued capital	16,646,819	9,031,216
Retained earnings	92,496	25,383
Reserves	228,154	94,056
Total Equity	16,967,469	9,150,655

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

Consolidated Cash Flow Statement
For the Half Year Ended 31 December 2007

	Half-Year	
	31 Dec 2007	31 Dec 2006
	\$	\$
Cash flows from operating activities		
Receipts from customers	13,919,212	11,730,487
Payments to suppliers and employees	(13,836,439)	(9,924,728)
Interest received	106,226	41,795
Interest paid	(35,763)	(32,421)
Income taxes paid	(42,390)	(49,992)
Net cash inflow (outflow) from operating activities	110,846	1,765,141
Cash flows from investing activities		
Acquisition of Subsidiary, net of cash acquired	(2,964,385)	(2,059,990)
Deferred consideration paid	(389,342)	(262,314)
Purchase of plant and equipment	(259,232)	(52,539)
Research & development activities	-	(222,254)
Decrease / (increase) in fixed term deposit	(7,406)	50,002
Capitalised acquisition costs	(42,772)	(24,363)
Net cash (outflow) inflow from investing activities	(3,663,137)	(2,571,458)
Cash flows from financing activities		
Proceeds from share issue	7,494,668	2,090,000
Transaction costs of issue of shares	(236,522)	(37,500)
Payment of finance lease liabilities	(62,573)	(115,112)
Proceeds from borrowings	79,980	1,000,000
Repayment of borrowings	(100,000)	(50,000)
Net cash inflow (outflow) from financing activities	7,175,553	2,887,388
Net increase in cash and cash equivalents	3,623,262	2,081,071
Cash and cash equivalents at the beginning of the half year	1,606,696	(205,195)
Cash and cash equivalents at end of period	5,229,958	1,875,876

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

Consolidated Statement of Changes in Equity

For the Half Year Ended 31 December 2007

CONSOLIDATED	Issued Capital \$	Retained Earnings \$	Reserves \$	Total Equity \$
At 1 July 2007	9,031,216	25,383	94,056	9,150,655
Total income and expense for the period recognised directly in equity	-	-	-	-
Profit (loss) for the period	-	67,113	-	67,113
Total income and expense for the period	-	67,113	-	67,113
Equity transactions :				
Shares issued	7,994,668	-	-	7,994,668
Transaction costs on share issue	(379,065)	-	-	(379,065)
Share based payments	-	-	134,098	134,098
At 31 December 2007	16,646,819	92,496	228,154	16,967,469

CONSOLIDATED	Issued Capital \$	Retained Earnings \$	Reserves \$	Total Equity \$
At 1 July 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 period	-	(461,746)	-	(461,746)
Total income and expense for the period	-	(461,746)	-	(461,746)
Equity transactions :				
Shares issued	2,292,062	-	-	2,292,062
Transaction costs on share issue	(37,500)	-	-	(37,500)
Share based payments	-	-	34,500	34,500
At 31 December 2006	9,031,216	534,803	94,056	9,660,075

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

Notes to the Consolidated Financial Statements

For the Half Year Ended 31 December 2007

1. Basis of Preparation of half-year report

This general purpose condensed financial report for the interim half-year reporting period ended 31 December 2007 has been in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The half-year consolidated financial statements comprise the financial statements of The Environmental Group Limited and its subsidiaries as at 31 December 2007.

This interim financial report does not include all notes of the type normally included in an annual financial report. The financial report of The Environmental Group Limited for the half-year ended 31 December 2007 was authorised for issue in accordance with a resolution of the directors on 21 February 2008. This report is to be read in conjunction with the annual report for the year ended 30 June 2007 and any public announcements made by EGL during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous year and corresponding interim reporting period.

Changes in Accounting policy

Effective 1 July 2007 the Group has adopted AASB 7 *Financial Instruments: Disclosures* which is a disclosure standard only. This has had no impact on the half year financial report but will result in additional disclosure in the 30 June 2008 Annual report. There are other amendments to current accounting standards which are now effective. The impact of these amendments is not expected to be significant for The Environmental Group Limited. Certain Australian Accounting Standards and Interpretations have been recently issued or amended but are not yet effective. These standards have not yet been adopted by The Environmental Group Limited in the 31 December 2007 half year financial report. The Directors are in the process of finalising their assessment of the impact of these standards and interpretations to the extent relevant to the Company.

2. Segment Information

The consolidated entity operates predominately in Australia and the environmental sector. Revenue and profit from ordinary activities and assets all relate to continuing operations in Australia.

During the half year, the group determined it operated in two defined reportable segments as noted below.

Primary reporting format - Business Segments

	Facility Services	Infrastructure	Other	Total
	\$	\$	\$	\$
Half-year ended 31 Dec 2007				
Revenue				
Total segment revenue	5,511,055	5,925,919	57,661	11,494,635
Result				
Net profit (loss) before tax	764,810	(55,135)	(561,443)	148,232

	Facility Services \$	Infrastructure \$	Other \$	Total \$
Half-year ended 31 Dec 2006				
Revenue				
Total segment revenue	4,144,369	5,807,765	36,304	9,988,438
Result				
Net profit (loss) before tax	609,532	29,664	(1,364,601)	(725,405)

The segment results for the half year ended 31 December 2007 include the allocation of indirect expenses to the relevant segments; being Facility services: \$56,058; and Infrastructure: \$637,077. These costs were classified as "Other" in the 31 December 2006 segment result shown above.

3. Issued capital

(a) Issued Capital allotted

Issues of ordinary shares during the half-year	2007 Shares	2006 Shares	2007 \$	2006 \$
Balance at the beginning of the half-year	101,893,363	77,324,141	9,031,216	6,776,654
Shares issued (placement) 1 Sep 06	-	14,777,778	-	1,330,000
Shares issued (placement) 25 Sep 06	-	8,444,444	-	760,000
Shares issued (exercise of options) 12 Dec 06	-	1,347,000	-	202,062
Shares issued (rights issue) 21 Sep 07	84,911,136	-	5,094,668	-
Shares issued (placement) 21 Sep 07	40,000,000	-	2,400,000	-
Share issue costs	-	-	(379,065)	(37,500)
Balance at end of the half-year	226,804,499	101,893,363	16,146,819	9,031,216

(b) Issued Capital to be allotted

Balance at the beginning of the half-year	-	-	-	-
Shares to be allotted as part of purchase price of Total Air Pollution Control Pty Limited	-	-	500,000	-
Balance at end of the half-year	-	-	500,000	-

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

During the reporting period 7,500,000 executive options were granted to the Managing director and approved by shareholders at the general meeting held on 6 September 2007. Conditions attached to the issue of these options can be found under Note 6.

On 21 September 2007, the company issued 8,000,000 placement options and 16,912,946 rights issue options. Both tranches of options have an exercise price of 8 cents and expire on 21 March 2008.

4. Business Combinations

Current period

(a) Acquisition of Total Air Pollution Control Pty Limited

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

The acquired business contributed revenues of \$1,173,621 and profit before tax of \$258,450 to the Group for the period 12 September 2007 to 31 December 2007. The consolidated revenue and net profit that would have resulted had the acquisition been made on 1 July 2007 is not disclosed as their estimation is unreliable due to the impact of certain expenses of a private company nature during the period prior to acquisition.

The purchase accounting for the acquisition of TAPC has been performed on a provisional basis for the half year ended 31 December 2007

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

	\$
Purchase consideration	
Cash	3,000,000
Short term borrowings	930,704
Shares to be allotted	500,000
Costs associates with the acquisition	132,148
Total purchase consideration	4,562,852
Fair value of net identifiable assets acquired (refer below)	1,572,998
Goodwill	2,989,854

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

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

	\$
Cash and cash equivalents	588,468
Other financial assets	77,265
Trade receivables	1,041,403
Inventory	338,933
Fixed Assets	336,973
Other assets	191,200
Deferred tax assets	39,292
Trade and other payables	(647,151)
Provision for income tax	(178,710)
Provisions	(112,419)
Other liabilities	(102,256)
Fair value of net assets	1,572,998

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

The cash outflow relating to the acquisition is as follows:

	\$
Net cash acquired with subsidiary	588,468
Cash paid in current and prior	(3,297,162)
Net cash outflow	<u>(2,708,694)</u>

(b) Acquisition of Moranbah Engineering Pty Limited

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

The acquired business contributed revenues of \$236,108 and profit before tax of \$30,574 to the Group for the period 13 November 2007 to 31 December 2007. The consolidated revenue and net profit that would have resulted had the acquisition been made on 1 July 2007 is not disclosed as their estimation is unreliable due to the impact of certain expenses of a private company nature during the period prior to acquisition.

The purchase accounting for the acquisition of Moranbah Engineering Pty Limited has been performed on a provisional basis for the half year ended 31 December 2007

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

	\$
Purchase consideration	
Cash	320,000
Costs associates with the acquisition	15,721
Total purchase consideration	<u>335,721</u>
Fair value of net identifiable assets acquired (refer below)	<u>85,766</u>
Goodwill	<u>249,955</u>

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

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

	\$
Plant & Equipment	<u>85,766</u>
Fair value of net assets	<u>85,766</u>

The cash outflow relating to the acquisition is as follows:

	\$
Net cash acquired with subsidiary	0
Cash paid in current and prior periods	(335,721)
Net cash outflow	<u>(335,721)</u>

Prior period

On 31 August 2006, The Environmental Group Limited acquired 100% of the voting shares of Mine Assist Pty Limited. Under the terms of the share sale agreement, the previous shareholders of Mine Assist Pty Limited were paid \$286,623 during the current period for a share of the profits generated by the business in the financial year ended 30 June 2007.

Under the terms of the share sale agreement, the former shareholders of Coriollis Water services (Australia) Pty Limited were paid \$102,719 during the current period for a share of the profits generated by the business in the financial year ended 30 June 2007.

5. Contingent Liabilities

	31 Dec 2007	31 Dec 2006
	\$	\$
(a) Estimates of material amounts of contingent liabilities, not provided for in the financial reports arising from bank guarantees in respect of performance:	893,088	1,596,576

(b) Earn out agreements from business combinations

Under the terms of the share sale agreement, the former shareholders of Coriollis Water services (Australia) Pty Limited are entitled to a share of certain future profits generated by the business. Payments are expected to occur during the period commencing 31 March 2007 and concluding 31 March 2010.

Under the terms of the share sale agreement, the former shareholders of Mine Assist Pty Limited and Pump Assist Pty Ltd are entitled to a share of certain future profits generated by the business during the financial years ending 30 June 2007, 2008, 2009 and 2010.

Under the terms of the share sale agreement, the former shareholders of Total Air Pollution Control Pty Limited are entitled to a share of certain future profits generated by the business during the five years commencing on 10 October 2007 and concluding 9 October 2012.

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

(c) Claim for damages

A claim for damages was lodged during the period against the Engineered Solutions division. The company has disclaimed liability and is defending the action. No provision in relation to the claim has been recognised in the financial report as legal advice indicates that it is unlikely that any significant liability will arise.

6. Share-based Payment Plans

During September 2007, the following options were granted to the Managing Director under the Company's Executive Option Plan.

Tranche	Issue Date	Amount	Expiry Period	Vesting Date	Exercise Price
A	6 Sep 2007	2,500,000	5 Years from issue date	6 Sep 2007	8 cents
B	6 Sep 2008	2,500,000	5 Years from issue date	6 Sep 2008	8 cents
C	6 Sep 2009	2,500,000	5 Years from issue date	6 Sep 2009	8 cents

The fair value of the options granted is estimated as at grant date using a binomial model, taking into account the terms and conditions upon which the options were granted.

The following table lists the inputs to the model used for the half-year ended 31 December 2007.

Dividend Yield	-	<i>(previous corresponding period: Nil)</i>
Expected Volatility	60%	<i>(previous corresponding period: 82%)</i>
Risk-free Interest Rate	6.75%	<i>(previous corresponding period: 5.88%)</i>
Contractual Life (Years)	2.5	

The estimated fair value of each option at grant date is; Tranche 1: \$0.0339; Tranche 2: \$0.0399; and Tranche 3: \$0.0447.

7. Interest-Bearing Loans and Borrowings

On 31 August 2006, the entity established a \$1,000,000 interest bearing debt facility to fund the acquisition of Mine Assist Pty Limited. At 31 December 2007 \$750,000 remains outstanding on this loan.

8. Seasonality of Operation

The operation of The Environmental Group Limited is not affected by seasonality.

9. Events occurring after balance sheet date

No significant events have occurred in the state of affairs of the consolidated entity since the end of the financial period under review, to report date.

Directors' Declaration

In the opinion of the directors:

- a) the financial statements and notes of the consolidated entity are in accordance with the Corporations act 2001, including:
- (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and of its performance for the half-year ended on that date; and
 - (ii) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements.
- b) there are reasonable grounds to believe that The Environmental Group Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors



John Read
Chairman



Duncan Stone
Managing Director

Sydney
26 February 2008

To the members of The Environmental Group Limited

Report on the Condensed Half-Year Financial Report

We have reviewed the accompanying half-year financial report of The Environmental Group Limited, which comprises the balance sheet as at 31 December 2007, and the condensed income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the half-year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with 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 half-year 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.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* and other mandatory financial reporting requirements in Australia. As the auditor of The Environmental Group Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

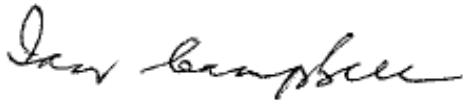
In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is contained at page 7 of the financial report.

Conclusion

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

- (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and of its performance for the half-year ended on that date; and
- (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Ernst & Young



Ian Campbell
Partner
Sydney
26 February, 2008

SUPPLEMENTARY APPENDIX 4D INFORMATION

NTA Backing

Net tangible asset backing per ordinary security
(Appendix 4D Item 3)

2007	2006
2.62 cents	4.31 cents
7.26 cents	9.48 cents

Net asset backing per ordinary security

Control Gained over entities having material effect.

(Appendix 4D Item 4)

On 11 September 2007, The Environmental Group Limited gained control of Total Air Pollution Control Pty Limited via the acquisition of all of the issued shares of the company. See Note 5(a) for more information.

On 12 November 2007, The Environmental Group Limited, through its wholly owned subsidiary Mine Assist Pty Ltd, completed the acquisition of the business assets of Moranbah Engineering Pty Limited. See Note 5(b) for more information.

Other Supplementary Information

Appendix 4D Items 5, 6 and 7 are not applicable.