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CHAIRMAN'S

REPORT

Confronted with the most difficult trading environment in over 10 years, The Environmental Group Limited (ASX:EGL) delivered a credible performance during the year ended 30 June 2010 recording a net profit after tax of \$559,175.

Since the onset of the global financial crisis (GFC) in 2007, EGL has consistently declared profits in each of the 2007/08, 2008/09 and 2009/10 financial years.

The downturn and deferment of larger air pollution control projects has led to a decline in revenues of 19.2% to \$31.2 million during the year under review. This was partially offset by a 16% increase in demand for the Company's service offering particularly in the areas of maintenance, repair, and refurbishment.

The diversity of our products and services coupled with our expanded presence in South East Asia has assisted EGL weather the economic downturn. EGL's offices in Singapore and Manila made a positive contribution to the 2010 result and will spearhead sales of a broader range of the Group's product and service offering in 2010/11.

Given the continuing uncertain economic outlook and based on prudent capital management, the directors have decided not to declare a final dividend noting that a dividend was paid in January 2010. The re-introduction of a future final dividend is a key priority for your directors.

As noted in my 2009 report, during the year the EGL Board commenced a formal search process to appoint a full time replacement for Bill Highland in the role of CEO. I am very pleased to acknowledge the appointment of Philippe Cussinet as EGL's CEO with effect from 1 August 2010. Philippe was formerly GM of EGL's Gas & Vapour business and brings over 20 years experience as a senior executive in the industrial sector including leadership roles as a CEO of an ASX listed public company.

We have been very fortunate to retain Bill's services as a non-executive director. When combined with the appointment of Mr Alex Fabbri as a non-executive director, EGL today has a strong, experienced, balanced and cohesive Board with the sole purpose of delivering shareholder value.

For 2010/11 the Board has endorsed a growth plan with EGL's strengthened management team including the recent appointment of Yuri Van der Walt as CFO and Stephen Hodgson as GM Mining Services.

Positive steps have already been taken with the integration of EGL's Gas & Vapour division with its Total Air Pollution Control business with a combined sales force and shared resources. The combined air pollution control group is forecast to achieve higher sales on a reduced cost base.

Since balance date, your Company has also expanded its Mining Services division by opening a new branch at Emerald, Queensland in addition to its existing Bowen Basin operations at Moranbah.

The near term outlook remains uncertain with a number of domestic and international factors weighing heavily on our key markets. We expect more short term delays on major capital investment decisions and we are therefore placing greater emphasis on our higher margin service and maintenance work combined with further geographical expansion.

I am grateful for individual shareholders' messages of support and encouragement and on behalf of the entire Board acknowledge shareholders' patience and understanding as EGL continues to grow.

John D. Read
Chairman

PERFORMANCE

HIGHLIGHTS



Performance Highlights

*Despite the most difficult
trading environment in 10 years...*

EGL Delivers

credible profit despite
18% revenue drop

EGL Maintains

a No Net Debt position

EGL Pays

mid-year Dividend

Mine Assist Expands

into mobile Sand Blasting
& Painting services

Continued Growth

in Sales of Total Air Pollution
Control products in SE Asia

OUTLOOK



Outlook

We are committed to delivering increased value to our stakeholders by capitalising on growth areas for our products & services –

Strong

coal sector

Growing

demand for Odour Control

Stricter

government Emission & Effluent regulations

Synergies

through Integration of Gas & Vapour division and Total Air Pollution Control business

Expansion

into SE Asia of all EGL air pollution control products

Growth

in plant operations in Air & Water to support increased outsourcing demand by customers

Opening

of new mining services branches in Australia

CORPORATE

GOVERNANCE

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1. Approach to Corporate Governance

1a. Framework and approach

The Environmental Group Limited's ("EGL") approach to corporate governance is to have a set of values and behaviours that underpin everyday activities, ensure transparency, and protect stakeholder interests. EGL and its Board are committed to achieving and demonstrating the highest standard of corporate governance.

The Board is responsible to the shareholders for the performance of the company and takes ultimate responsibility for corporate governance matters. The daily management of the company's business and the implementation of its strategy and policy initiatives are delegated by the Board to the Chief Executive Officer and the Chief Financial Officer within the corporate governance framework detailed herein. The company secretary is accountable to the Board on all governance matters.

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

- the Board has established a number of committees to assist it in its duties, to monitor performance and allow detailed consideration of complex issues
- the Board has established an internal risk management framework focusing on key business risks
- the company has adopted a code of conduct which applies to all Board members, key Executives and employees
- the Board has implemented a strict policy regarding the acquisition and disposal of the company's securities by Directors, employees, consultants and contractors, and
- the company has adopted clear reporting and communication policies and procedures

A detailed description of this corporate governance framework is set out below.

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

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

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

Where the ASX CGC's recommendations have not been adopted by the Company, this is identified below and explained in the following sections.

Principle 2.1: A majority of the Board should be independent Directors – Section 2b

Principle 2.2: The chairperson should be an independent Director – Section 2b, and 2d

Principle 4.2: Structure the audit committee so that it consists of a majority of independent Directors – Section 3c

2. The Board of Directors

2a. Membership

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

The Board currently comprises three Non-Executive Directors. Details of the members of the Board, their experience, expertise, and qualifications are set out in the Annual Report under the Directors' Report. Information on Directors is also available on the company's website at www.environmental.com.au.

2b. Size, composition, and independence

Size and composition

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

Each Director is required to bring relevant complementary skills and experience to the Board. There must be sufficient benefit to the company to justify maintaining the mix of Directors. The Nominations committee reviews these factors annually to ensure there are the required skills for the Board to discharge its duties, having regard to the company's strategic goals and objectives and current and emerging issues.

Independence

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

- being a substantial shareholder of EGL
- within the last 3 years being an Executive Officer of EGL
- being a material supplier or customer of EGL
- having served on the Board of EGL for more than ten years, or
- having an interest or business which could or could be perceived to materially interfere with the Director's ability to act in the best interests of EGL

Having regard to the above criteria, the Board has determined the Chairman is not independent being a Director of a substantial shareholder and that Mr Highland having acted as Managing Director in the past 3 years is also not independent. The Board has determined the remaining Non-Executive Director meets all criteria required by the ASX Corporate Governance Council's definition of an independent Director.

2c. Roles of Board and management

Key functions and responsibilities of the Board include:

- providing strategic guidance to the company including contributing to the development of and approving the corporate strategy
- reviewing and approving business plans, operating plans (including the annual budget) and funding plans
- reviewing and approving major corporate initiatives including investments or divestments and fund raisings
- overseeing and monitoring organisational performance, the achievement of the company's strategic goals and objectives and compliance with the company's code of professional ethics and conduct
- monitoring financial performance including approval of the annual and half-year financial reports and liaison with the company's auditors
- appointment or removal of the company's auditors, evaluation of auditor performance and independence
- appointment and performance assessment of the Chief Executive Officer, Chief Financial Officer and Company secretary
- setting the Chief Executive Officer, Chief Financial Officer and Company secretary's remuneration, and Non-Executive remuneration within shareholder approved limits
- ensuring there are effective management processes in place
- approving the risk management policy, framework and risk tolerance of EGL, ensuring the significant risks facing the company have been identified and appropriate and adequate control, monitoring and reporting mechanisms are in place
- ensuring appropriate reporting to shareholders, and
- enhancing and protecting the reputation of the organisation

The Board has delegated a number of these responsibilities to its committees, as detailed in section 3 of this corporate governance statement.

The Board has delegated to management responsibility for:

- developing and implementing corporate strategy
- developing and day to day management of business plans, operating plans (including the annual budget) and funding plans
- meeting or exceeding annual budgets and operational plans
- establishing, overseeing, reviewing and maintaining EGL's risk management framework, and
- keeping the Board and market fully informed about material developments

2d. Selection and role of the Chairman

The current Chairman, Mr John Read, is a Non-Executive Director appointed to the Board in March 2001, and elected Chairman in April 2001. Mr Read was appointed for a further 3 year term at the Company's 2009 Annual General Meeting on 26 November 2009.

The role of the chair includes:

- leading the Board of Directors of EGL
- ensuring that its activities are organised and efficiently conducted
- ensuring that Directors are properly briefed for meetings and in all matters relevant to their roles and responsibilities
- ensuring the Board meets on regular intervals and that minutes of

meetings accurately record decisions taken

- guiding the agenda and conduct of all Board meetings
- reviewing the performance of Non-Executive Directors

2e. Meetings and conduct

The Chairman and Company secretary establish the Board timetable and meeting agendas throughout the year. All Directors have the opportunity to view meeting materials in advance. Each Non-Executive Director is expected to spend at least 24 days a year preparing for, and attending Board and committee meetings and associated activities.

The Chief Executive Officer and Chief Financial Officer are responsible for implementing the company's corporate strategies, operating plans and company policies.

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

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

2f. Conflicts of interest

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

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

2g. Appointment of Directors and terms of office

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

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

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

2h. Company secretary

This position is responsible for:

- providing advice to Directors and Officers in relation to EGL's constitution, the requirements of the Corporation's Act, and the ASX listing rules

- Advising the Board and individual Directors on corporate governance principles and assisting in the implementation of corporate governance programs
- Carrying out the instructions of the Board, assisting in the implementation of corporate strategies and giving effect to the Board's decisions, and
- Functional responsibility for the management of compliance and company secretarial functions of EGL

2i. Board access to information and advice

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

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

3. Board Committees

3a. Establishment and membership

The Board has established three committees to assist in the execution of its duties. The committees and their membership as of the issue date of this statement are set out in the table below: Each of these committees has its own written charter setting out the authority delegated to it by the Board, its composition and membership requirements and the manner in which the committee is to operate. These charters are available on the company website. All matters determined by committees are submitted to the full Board as recommendations for Board decisions.

	Audit and Risk committee	Nomination committee	Remuneration committee
John Read (Non-Executive)	•	• Chair	• Chair
Alex Fabbri (Independent Non-Executive)	• Chair	–	•
Bill Highland (Non-Executive, former Managing Director)	–	•	•

3b. Committee Procedures

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

Following each committee meeting, generally at the next Board meeting, the Board is given a verbal report by each committee chair, and all committee minutes are tabled at Board meetings.

The performance of each committee is reviewed as part of the Board's performance review, and the performance of each committee member is evaluated as part of the performance review of each Director. Having regard to the size of the Board, the Company did not perform a formal evaluation of the Board or its committees for the year ended 30 June 2010.

3c. Audit and Risk committee

The audit and risk committee consists of one independent Non-Executive Director and one Non-Executive Director. The Chief Executive Officer and Chief Financial Officer attend audit committee meetings as invitees.

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

The audit and risk committee is made up of all Non-Executive Directors, however a majority are not independent, as required by ASX corporate governance principle 4.3. However, the Board considers that the individuals on the committee can make and do make quality and independent judgments in the best interest of the company on all relevant issues, and that the existing membership is appropriate for the effective and efficient operation of the committee.

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

- review of the half-year and annual financial reports
- effective management of financial risks
- reliable management and financial reporting
- compliance with laws and regulations
- maintenance of an effective and efficient audit
- oversight of effective risk management systems

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

Management of financial risks

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

Integrity of financial reporting

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

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

The Chief Executive Officer and Chief Financial Officer are required to state in writing to the Board that the company's financial reports present a true and fair view, in all material respects, of the consolidated entity's financial condition, operational results and that they are in accordance with relevant accounting standards.

Compliance with regulatory requirements

The audit and risk committee monitors compliance with the Corporations Act 2001 and any matters outstanding with auditors, Australian Stock Exchange, Australian Taxation Office, Australian Securities and Investments Commission and other regulatory requirements and applicable law.

Effective and efficient audit

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

Risk management systems

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

3d. Nomination committee

The nomination committee consists of the chair and at least one other Non-Executive Director.

Details of Non-Executive Directors' qualifications, experience and attendance at nomination committee meetings are set out in the Directors' report.

The primary function of the committee is performing review procedures to assist the Board in fulfilling its oversight function by ensuring suitable Board composition and appointments.

The committee, as delegated by the Board, is responsible for:

- reviewing the membership of the Board on an annual basis, having regard to present and future needs of the company
- making recommendations on Board composition and appointments
- proposing candidates for the Board and overseeing Board succession
- reviewing the independence of Directors, and
- managing succession planning, including the implementation of appropriate Executive development programs

When the need for a new Director is identified, the committee selects potential candidates with appropriate skills and experience. Where necessary, advice is sought from independent consultants. The full Board then appoints the most suitable candidate who must stand for election at the next annual general meeting of the company.

3e. Remuneration committee

The remuneration committee consists of Non-Executive Directors.

Details of Non-Executive Directors' qualifications, experience and attendance at remuneration committee meetings are set out in the Directors' report of the Annual Report.

The remuneration committee reviews remuneration policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for the Chief Executive Officer, Chief Financial Officer and Company secretary and Non-Executive Directors (within shareholder approved levels).

Executive remuneration and other terms of employment are reviewed annually by the remuneration committee having regard to performance, relevant comparative information and independent expert advice where necessary. As well as a base salary, remuneration packages include superannuation, retirement and termination entitlements and performance-related bonuses. Executives are also eligible to participate in the Company's Executives' Option Plan ("ESOP") Information regarding the ESOP is detailed in the company's Directors' report and financial statements in the most recent Annual Report.

Remuneration packages are set at levels that are intended to attract and retain Executives capable of managing the consolidated entity's operations and achieving the company's strategic objectives.

Remuneration and other terms of employment for the Chief Executive Officer, Chief Financial Officer and other employees are formalised in service agreements, covering a range of matters including their duties, rights, responsibilities and entitlements.

Remuneration of Non-Executive Directors is determined by the Board within the maximum amount approved by the shareholders from time to time.

Information on Directors' and Executives' remuneration is detailed each year in the company's Directors' report and in the financial statements of the Annual Report.

4. Integrity of financial reporting

4a. CEO/CFO assurance

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

The Chief Executive Officer and Chief Financial Officer periodically provide formal statements to the Board:

- that the company's financial reports present a true and fair view, in all material respects, of the financial condition and operational results of the consolidated entity, and are in accordance with relevant accounting standards and corporate regulations, and
- the Company has implemented a risk management policy and framework to support the integrity of the financial reports presented to the Board. The risk management framework is subject to periodic review. As a result of the latest review, the Company will now embark upon a program designed to upgrade its risk management policies, procedures, controls and the adherence thereto. Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements

4b. Audit governance and independence

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

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

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

Grant Thornton have been appointed external auditors since 2009. As required by the Corporate Law Economic Reform Program Act 2004, the responsibilities of the lead audit partner and review audit partner cannot be performed by the same people for longer than five years. The current lead audit partner assumed the role in 2009.

The audit and risk committee requires the external auditor to confirm bi-annually that they have maintained their independence, by providing to the Board a declaration of independence. At least annually, the audit and risk committee meets separately with the external auditor without Executive management being present. An analysis of fees paid to the external auditor, including a breakdown of fees for Non-audit services, is provided in the company's financial statements each year.

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

5. Managing risk

5a. Risk management approach

The Company has implemented a risk management policy and framework to support the integrity of the financial reports presented to the Board. The risk management framework is subject to periodic review. As a result of the latest review, the Company will now embark upon a program designed to upgrade its risk management policies, procedures, controls and the adherence thereto.

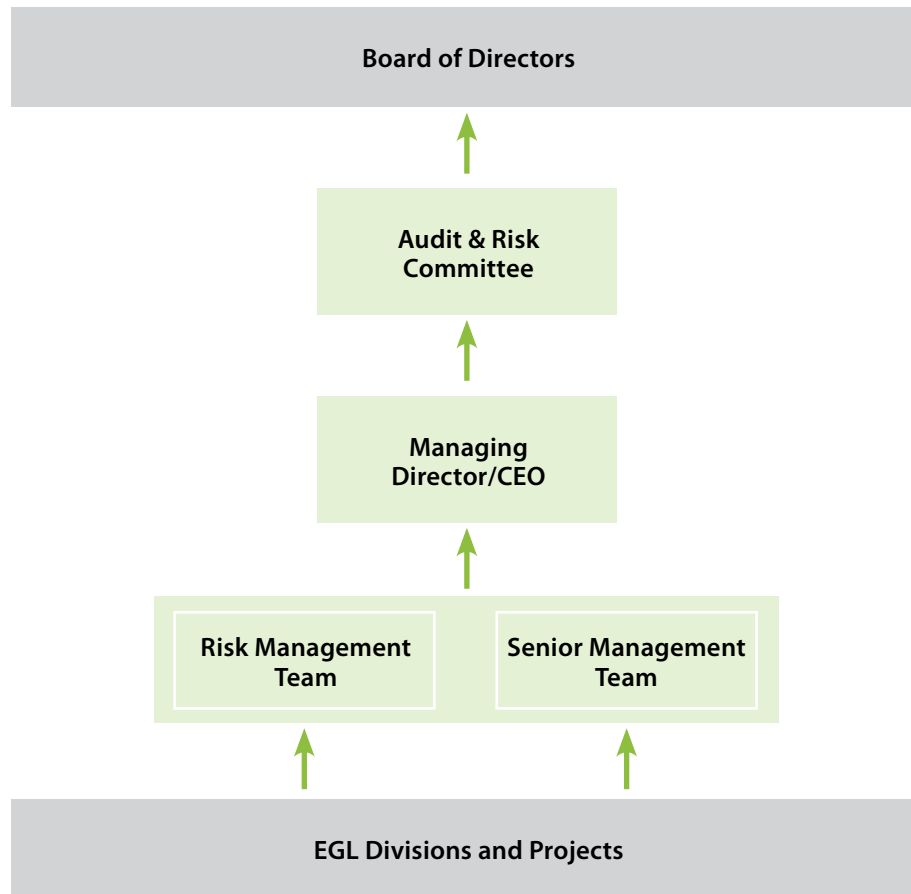
Risk management is undertaken to provide a structured approach to managing risk across the EGL group of companies. The Risk management policy and framework provides a detailed methodology for a systematic identification, assessment and management of risk across the organisation. The policy also defines reporting processes to ensure organisational exposures are managed at an appropriate level across the organisation. The company has adopted the following risk categories listed below. These categories assist risk identification, measurement and provide a basis for organising and reporting outcomes.

5b. Roles and responsibilities

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

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

Structure



Accountabilities

The **Audit and Risk Committee** is the recipient of reporting from the risk management team and ultimately, in conjunction with the Board, approves the risk management policy, framework and risk tolerance of EGL.

The Chief Executive Officer exercises certain authorities delegated to that position by the Board and is answerable to the Board in respect of key strategic issues. The Chief Executive Officer either delegates (to the risk management team) or takes ownership of fostering risk management across the organisation. The Chief Executive Officer ensures that his direct reports performance evaluation incorporates an element relating to risk management.

The **risk management team**, in consultation with the Chief Executive Officer and the Audit and Risk Committee, is responsible for establishing, overseeing, reviewing and maintaining EGL's risk management framework. This is achieved through the development of sufficient infrastructure to identify, measure, manage and report risks. The risk management team performs the following risk management support functions:

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

An internal audit is also conducted by the risk management team on an annual basis to understand the risks facing EGL and the status of management's actions to mitigate against these risks. The results of the audit will then be passed on to the Chief Executive Officer who will convey the results to the audit committee.

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

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

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

An **external audit** may be conducted periodically to provide an independent examination and evaluation of risk mitigation plans (policies, procedures, systems) in place to manage risk within acceptable tolerance limits. The auditor will work closely with the Chief Executive Officer to understand the risks facing EGL; avoid duplication of services with assurance providers, and will use risk management information to assist in determining the level of reliance on key systems.

Internal reporting

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

6. Promote ethical and responsible behaviour

6a. Code of conduct

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

The company has developed a code of professional ethics and conduct which has been fully endorsed by the Board and applies to all Directors, employees, consultants and advisors. The code is reviewed and updated as necessary to ensure it reflects the highest standards of integrity and professionalism.

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

- act with honesty and integrity
- safeguard the interests of EGL
- avoid conflicts of interest
- respect confidentiality and not misuse information, and
- uphold the objectives of EGL

The Audit and Risk Committee is responsible for ensuring compliance with this code.

6b. Securities trading

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

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

The trading of company securities is not permitted during blackout periods, and any material intended transaction of EGL's securities must be notified to the Board, for approval, through the chair, in advance. Current blackout periods exist for the following periods each year:

- from 30 June until twenty four hours after release of the full year preliminary financial report to the ASX
- from 31 December until twenty four hours after the release of the half year financial report to the ASX

- twenty four hours subsequent to any price sensitive disclosure made to ASX in accordance with the ASX Listing Rules, including those made under continuous and periodic disclosure provisions, and
- other periods as advised by the company secretary in anticipation of significant announcements

6c. Environmental health and safety

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

The group monitors its compliance with all relevant legislation, continually assesses the impact of its operations on the environment, encourages employees to actively participate in the management of environmental and OH&S issues, and encourages the adoption of similar standards by the company's principal suppliers, contractors and consultants.

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

7. Market disclosure

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

All information once disclosed to the ASX is posted on the company's website (www.environmental.com.au) as soon as possible. Material used by the Chief Executive Officer or Chief Financial Officer in presentations to shareholders, analysts, brokers and the media is released to ASX and posted on the company's website.

8. Shareholder communications

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

Electronic copies of the Annual Report are available to all shareholders, with a hard copy distributed to all shareholders who have requested one. The Board ensures that the Annual Report includes relevant information about the operations of EGL during the year, changes in the state of affairs of the Company and details of future developments, in addition to the other disclosures required by the Corporations Act. Half year reviewed financial statements prepared in accordance with the requirements of International Financial Reporting Standards and the Corporations Act are lodged with the Australian Securities (ASX) Exchange Limited and the Australian Securities and Investments Commission. The financial statements are sent to any shareholder that requests them.

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

9. ASXCGC Best Practice Recommendations – Compliance Table

Best Practice Recommendations		Reference	Compliance
1.1	Formalise and disclose the functions reserved to the Board and those delegated to management	2c	✓
1.2	Disclose the process for evaluating the performance of Senior Executives	3e and Remuneration Report	✓
1.3	Provide the information indicated in Guide to reporting on Principle 1		✓
2.1	A majority of the Board should be independent Directors	2a, 2b	X
2.2	The chairperson should be an independent Director.	2d	X
2.3	The roles of chairperson and Chief Executive Officer should not be exercised by the same individual.	2d	✓
2.4	The Board should establish a nomination committee.	3d	
2.5	Disclose the process for evaluating the performance of the Board, its Committee and Directors	3b and Remuneration Report	✓
2.6	Provide the information indicated in Guide to reporting on Principle 2.	2b, 2i, 3a, 3d, Directors' report	✓
3.1	Establish a code of conduct to guide the Directors, the Chief Executive Officer (or equivalent), the Chief Financial Officer (or equivalent) and any other key Executives as to: 3.1.1 the practices necessary to maintain confidence in the company's integrity 3.1.2 the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	6a	✓
3.2	Disclose the policy concerning trading in company securities by Directors, Officers and employees.	6b	✓
3.3	Provide the information indicated in Guide to reporting on Principle 3.	6a, 6b	✓
4.1	The Board should establish an audit committee.	3c	✓
4.2	Structure the audit committee so that it consists of:	3c	
	• only Non-Executive Directors		✓
	• a majority of independent Directors		X
	• an independent chairperson, who is not chairperson of the Board		✓
	• at least three members.		X

9. ASXCGC Best Practice Recommendations – Compliance Table (Cont.)

Best Practice Recommendations		Reference	Compliance
4.3	The audit committee should have a formal charter.	3c	✓
4.4	Provide the information indicated in Guide to reporting on Principle 4.	3a, 3c, 4b and Directors' report	✓
5.1	Establish written policies and procedures designed to ensure compliance with ASX Listing Rules disclosure requirements and to ensure accountability at a senior management level for that compliance.	7	✓
5.2	Provide the information indicated in Guide to reporting on Principle 5.	7	✓
6.1	Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.	8	✓
6.2	Provide information indicated in Guide to reporting on Principle 6.	8	✓
7.1	The Board or appropriate Board committee should establish policies on risk oversight and management.	3c, 5a, 5b	✓
7.2	The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.	4a, 5	✓
7.3	The Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) should state to the Board in writing that: 7.3.1 the statement given in accordance with best practice recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board. 7.3.2 the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.	4a	✓
7.4	Provide the information indicated in Guide to reporting on Principle 7.	3b, 3c, 5a, 5b	✓
8.1	The Board should establish a remuneration committee.	3e	✓
8.2	Clearly distinguish the structure of Non-Executive Directors' remuneration from that of Executives.	Remuneration report	✓
8.3	Provide the information indicated in Guide to reporting on Principle 9.	3a, 3e and Directors' Report	✓

FINANCIAL STATEMENTS

FOR YEAR ENDED 30th JUNE 2010

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

The Environmental Group Limited is a company limited by shares, incorporated in Australia. It is listed on ASX (ASX code: EGL). The company's registered office is Unit 3, 9 Packard Avenue, Castle Hill, NSW 2154

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

REPORT

Your Directors submit their report for the year ended 30 June 2010.

Directors

The names and details of the Directors in office during the financial year and until the date of this report are as follows.

Information on Directors

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

Mr John D Read BSc (Hons), MBA, FAICD

– Chairman (Non-Executive)

Appointed to the Board in March 2001 and became Chairman on 09 April 2001. Chairman of the Remuneration and Nomination Committee. Member of the Audit and Risk Committee. 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 Patrys Limited (ASX: PAB) and was formerly Chairman of Pro-Pac Packaging Limited (ASX:PPG) from 2005 to 2010. Mr Read is also a Director of CVC Limited (ASX: CVC), CVC Private Equity Limited, CVC Sustainable Investments Limited, and numerous public and private corporations.

Mr William Highland BE – Director (Non-Executive)

Appointed to the Board on 30 June 2009 and acted as Managing Director between 30 June 2009 and 31 July 2010. On 1 August 2010 became a Non-Executive Director. Member of the Remuneration and Nomination Committee's.

Mr Highland is a graduate engineer and qualified Mine Manager with extensive international experience as a senior hands-on manager and has a successful track record in business development and growth in the construction materials, industrial minerals, industrial safety and medical equipment sectors with leading industrial groups such as Boral, BTR Nylex and OPSM. Mr Highland has a proven track record in identifying and securing both organic and acquisitive growth opportunities. He is also an experienced company Director in the public company and private company domain.

Mr Alex Fabbri B.Ec., CA, S Finsia - Non Executive Director

Appointed to the Board 1 December 2009. Chairman of the Audit and Risk Committee. Mr Fabbri is an experienced investment banking executive having worked with a number of major local and international financial institutions. He is currently an Executive Director of Moore Stephens Corporate Finance (Melb.) Pty Ltd. Mr Fabbri is very experienced in working with high growth listed emergent companies and brings a detailed understanding of mergers and acquisitions and capital markets to his role.

The following Director retired from office during the year:

Mr Elliott Kaplan B.Acc, CA - Non Executive Director

Appointed to the Board 29 November 2007. Mr. Kaplan was a Non Executive Director who resigned from the Board effective 1 December 2009.

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

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

	Number of Ordinary Shares	Number of Options over Ordinary Shares
J. Read	8,561,673	400,000
B. Highland	-	4,000,000
A.Fabbri	-	-

Company Secretary

Ashley Arnott was appointed company secretary on 1 November 2007 and remains in office as joint company secretary at the date of this report. He holds a Bachelor of Business (Accounting) and is a member of the Australian Institute of Company Directors.

Johannes (Yuri) Van der Walt was appointed company secretary on 3 May 2010 and remains in office at the date of this report. He holds a Bachelor of Commerce, is a Member of the CPA Australia and a Fellow of the Institute of Company Secretaries.

The following company secretary retired from office during the year:

Angela Axisa resigned as company secretary on 14 May 2010.

Dividends

	Cents	\$
Dividends paid in the year on ordinary shares	0.2	466,444
As shown as declared in the 2009 financial report	0.3	705,082

No dividends have been declared or paid since reporting date up to the date of signing this Directors report.

Principal Activities

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

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

Operating and Financial Review

For the financial year EGL achieved revenues from continuing operations of \$31.2 million. The consolidated entity delivered a profit before tax of \$757,104 (2009: \$1,449,701) and a net profit after tax of \$559,175 (2009: \$958,484).

Revenue and profit were underpinned by credible performances across all divisions and segments of the consolidated entity's operations except in the Gas and Vapour division which recorded a decline in project revenues and profits.

EGL declared a fully franked dividend of 0.2 cents per share to shareholders registered as at 15 January 2010.

EGL had a surplus of current assets over current liabilities in excess of \$4.5 million and shareholders' equity in excess of \$17.9 million as at 30 June 2010.

Significant Changes in the State of Affairs

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

Likely Developments and Expected Results

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

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

Environmental Regulation and Performance

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

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

Share Options

Unissued Shares

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

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

Shares issued as a result of the exercise of options

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

Indemnification and Insurance of Directors and Officers

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

Directors' Meetings (see following page)

Non-Audit Services

No fees were paid or payable to Grant Thornton for Non-audit services provided during the year ended 30 June 2010.

After Balance Date Events

There were no matters or circumstances which have arisen since the end of the financial year which significantly affected or could significantly affect the operations of the consolidated group, the results of those operations, or the state of affairs of the consolidated group in future financial years.

Proceedings on Behalf of Company

No person has applied for leave of the Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings. The company was not a party to any such proceedings during the year.

Auditors' independence declaration

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 29.

Directors' Meetings

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

	Directors' Meeting		Meeting of Committees			
			Audit & Risk		Nomination & Remuneration	
Number of meetings held	10		3		1	
Number of meetings attended	A	B	A	B	A	B
John Read	10	10	3	3	1	1
Elliott Kaplan (resigned 1 Dec 09)	5	5	1	1	1	1
William Highland	10	10	*	*	1	1
Alex Fabbri (appointed 1 Dec 09)	5	5	2	2	*	*

KEY: A: Number of meetings attended
 B: Number of meetings held during the time the Director held office or was a member of the committee during the year
 *: Not a member of the relevant committee

One audit committee meeting was held subsequent to the year ended 30 June 2010, and attended by all members.
 Mr Alex Fabbri is Chairman of the Audit and Risk committee. Mr John Read is Chairman of the Nomination & Remuneration committee.

Directors' Resolution

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



Mr John Read
Chairman



Mr William Highland
Director

Sydney 28 September 2010

Remuneration Report (Audited)

This Remuneration Report outlines the Director and Executive remuneration “Key Management Personnel” arrangements of the Group in accordance with the requirements of the Corporations Act 2001 and its Regulations. For the purposes of this report Key Management Personnel (KMP) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any Director (whether Executive or otherwise).

For the purposes of this report, the term ‘Executive’ encompasses the Chief Executive, senior Executives, general managers and secretaries of the Group.

Remuneration Committee and Philosophy

The Remuneration Committee reviews the recommendations of the Managing Director regarding the remuneration of staff, including Executive Directors on an annual basis. The Managing Director bases his recommendations on remuneration including base salary, fringe benefits, superannuation, entitlements and performance related incentives on remuneration surveys and comparative market value. The Committee annually reviews and recommends remuneration for the Managing Director, prior to formal Board approval. The objective of the Group’s remuneration policy is to ensure that senior Executives of the Group are motivated to pursue the long term growth and success of the Group within an appropriate control framework and that there is a clear relationship between performance and remuneration.

The remuneration structures offered to 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 Senior Executives
- The Senior Executives’ ability to control the performance of areas of the Group’s business
- The Group’s performance including earnings and overall returns to shareholders
- The amount of incentives within each Senior Executives’ remuneration

Non-Executive Director Remuneration

The Non-Executive Directors of The Environmental Group are entitled to a fee that is determined by the Remuneration Committee on the commencement of the role and on an annual basis thereafter.

The Board seeks to set aggregate remuneration at a level that provides the Group with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders based on the size and nature of The Environmental Group.

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

Each Non-Executive Director will receive a fee of \$42,000 for being a Director of the Group. The Chairman of the Board receives a fee of \$84,000. No additional fee is paid to a Director who sits on a Board committee.

The Non-Executive Directors do not receive retirement benefits, nor do they participate in any incentive programs. The remuneration of Non-Executive Directors for the periods ended 30 June 2009 and 30 June 2010 are detailed in table 1 and 2 respectively of this report.

Executive Remuneration

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

Fixed Remuneration

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

Variable Remuneration – Short term incentives (STI)

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

Long term incentives (LTI)

Long term incentives are provided by way of share options. These provide an incentive to achieve a sustained high level of performance. They are also seen to assist in the retention of key Executives. Options for Executive Directors are approved by shareholders.

Group Performance and Directors and Executives Remuneration

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

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

The following table summarises the Group’s financial performance and share price over the past 5 financial years:

Remuneration Report (Audited) (Cont.)

	2006	2007	2008	2009	2010
Revenue (\$)	23,061,120	24,019,889	28,974,458	38,604,276	31,197,312
Net Profit/(loss) (\$)	353,872	(971,166)	342,425	958,484	559,175
Share price at year-end (cents)	9.7	9.0	7.5	5.1	4.0
Dividends paid (cents)	–	–	–	0.3	0.2

Employment contracts

Chief Executive Officer

Mr Philippe Cussinet is employed under a contract which expires on 31 July 2013.

- Mr Cussinet receives a remuneration of \$280,000 per annum (inclusive of superannuation)
- Mr Cussinet will be granted up to 4,000,000 options over the capital of the Company in 3 tranches
- Termination of contract by either party requires a 3 months notification period

Chief Financial Officer and Joint Company Secretary

Mr Johannes Van der Walt is employed under a rolling contract which commenced on 3 May 2010.

- Mr Van der Walt receives a fixed remuneration of \$190,000 per annum (inclusive of superannuation)
- Termination of contract by either party requires a 3 month notification period

General Manager: Total Air Pollution Control Pty Limited

Mr Gary Hardie is employed under a fixed 12 month contract which expires on 30 June 2011.

- Mr Hardie receives a fixed remuneration of \$210,000 per annum (inclusive of superannuation)
- Termination is by legal agreement and expires in June 2011 unless terminated within the time period by both parties or a material breach by Mr Hardie

Other Executives

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

Remuneration of Key Management Personnel

Key management personnel include the Directors of the Group and:

- Mr Phillipe Cussinet – Chief Executive Officer
- Mr Ashley Arnott: Company Secretary (Joint)
- Ms Angela Axisa: Chief Financial Officer and Company Secretary (Joint) (resigned 14 May 2010)
- Mr Johannes van der Walt: Chief Financial Officer and Company Secretary (Joint) (appointed 3 May 2010)
- Mr Simon Cobden: General Manager – Gas & Vapour (resigned 30 December 2009)
- Mr Frank Placko: General Manager – Water Group
- Mr Mark Spinks: General Manager – Mine Assist (resigned 5 August 2009)
- Mr Steve Hodgson: General Manager – Mine Assist (appointed 1 December 2009)
- Mr Gary Hardie: General Manager – Total Air Pollution Control

Remuneration Report (Audited) (Cont.)

Table 1: Remuneration for the year ended 30 June 2010

	Short-term benefits			Long-term benefits	Post Employment		
	Salary and Fees \$	Cash bonus \$	Non-monetary benefits \$	Long service leave \$	Super-annuation \$	Total \$	% performance related
Non-Executive Directors							
John Read (Chairman) *	84,000	-	-	-	-	84,000	-
Elliott Kaplan **	-	-	-	-	-	-	-
Alex Fabbri ***	34,500	-	-	-	-	34,500	-
Sub-Total	118,500	-	-	-	-	118,500	-
Executive Directors							
William Highland	277,773	-	-	-	-	277,773	-
Other key management personnel^{IV}							
Phillippe Cussinet	78,024	-	-	-	7,022	85,046	-
Angela Axisa	126,783	-	-	-	10,558	137,341	-
Johannes Van der Walt ****	31,667	-	-	-	-	31,667	-
Simon Cobden	121,655	-	-	-	7,026	128,681	-
Frank Placko	127,610	-	-	-	11,374	138,984	-
Mark Spinks	26,585	-	-	33,849	-	60,434	-
Stephen Hodges	108,230	-	-	-	8,436	116,666	-
Gary Hardie	179,817	-	-	-	16,184	196,001	-
Sub-Total KMP	1,078,144	-	-	33,849	60,600	1,172,593	-
Totals	1,196,644	-	-	33,849	60,600	1,291,093	-

* During the year the Group paid management fees to Cannington Corporation Pty Ltd totalling \$84,000 in relation to Director services of John Read.

** During the year the Group paid management fees to CVC Managers Pty Ltd totalling \$17,500 in relation to Director services of Elliott Kaplan.

*** During the year the Group paid management fees to Closeburn Pty Ltd totalling \$34,500 in relation to Director services of Alex Fabbri.

**** During the year the Group paid management fees to Walt Delco Pty Ltd totalling \$31,667 in relation to and Company Secretarial services of Johannes Van der Walt.

Remuneration Report (Audited) (Cont.)

Table 2: Remuneration for the year ended 30 June 2009

	Short-term benefits			Long-term benefits	Post Employment		Share-based payment		
	Salary and Fees \$	Cash bonus \$	Non-monetary benefits \$	Long service leave \$	Super-annuation \$	Other \$	Options \$	Total \$	% performance related
Non-Executive Directors									
John Read (Chairman) *	80,000	-	-	-	-	-	-	80,000	-
Elliott Kaplan **	-	-	-	-	-	-	-	-	-
Rhett Butler	35,000	-	-	-	-	-	-	35,000	-
Sub-Total	115,000	-	-	-	-	-	-	115,000	-
Executive Directors									
William Highland*** (appointed 30 Jun 09)	142,271	-	-	-	-	-	28,000	170,271	-
Duncan Stone (resigned 31 Oct 08)	81,165	-	25,204	-	9,375	-	-	115,744	-
Other key management personnel									
Ashley Arnott	167,567	15,000	-	-	12,095	-	-	194,662	7.71
Bjorn Borg **** (terminated 7 Nov 09)	124,551	-	-	13,129	6,192	112,500	-	256,372	-
Simon Cobden	157,339	79,430	-	10,091	14,986	-	-	261,846	30.33
Frank Placko	118,077	-	5,020	2,758	10,627	-	-	136,482	-
Mark Spinks	158,100	-	-	2,943	13,986	-	-	175,029	-
Gary Hardie	182,238	-	-	-	16,184	-	-	198,422	-
Sub-Total KMP	1,131,308	94,430	30,224	28,921	83,445	112,500	28,000	1,508,828	
Totals	1,246,308	94,430	30,224	28,921	83,445	112,500	28,000	1,623,828	

* During the year the Group paid management fees to Cannington Corporation Pty Ltd totalling \$80,000 in relation to Director services of John Read.

** During the year the Group paid management fees to CVC Managers Pty Ltd totalling \$35,000 in relation to Director services of Elliott Kaplan.

*** William Highland was employed as Chief Executive Officer from 1 November 2008.

**** Upon termination, as per his contract, Bjorn Borg received a termination payment of \$130,660.

Remuneration Report (Audited) (Cont.)

Value of options granted

The total value of options granted to key management personnel included in share based payments in the current year is Nil (2009: \$977). The fair value of the options is calculated at the date of the grant using a binomial option-pricing model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed above is the portion of the fair value of the options allocated to this reporting period. In valuing the options, market conditions have been taken into account.

There were no alterations to the terms and conditions of options granted as remuneration since their grant date. The maximum grant, which will be payable assuming that all service and performance criteria are met, is equal to the number of options granted multiplied by the fair value at the grant date. The minimum grant payable assuming that service and performance criteria are not met is zero

Option holdings

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

2010

Name	Balance at start of year	Granted during year as compensation	Exercised during the year	Other changes during the year	Balance at end of year	Vested and exercisable at end of year
Directors						
John Read	400,000	-	-	-	400,000	400,000
William Highland	4,000,000	-	-	-	4,000,000	4,000,000
Elliott Kaplan	1,000,000	-	-	(1,000,000)	-	-
Executives						
Simon Cobden	500,000	-	-	(500,000)	-	-

2009

Name	Balance at start of year	Granted during year as compensation	Exercised during the year	Other changes during the year	Balance at end of year	Vested and exercisable at end of year
Directors						
John Read	400,000	-	-	-	400,000	400,000
William Highland	-	4,000,000	-	-	4,000,000	4,000,000
Elliott Kaplan	1,000,000	-	-	-	1,000,000	1,000,000
Duncan Stone	7,500,000	-	-	(7,500,000)	-	-
Executives						
Bjorn Borg	500,000	-	-	(500,000)	-	-
Simon Cobden	500,000	-	-	-	500,000	500,000

Remuneration Report (Audited) (Cont.)

Share holdings

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

2010

Name	Balance at start of year	Received during year on exercise of options	Other changes during the year	Balance at end of year
Directors				
John Read	7,802,886	-	758,787	8,561,673
Executives				
Ashley Arnott	200,000	-	-	200,000
Mark Spinks	1,784,750	-	(1,784,750)	-
Gary Hardie	7,407,407	-	-	7,407,407

2009

Name	Balance at start of year	Received during year on exercise of options	Other changes during the year	Balance at end of year
Directors				
John Read	5,360,886	-	2,442,000	7,802,886
Duncan Stone	4,166,667	-	(4,166,667)	-
Executives				
Ashley Arnott	-	-	200,000	200,000
Mark Spinks	1,784,750	-	-	1,784,750
Gary Hardie	7,407,407	-	-	7,407,407

Shares issued on exercise of Compensation options

No shares have been issued during the years ended 30 June 2010 and 30 June 2009 on exercise of compensation options.

Auditors' Independence Declaration



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

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of The Environmental Group Limited for the year ended 30 June 2010, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in dark ink, appearing to read "Grant Thornton", written in a cursive style.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

A handwritten signature in dark ink, appearing to read "N J Bradley", written in a cursive style.

N J Bradley
Director – Audit & Assurance

Sydney, 28 September 2010

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Statement Of Comprehensive Income

For The Year Ended 30 June 2010

	Notes	2010 \$	Consolidated 2009 \$
Revenue	6	31,197,312	38,604,276
Expenses			
Subcontracting and material costs		(20,043,229)	(25,415,322)
Employee expenses	7(b)	(6,566,447)	(7,407,190)
Occupancy expenses		(981,608)	(794,455)
Marketing expenses		(54,380)	(59,880)
Professional fees		(1,078,287)	(735,672)
Depreciation and amortisation	7(a)	(314,541)	(681,253)
Finance costs		(658,588)	(626,240)
Other expenses		(743,128)	(1,434,563)
Total expenses		(30,440,208)	(37,154,575)
Profit before income tax		757,104	1,449,701
Income tax expense	8(a)	(197,929)	(491,217)
Profit for the year		559,175	958,484
Other comprehensive income			
Other comprehensive income, net of tax			
Total comprehensive income for the year		559,175	958,484
Earnings per share for profit attributable to the ordinary equity holders of the Group		Cents	Cents
Basic earnings per share	9	0.24	0.41
Diluted earnings per share	9	0.24	0.41

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

Statement of Financial Position

For The Year Ended 30 June 2010

		Consolidated	
	Notes	2010 \$	2009 \$
Assets			
Current Assets			
Cash and cash equivalents	10	3,265,723	5,040,290
Trade and other receivables	11	7,276,130	4,199,756
Inventories	12	1,106,150	850,206
Other financial assets	16	394,256	395,903
Other current assets	13	334,316	168,333
Total Current Assets		12,376,575	10,654,488
Non-Current Assets			
Deferred tax assets	8(c)	1,190,144	1,384,531
Plant and equipment	14	2,740,546	2,530,318
Intangible assets	15	10,323,131	9,965,684
Non-Current Assets		14,253,821	13,880,533
Total Assets		26,630,396	24,535,021
Liabilities			
Current Liabilities			
Other financial liabilities	18	668,542	540,403
Trade and other payables	17	6,517,935	4,362,064
Tax liabilities	8(a)	-	183,794
Short-term provisions	19	619,488	744,839
Total Current Liabilities		7,805,965	5,831,100
Non-Current Liabilities			
Other financial liabilities	18	701,555	909,610
Deferred tax liabilities	8(d)	54,513	72,747
Long-term provisions	19	130,314	121,744
Total Non-Current Liabilities		886,382	1,104,101
Total liabilities		8,692,347	6,935,201
Net Assets		17,938,049	17,599,820
Equity			
Equity attributable to the ordinary equity holders of the Group			
Issued capital	20	16,855,632	16,610,134
Retained earnings		929,451	836,720
Reserves		152,966	152,966
Total Equity		17,938,049	17,599,820

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

Statement of Changes in Equity

For The Year Ended 30 June 2010

Consolidated	Share Capital \$	Retained Earnings \$	Reserve \$	Total \$
Balance at 1 July 2008	16,707,670	381,568	353,739	17,442,977
Total comprehensive income for the period	-	958,484	-	958,484
Equity transactions:				
Options issued during the year: share based payments	-	-	65,336	65,336
Options forfeited during the year	-	201,750	(266,109)	(64,359)
Dividends paid	-	(705,082)	-	(705,082)
Shares bought back during the year	(97,536)	-	-	(97,536)
Balance at 30 June 2009	16,610,134	836,720	152,966	17,599,820
Total comprehensive income for the period	-	559,175	-	559,175
Equity transactions				
Issued Capital Dividends under DRP	245,498	-	-	245,498
Dividends paid	-	(466,444)	-	(466,444)
Balance at 30 June 2010	16,855,632	929,451	152,966	17,938,049

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

Statement of Cash Flows

For The Year Ended 30 June 2010

		Consolidated	
		2010	2009
	Notes	\$	\$
Cash Flows from Operating Activities			
Receipts from customers		31,240,669	41,200,113
Payments to suppliers and employees		(31,625,879)	(39,569,335)
Interest paid		(43,077)	(135,250)
Interest received		70,023	196,059
Income taxes paid		(205,750)	(30,944)
Net cash flows used in provided by operating activities	21	(564,014)	1,660,643
Cash Flows from Investing Activities			
Payment for purchase of subsidiaries acquired, net of cash acquired	23	-	(308,752)
Contingent consideration paid for subsidiary		(391,247)	(711,997)
Purchases of plant and equipment		(434,911)	(503,253)
Research & development payments		(85,180)	-
Proceeds from sale of plant and equipment		-	109,859
Decrease in fixed term deposit		1,647	421,425
Net cash flows used in investing activities		(909,691)	(992,718)
Cash Flows from financing Activities			
Payment of dividends		(220,946)	(696,458)
Payments on cancellation of shares		-	(97,536)
Proceeds from borrowings		-	700,000
Repayment of borrowings		(79,916)	(1,046,614)
Net cash flows used in financing activities		(300,862)	(1,140,608)
Net decrease in cash and cash equivalents		(1,774,567)	(472,683)
Cash and cash equivalents at the end of the financial year		5,040,290	5,512,973
Cash and cash equivalents at the end of the financial year	10	3,265,723	5,040,290

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

NOTES TO FINANCIAL

STATEMENTS



FINANCIAL

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Note 1. Corporate Information

This financial report of The Environmental Group Limited for the year ended 30th June 2010 was authorised for issue by the Directors in accordance with a resolution of the Directors on 28 September 2010. The Group's registered office is Unit 3, 9 Packard Avenue, Castle Hill, NSW 2154.

The financial report includes financial statements for The Environmental Group Limited and its controlled entities as a consolidated entity ("the Group"). The Environmental Group Limited is a public listed company, incorporated and domiciled in Australia.

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

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

Note 2. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of Preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has been prepared on an accruals basis based on historical cost modified by the revaluation of selected Non current assets and financial instruments for which fair value basis of accounting has been applied.

The financial report is presented in Australian dollars.

Statement of Compliance

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

Certain Australian Standards and 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 2010. For more information on these standards and interpretations, refer to note 2(U).

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.

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

B) Business Combinations

Business combinations occur where an acquirer obtains control over one or more businesses and results in the consolidation of its assets and liabilities.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The acquisition method requires that for each business combination one of the combining entities must be identified as the acquirer (ie parent entity). The business combination will be accounted for as at the acquisition date, which is the date that control over the acquiree is obtained by the parent entity. At this date, the parent shall recognise, in the consolidated accounts, and subject to certain limited exceptions, the fair value of the identifiable assets acquired and liabilities assumed. In addition, contingent liabilities of the acquiree will be recognised where a present obligation has been incurred and its fair value can be reliably measured.

The acquisition may result in the recognition of goodwill (refer to Note 1(J)) or a gain from a bargain purchase. The method adopted for the measurement of goodwill will impact on the measurement of any Non-controlling interest to be recognised in the acquiree where less than 100% ownership interest is held in the acquiree.

The acquisition date fair value of the consideration transferred for a business combination plus the acquisition date fair value of any previously held equity interest shall form the cost of the investment in the separate financial statements. Consideration may comprise the sum of the assets transferred by the acquirer, liabilities incurred by the acquirer to the former owners of the acquiree and the equity interests issued by the acquirer.

Fair value uplifts in the value of pre-existing equity holdings are taken to the statement of comprehensive income. Where changes in the value of such equity holdings had previously been recognised in other comprehensive income, such amounts are recycled to profit or loss.

Included in the measurement of consideration transferred is any asset or liability resulting from a contingent consideration arrangement. Any obligation incurred relating to contingent consideration is classified as either a financial liability or equity instrument, depending upon the nature of the arrangement. Rights to refunds of consideration previously paid are recognised as a receivable. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or a liability is remeasured each reporting period to fair value through the statement of comprehensive income unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to the business combination are expensed to the statement of comprehensive income.

C) Cash and Cash Equivalents

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

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within other financial liabilities in current liabilities on the statement of financial position.

D) Trade and Other Receivables

Trade receivables, which generally have 30-90 day terms, are recognised at fair value.

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

E) 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 assigned on a first in, first out basis.

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

Work-in-progress

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.

F) Investments and other financial assets

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

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

Recognition and Derecognition

All regular purchases and sales of financial assets are recognised on the trade date, the date that the Group commits to purchase the asset.

Regular purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place. Financial assets are derecognised when the right to receive cash flows from the financial assets have expired or been transferred.

(i) Held-to-maturity investments

Held-to-maturity investments are Non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Group's intention to hold these investments to maturity. They are subsequently measured at amortised cost.

Held-to-maturity investments are included in Non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period.

If during the period the Group sold or reclassified more than an insignificant amount of the held-to-maturity investments before maturity, the entire held-to-maturity investments category would be tainted and reclassified as available-for-sale.

(ii) Loans and receivables

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

G) Plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. All other repairs and maintenance are recognised in the statement of comprehensive income as incurred. Depreciation is calculated on either a straight-line or diminishing value basis over the estimated useful life of the specific asset. Depreciation rates used are:

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

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

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

H) 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 asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in the statement of comprehensive income.

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 statement of comprehensive income on a straight-line basis over the lease term.

I) Impairment of Non-financial assets other than goodwill

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other Non financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The group conducts an annual internal review of asset values, which is used as a source of information to assess for any indicators of impairment. External factors are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that have suffered impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

J) Goodwill and intangibles

Goodwill

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

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

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

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

The Group performs its impairment testing as at 30 June each year using a value in use, discounted cash flow methodology for all cash generating units to which goodwill and indefinite lived

intangibles have been allocated. Further details on the methodology and assumptions used are outlined in note 15.

Impairment losses recognised for goodwill are not subsequently reversed.

Intangibles other than Goodwill

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

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

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

Research and development costs

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

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

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

	Trade Mark	Licences	Goodwill	Development costs
Useful lives	Indefinite	Indefinite	Indefinite	5 yrs
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	Where an indicator of impairment exists

K) Trade and other payables

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

L) Other financial liabilities

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

Borrowing costs

Borrowing costs are recognised as an expense when incurred unless they are attributable to a qualifying asset.

M) Provisions

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

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date using a discounted cash flow methodology. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability.

N) Employee leave benefits

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to reporting date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. In determining the liability,

consideration is given to employee wage increases and the probability that the employee may satisfy vesting requirements. Those cashflows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cashflows.

O) Share-based payment transactions

Equity settled transactions:

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

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

- the Employee Share Option Plan (ESOP), which provides benefits to Directors and senior Executives, and
- the Employee Share Plan (ESP), which provides benefits to all employees, including senior Executives and Executive Directors

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

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

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

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

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

Equity-settled awards granted by the Group to employees of subsidiaries are recognised in the group financial statements. The expense recognised by the Group is the total expense associated with all such awards.

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

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for

the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (see note 9).

P) Contributed Equity

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

Q) Revenue Recognition

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

(i) Products

Revenue and earnings on capital work contracts are recognised using the percentage of completion method in the ratio of costs incurred to estimated final costs. Revenue recognised on uncompleted capital work contracts in excess of amounts billed to customers is reflected as an asset. Amounts billed to customers in excess of revenue recognised on uncompleted capital work contracts are reflected as a liability. Revenue from sales other than capital work contracts is recorded when goods have been dispatched to a customer pursuant to a sales order and the associated risks of ownership have passed to the customer.

(ii) Services

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

(iii) Interest revenue

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

R) Income tax and other taxes

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

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognised for all taxable temporary differences except:

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

controlled and it is probable that the temporary difference will not reverse in the foreseeable future

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

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

The carrying amount of deferred income tax assets is reviewed at each reporting 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 reporting 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 reporting date.

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

Tax consolidation legislation

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

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

Other taxes

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

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

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

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

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

S) Earnings Per Share

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

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

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

divided by the weighted average number of ordinary shares. Potential ordinary shares are treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase loss per share from continuing operations.

(T) Segment reporting

In February 2007 the Australian Accounting Standards Board issued AASB 8 which replaced AASB 114: Segment Reporting. As a result, some of the required operating segment disclosures have changed with the addition of a possible impact on the impairment testing of goodwill allocated to the cash generating units (CGUs) of the entity. Below is an overview of the key changes and the impact on the Group's financial statements.

Measurement impact

Identification and measurement of segments — AASB 8 requires the 'management approach' to the identification measurement and disclosure of operating segments. The 'management approach' requires that operating segments be identified on the basis of internal reports that are regularly reviewed by the entity's Chief operating decision maker, for the purpose of allocating resources and assessing performance. This could also include the identification of operating segments which sell primarily or exclusively to other internal operating segments. Under AASB 114, segments were identified by business and geographical areas, and only segments deriving revenue from external sources were considered.

The adoption of the 'management approach' to segment reporting has resulted in the identification of reportable segments largely consistent with the prior year.

Under AASB 8, operating segments are determined based on management reports using the 'management approach', whereas under AASB 114 financial results of such segments were recognised and measured in accordance with Australian Accounting Standards. This has resulted in changes to the presentation of segment results, with inter-segment sales and expenses such as depreciation and impairment now being reported for each segment rather than in aggregate for total group operations, as this is how they are reviewed by the Chief operating decision maker.

Impairment testing of the segment's goodwill

AASB 136: Impairment of Assets, paragraph 80 requires that goodwill acquired in a business combination shall be allocated to each of the acquirer's CGUs, or group of CGUs that are expected to benefit from the synergies of the combination. Each cash generating unit (CGU) which the goodwill is allocated to must represent the lowest level within the entity at which goodwill is monitored, however it cannot be larger than an operating segment. Therefore, due to the changes in the identification of segments, there is a risk that goodwill previously allocated to a CGU which was part of a larger segment could now be allocated across multiple segments if a segment had to be split as a result of changes to AASB 8.

Management have considered the requirements of AASB 136 and determined the implementation of AASB 8 has not impacted the CGUs of each operating segment.

Disclosure impact

AASB 8 requires a number of additional quantitative and qualitative disclosures, not previously required under AASB 114, where such information is utilised by the Chief operating decision maker. This information is now disclosed as part of the financial statements.

(U) New standards and interpretations not yet adopted

Adoption of New and Revised Accounting Standards

During the current year the Group adopted all of the new and revised Australian Accounting Standards and Interpretations applicable to its operations which became mandatory.

The adoption of these standards has impacted the recognition, measurement and disclosure of certain transactions. The following is an explanation of the impact the adoption of these standards and interpretations has had on the financial statements of the Group.

AASB 3: Business Combinations

In March 2008 the Australian Accounting Standards Board revised AASB 3 and as a result, some aspects of business combination accounting have changed. The changes apply only to business combinations which occur from 1 July 2009.

Recognition and measurement impact:

Recognition of acquisition costs — The revised version of AASB 3 requires that all costs associated with a business combination be expensed in the period in which they were incurred. Previously such costs were capitalised as part of the cost of the business combination.

Disclosure impact:

The revised AASB 3 contains a number of additional disclosure requirements not required by the previous version of AASB 3. The revised disclosures are designed to ensure that users of the Group's financial statements are able to understand the nature and financial impact of any business combinations on the financial statements.

AASB 101: Presentation of Financial Statements

In September 2007 the Australian Accounting Standards Board revised AASB 101 and as a result, there have been changes to the presentation and disclosure of certain information within the financial statements. Below is an overview of the key changes and the impact on the Group's financial statements.

Disclosure impact:

Terminology changes – The revised version of AASB 101 contains a number of terminology changes, including the amendment of the names of the primary financial statements.

Reporting changes in equity – The revised AASB 101 requires all changes in equity arising from transactions with owners, in their capacity as owners, to be presented separately from Non-owner changes in equity. Owner changes in equity are to be presented in the statement of changes in equity, with Non-owner changes in equity presented in the statement of comprehensive income. The previous version of AASB 101 required that owner changes in equity and other comprehensive income be presented in the statement of changes in equity.

Statement of comprehensive income – The revised AASB 101 requires all income and expenses to be presented in either one statement, the statement of comprehensive income, or two statements, a separate income statement and a statement of comprehensive income. The previous version of AASB 101 required only the presentation of a single income statement.

The Group's financial statements now contain a statement of comprehensive income.

Other comprehensive income – The revised version of AASB 101 introduces the concept of 'other comprehensive income' which comprises of income and expenses that are not recognised in profit or loss as required by other Australian Accounting Standards. Items of other comprehensive income are to be disclosed in the statement of comprehensive income. Entities are required to disclose the income tax relating to each component of other comprehensive income. The previous version of AASB 101 did not contain an equivalent concept.

New Accounting Standards for Application in Future Periods

The AASB has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods. The Group has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Group follows:

AASB 9: Financial Instruments and AASB 2009–11: Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12] (applicable for annual reporting periods commencing on or after 1 January 2013).

These standards are applicable retrospectively and amend the classification and measurement of financial assets. The Group has not yet determined the potential impact on the financial statements. The changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value
- simplifying the requirements for embedded derivatives
- removing the tainting rules associated with held-to-maturity assets
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost
- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument, and
- reclassifying financial assets where there is a change in an entity's business model as they are initially classified based on:
- the objective of the entity's business model for managing the financial assets, and
- the characteristics of the contractual cash flows

AASB 124: Related Party Disclosures (applicable for annual reporting periods commencing on or after 1 January 2011).

This standard removes the requirement for government related entities to disclose details of all transactions with the government and other government related entities and clarifies the definition of a related party to remove inconsistencies and simplify the structure of the standard. No changes are expected to materially affect the Group.

AASB 2009-5: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139] (applicable for annual reporting periods commencing from 1 January 2010).

This standard details numerous Non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project. No changes are expected to materially affect the Group.

AASB 2009-8: Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2] (applicable for annual reporting periods commencing on or after 1 January 2010).

These amendments clarify the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction. The amendments incorporate the requirements previously included in Interpretation 8 and Interpretation 11 and as a consequence, these two Interpretations are superseded by the amendments. These amendments are not expected to impact the Group.

AASB 2009-9: Amendments to Australian Accounting Standards – Additional Exemptions for First-time Adopters [AASB 1] (applicable for annual reporting periods commencing on or after 1 January 2010).

These amendments specify requirements for entities using the full cost method in place of the retrospective application of Australian Accounting Standards for oil and gas assets, and exempt entities with existing leasing contracts from reassessing the classification of those contracts

in accordance with Interpretation 4 when the application of their previous accounting policies would have given the same outcome. These amendments are not expected to impact the Group.

AASB 2009-10: Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132] (applicable for annual reporting periods commencing on or after 1 February 2010).

These amendments clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own Non-derivative equity instruments. These amendments are not expected to impact the Group.

AASB 2009-12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011).

This standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the IASB. The standard also amends AASB 8 to require entities to exercise judgment in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. These amendments are not expected to impact the Group.

AASB 2009-13: Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB 1] (applicable for annual reporting periods commencing on or after 1 July 2010).

This standard makes amendments to AASB 1 arising from the issue of Interpretation 19. The amendments allow a first-time adopter to apply the transitional provisions in Interpretation 19. This standard is not expected to impact the Group.

AASB Interpretation 19: Extinguishing Financial Liabilities with Equity Instruments (applicable for annual reporting periods commencing on or after 1 July 2010).

This Interpretation deals with how a debtor would account for the extinguishment of a liability through the issue of equity instruments. The Interpretation states that the issue of equity should be treated as the consideration paid to extinguish the liability, and the equity instruments issued should be recognised at their fair value unless fair value cannot be measured reliably in which case they shall be measured at the fair value of the liability extinguished. The Interpretation deals with situations where either partial or full settlement of the liability has occurred. This Interpretation is not expected to impact the Group.

AASB 2010-3: Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 3, AASB 7, AASB 121, AASB 128, AASB 132 & AASB 139]

AASB 2010-4: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13]

The Group does not anticipate the early adoption of any of the above Australian Accounting Standards.

Note 3. Significant accounting judgements, estimates and assumptions

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

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

a) Significant accounting judgements

Recovery of deferred tax assets

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

b) Significant accounting estimates and assumptions

Impairment of Goodwill and intangibles with indefinite useful lives

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units, using either a value in use discounted cash flow of methodology or fair value less costs to sell model to which the goodwill and intangibles with indefinite useful lives are allocated. No impairment losses were recognised in the current year in respect of goodwill. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill and intangibles with indefinite useful lives including a sensitivity analysis are discussed in note 15.

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 30. The accounting estimates and assumptions relating to equity settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

Estimation of useful lives of assets

The estimation of the useful lives of assets has been based on historical experience (for plant and equipment), lease terms (for leased equipment) and turnover policies (for motor vehicles). In addition, the

condition of the assets is assessed periodically and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

Provision For Impairment of Receivables

Current trade and term receivables are non-interest bearing loans and generally on 30-day terms. Non-current trade and term receivables are assessed for recoverability based on the underlying terms of the contract. A provision for impairment is recognised when there is an objective evidence that an individual trade or term receivable is impaired.

Provision for Warranties

Provision is made in respect of the consolidated group's estimated liability on all products and services under warranty at balance date. The provision is measured as the present value of future cash flows estimated to be required to settle the warranty obligation. The future cash flows have been estimated by reference to the consolidated group's history of warranty claims.

Capital Work Contracts and Work in Progress

Capital 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 that are attributable to the contract activity in general and that can be allocated on a reasonable basis.

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

Judgement is exercised in determining the stage of completion of the contract and in reliably estimating the total contract revenue and contract costs to completion.

Provision for Stock Obsolescence

Inventories are measured at the lower of cost and net realisable value. In estimating net realisable values, management takes into account the most reliable evidence available at the time the estimates are made.

Note 4. Financial risk management

The Group's principal financial instruments comprise receivables, payables, cash and short term deposits, bank loans, and finance leases. The Group manages its exposure to key financial risks, including interest rate and currency risk with the objective of supporting the delivery of the Group's financial targets whilst protecting future financial security.

The main financial risks that arise in the normal course of business for the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring exposure to foreign exchange risk and assessments of market forecast for interest rate and foreign exchange prices. Liquidity risk is monitored through the development of future rolling cash flow forecasts. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk. It is, and has been, throughout the period under review, the Board's policy that no speculative trading in financial instruments be undertaken.

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

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

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

	Consolidated	
	2010	2009
	\$	\$
<i>Financial Assets</i>		
Cash and cash equivalents	3,265,723	5,040,290
Trade and other receivables	7,276,130	4,199,756
Other financial assets	394,256	395,903
	10,936,109	9,635,949
<i>Financial Liabilities</i>		
Trade and other payables	6,517,935	4,362,064
Short term borrowings	150,000	125,416
Bank loans	1,220,097	550,000
	7,888,032	5,037,480

Risk exposure and Responses

Interest rate risk

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

The tables on the following page summarise interest rate risk, for the Group together with effective weighted average interest rates at reporting date.

Foreign currency risk

The Group has transactional currency exposure arising from those sales and purchases which are denominated in United States dollars. From time to time the Group hold cash denominated in United States dollars.

Currently the Group has no foreign exchange hedge programmes in place. The Chief Financial Officer manages the purchase and sale of foreign currency to meet requirements. Transaction exposures, where possible, are netted off across the Group to reduce volatility and provide a natural hedge. The financial assets denominated in US Dollars at reporting date are as follows:

	Consolidated	
	2010	2009
	\$	\$
<i>Financial Assets</i>		
Cash and cash equivalents	307,867	151,634
Trade and other receivables	167,801	203,046
<i>Financial Liabilities</i>		
Trade and other payables	344,648	56,933

At current exchange rates, and based on foreign denominated payables and receivables at reporting date, if the Australian dollar was 5% higher, the impact on before tax profit, with all other variables held constant, would be a decrease of \$6,551 (2009: decrease of \$5,565), directly impacting the equity in the Group. If the Australian dollar was 10% lower, the impact on before tax profit, with all other variables held constant, would be an increase of \$1,945 (2009: increase of \$11,670), directly impacting the equity in the Group.

Credit risk

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

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

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The liquidity position of the Group is managed to ensure sufficient liquid funds are available to meet all financial commitments in a timely and cost-effective manner. The Managing Director and Chief Financial Officer constantly reviews the liquid position including cash flow forecasts to determine the forecast liquidity position and maintain appropriate liquidity levels. The group's borrowings of \$150,000 are repayable quarterly in even instalments over the following 1 year excluding the final payment of \$100,000. At reporting date the group had \$500,000 of unused credit facilities available for its immediate use.

Consolidated	Interest rate	Floating interest rate \$	Non-interest bearing \$	Total \$
30 June 2010				
<i>Financial Assets</i>				
Cash at bank and on hand	0.57%	2,536,142	-	2,536,142
Short term deposits	4.50%	729,581	-	729,581
Trade and other receivables			7,276,130	7,276,130
Term deposits and bank bills	5.69%	394,256	-	394,256
		3,659,979	7,276,130	10,936,109
<i>Financial Liabilities</i>				
Short term borrowings	5.56%	150,000	-	150,000
Bank loans	5.56%	1,220,097	-	1,220,097
Trade and other payables			6,517,935	6,517,935
		2,289,882	6,517,935	7,888,032
Net Financial assets		2,289,882	758,195	3,048,077
30 June 2009				
<i>Financial Assets</i>				
Cash at bank and on hand	0.71%	2,560,965	-	2,560,965
Short term deposits	3.52%	2,479,325	-	2,479,325
Trade and other receivables			4,199,756	4,199,756
Term deposits and bank bills	4.89%	395,903	-	395,903
		5,436,193	4,199,756	9,635,949
<i>Financial Liabilities</i>				
Short term borrowings	6.46%	125,416		125,416
Bank loans	3.69%	550,000		550,000
Trade and other payables			4,362,064	4,362,064
		675,416	4,362,064	5,037,480
Net Financial assets		4,760,777	(162,308)	4,598,469

At current interest rates and based on amounts at reporting date, over the course of a full year, a movement of 100 basis points in borrowing rates with an accompanying change in deposit rates would increase or decrease pre tax profit for the group by \$22,899 (2009: \$47,608), directly impacting the equity in the Group.

The remaining contractual maturities of the Group's financial liabilities are:

	Consolidated	
	2010 \$	2009 \$
6 months or less	6,517,935	4,587,480
6 – 12 months	150,000	100,000
1 – 5 years	1,220,096	350,000
	7,888,031	5,037,480

Note 5. Segment information

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (Chief operating decision makers) in assessing performance and determining the allocation of resources.

The Group is managed primarily on the basis of product category and service offerings as the diversification of the Group's operations inherently have notably different risk profiles and performance assessment criteria. Operating segments are therefore determined on the same basis.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics and are also similar with respect to the following:

- the products sold and/or services provided by the segment
- the manufacturing process
- the type or class of customer for the products or services
- the distribution method, and
- any external regulatory requirements

Types of products and services by segment

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

EGL Products include those operations supplying facility services to industry, including the mining sector and the operation and maintenance of water treatment plants and incorporates the EGL Infrastructure Operations and EGL Pollution Control Cash Generating Units

EGL Facility Services incorporate the operations supplying design, construct and install services to industry, including air pollution control and pressure sewer systems and incorporates the EGL Management Services and EGL Facility Services Cash Generating Units.

Basis of accounting for purposes of reporting by operating segments

(a) Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors, being the chief decision maker with respect to operating segments, are

determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

Inter-segment transactions

An internally determined transfer price is set for all inter-segment sales. This price is reset quarterly and is based on what would be realised in the event the sale was made to an external party at arm's length. All such transactions are eliminated on consolidation of the Group's financial statements.

Corporate charges are allocated to reporting segments based on the segments' overall proportion of revenue generation within the Group. The Board of Directors believes this is representative of likely consumption of head office expenditure that should be used in assessing segment performance and cost recoveries.

Inter-segment loans payable and receivable are initially recognised at the consideration received/to be received net of transaction costs. If inter-segment loans receivable and payable are not on commercial terms, these are not adjusted to fair value based on market interest rates. This policy represents a departure from that applied to the statutory financial statements.

Segment assets

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

Segment liabilities

Liabilities are allocated to segments where there is a direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and other payables and certain direct borrowings.

Unallocated items

The following items of revenue, expenses, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- net gains on disposal of available-for-sale investments
- impairment of assets and other non-recurring items of revenue or expense
- income tax expense
- deferred tax assets and liabilities
- current tax liabilities
- other financial liabilities
- intangible assets
- retirement benefit obligations

Comparative information

This is the first reporting period in which AASB 8 has been adopted. Comparative information has been restated to conform to the requirements of this standard.¹⁹

Segment performance

The following tables present revenue and profit information and certain asset and liability information regarding business segments for the years ended 30 June 2010 and 30 June 2009.

(i) Revenue

	EGL Products \$	EGL Facility Services \$	Total \$
Year ended 30 June 2010			
Revenue			
Revenue	13,265,824	17,872,925	31,138,749
Total segment revenue	13,265,824	17,872,925	31,138,749
Reconciliation of segment revenue to group revenue			
Unallocated revenue – interest revenue			58,563
Total group revenue			31,197,312
Segment results (profit before tax and finance costs)	752,944	1,765,077	2,518,021
Reconciliation of segment result to group net profit before tax			
Amounts not included in segment result but reviewed by the Board	(299,538)	(702,188)	(1,001,726)
- Corporate charges	(30,083)	(70,520)	(100,603)
- Other expenses			
Finance costs	-	-	(658,588)
Net profit before tax from continuing operations			757,104
Year ended 30 June 2009			
Revenue			
Revenue	23,071,892	15,350,349	38,422,241
Total segment revenue	23,071,892	15,350,349	38,422,241
Reconciliation of segment revenue to group revenue			
Unallocated revenue – interest revenue			182,035
Total group revenue			38,604,276
Segment results (profit before tax and finance costs)	2,529,284	48,802	2,578,086
Reconciliation of segment result to group net profit before tax			
Amounts not included in segment result but reviewed by the Board	(885,414)	(17,084)	(902,498)
- Corporate charges	(88,922)	(1,715)	(90,637)
- Other expenses			
Finance costs	-	-	(135,250)
Net profit before tax from continuing operations			1,449,701

(ii) Assets

	EGL Products \$	EGL Facility Services \$	Total \$
Year ended 30 June 2010			
Assets			
Segment assets	11,439,130	8,135,739	19,574,869
Capital expenditure	210,435	489,332	699,767
Acquisitions	655,993	804,921	1,460,914
Intersegment eliminations	-	-	(4,353,960)
Unallocated assets			
Deferred tax assets	-	-	1,190,144
Intangibles	-	-	10,219,343
Total group assets			26,630,396
Liabilities			
Segment liabilities	4,868,248	4,272,942	9,141,190
Intersegment eliminations	-	-	(503,356)
Unallocated assets			
Deferred tax liabilities	-	-	54,513
Total group liabilities			8,692,347
Year ended 30 June 2009			
Assets			
Segment assets	8,689,439	6,777,646	15,467,085
Capital expenditure	166,774	940,893	1,107,667
Acquisitions	544,295	630,289	1,174,584
Intersegment eliminations	-	-	(2,144,691)
Unallocated assets			
Deferred tax assets	-	-	1,384,531
Intangibles	-	-	9,828,096
Total group assets			24,535,021
Liabilities			
Segment liabilities	3,863,377	3,063,200	6,926,577
Intersegment eliminations	-	-	(247,644)
Unallocated assets			
Current tax liabilities	-	-	183,794
Deferred tax liabilities	-	-	72,474
Total group liabilities			6,935,201

Major customers

The Group has a number of customers to whom it provides both products and services. The Group supplies a single external customer in the products segment who accounts for 10% of external revenue (2009: 12%). The next most significant client accounts for 7% (2009: 8%) of external revenue.

Note 6. Revenue

	Consolidated	
	2010 \$	2009 \$
Revenue		
Product	13,265,824	19,467,939
Services	17,872,925	18,949,780
	31,138,749	38,417,719
<i>Other revenue</i>		
Interest income	58,563	186,557
	58,563	186,557
Total revenue from continuing operations	31,197,312	38,604,276

Note 7. Expenses

The profit before income tax includes the following specific expenses.

	Consolidated	
	2010 \$	2009 \$
<i>(a) Depreciation, impairment and amortisation included in the income statement</i>		
Depreciation of equipment	62,175	338,095
Depreciation of vehicles	125,924	111,786
Amortisation of leasehold improvements	7,462	34,430
Amortisation of previously capitalised development costs	118,980	196,942
	314,541	681,253
<i>(b) Employee benefits expense</i>		
Wages and salaries	5,187,144	6,161,171
Superannuation expense	355,694	485,525
Share-based payment expense	-	977
Termination payments	-	112,500
Other employee benefits expense	1,023,609	647,017
<i>(c) Minimum lease payments</i>		
Rent leases	450,705	459,348
Finance lease	668,543	272,831

Note 8. Income tax

The profit before income tax includes the following specific expenses.

	Consolidated	
	2010 \$	2009 \$
<i>(a) Current tax</i>		
Income tax expense	197,929	491,217
Tax liabilities	-	183,794
<i>(b) Numerical reconciliation between aggregate tax expense recognised in the income statement and tax expense calculated per the statutory income tax rate</i>		
Total accounting profit (loss) before income tax expense	757,104	1,449,701
Tax at the Australian tax rate of 30%	227,131	434,910
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Adjustments in respect of current income tax of previous years	-	17,535
Amortisation of intangibles	2,996	8,237
Non-deductible entertainment expenses	8,944	10,206
Share based payments	-	293
Recognition of timing differences not previously brought to account	9,466	35,067
Capital raising expenses	-	(35,067)
Sundry items	(50,608)	20,036
Aggregate Income tax expense	197,929	491,217
The applicable weighted average effective tax rates are as follows:	26%	34%

	Consolidated				
	Opening Balance	Charged to Income	Charged directly to Equity	Exchange Differences	Closing Balance
	\$	\$	\$	\$	\$
<i>(c) Deferred tax asset</i>					
Fixed assets	16,192	(1,479)	-	-	14,713
Accruals	162,853	119,324	-	-	282,177
Provisions	153,247	70,684	-	-	223,931
Equity raising costs	138,017	-	(35,067)	-	102,950
Other	36,444	(28,492)	-	-	7,952
Tax losses	1,228,176	(475,368)	-	-	752,808
Balance at 30 June 2009	1,734,929	(315,331)	(35,067)	-	1,384,531
Fixed assets	14,713	26,954	-	-	41,667
Accruals	282,177	(85,243)	-	-	196,934
Provisions	223,931	(74,179)	-	-	149,752
Equity raising costs	102,950		(102,950)	-	-
Other	7,952	(7,952)	-	-	
Tax losses	752,808	48,983	-	-	801,791
Balance at 30 June 2010	1,384,531	(91,437)	-	-	1,190,144

	Consolidated				
	Opening Balance	Charged to income	Charged directly to Equity	Exchange Differences	Closing Balance
	\$	\$	\$	\$	\$
<i>(d) Deferred tax liability</i>					
Unrealised foreign exchange gain	-	-	-	33,036	33,036
Fringe benefits tax	2,858	(1,821)	-	-	1,037
Capitalised development costs	97,363	(58,689)	-	-	38,674
Balance at 30 June 2009	100,221	(60,510)	-	33,036	72,747
Unrealised foreign exchange gain	33,036	-	-	(25,001)	8,035
Fringe benefits tax	1,037	(1,037)	-	-	-
Capitalised development costs	38,674	(4,820)	-	-	33,854
Other	-	12,624	-	-	12,624
Balance at 30 June 2010	72,747	6,767	-	(25,001)	54,513

	Consolidated	
	2010 \$	2009 \$
<i>(e) Tax losses</i>		
Unused tax losses for which no deferred tax asset has been recognised	10,087,310	10,087,310
Potential tax benefit at 30%	3,026,193	3,026,193

Note 9. Earnings per share

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

(a) Earnings used in calculating earnings per share

	Consolidated	
	2010 \$	2009 \$

Basic and diluted earnings per share

Net Profit from continuing operations attributable to ordinary equity holders of the parent	559,175	958,484
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(b) Weighted average number of shares

	Consolidated	
	2010 \$	2009 \$

Weighted average number of ordinary shares used in calculating basic and dilutive earnings per share	235,558,489	234,314,975
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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.

(c) Information concerning the classification of securities

Unexercised options, including those granted to key management personnel as described in note 30, were not included in the determination of basic earnings per share or dilutive earnings per share in 2010 or 2009 as they were considered antidilutive.

Note 10. Current assets – Cash and cash equivalents

	2010 \$	Consolidated 2009 \$
Cash at bank and in hand	2,536,142	2,560,965
Short term deposits	729,581	2,479,325
Balance per statement of cash flows	3,265,723	5,040,290

- **Cash at bank and in hand**

The cash at bank are both Non-interest bearing and interest bearing with rates between 0.01% and 2.75%

- **Deposits at call**

The short term deposits are bearing fixed interest rates of between 3.30% and 4.50% with maturity ranging up to 90 days.

Note 11. Trade and other receivables

	2010 \$	Consolidated 2009 \$
Current		
Trade receivables	7,176,944	4,360,626
Allowance for impairment loss (a)	-	(250,334)
	7,176,944	4,110,292
Other receivables	99,186	89,464
	7,276,130	4,199,756

(a) Allowance for impairment loss

Trade receivables are Non-interest bearing and are generally on 30-60 day terms. A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. Amounts are included in other expenses in the statement of comprehensive income.

Movements in the provision for impairment loss were as follows:

At 1 July	250,334	169,986
Charge for the year	-	250,334
Amounts written off	(250,334)	(169,986)
Amounts collected from debtor	-	-
	-	250,334

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

	Total	0-30 days	31-60 days	61-90 days PDNI*	61-90 days CI*	91+ days PDNI*	91+ days CI*
2010 Consolidated	7,176,944	2,473,135	2,926,589	1,058,453	-	718,767	-
2009 Consolidated	4,360,626	2,240,503	1,197,415	407,669	-	264,705	250,334

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

Receivables past due but not considered impaired are: Consolidated \$1,614,030 (2009: \$680,003). Payment terms on these amounts have not been re-negotiated however credit is being monitored until full payment is made. Each business unit has been in direct contact with the relevant debtor and is satisfied that payment will be received in full.

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

(b) Fair value and credit risk

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

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

(c) Amount due from project work

	Consolidated	
	2010 \$	2009 \$
Contract cost incurred	3,954,918	13,536,437
Recognised profits to date	1,844,799	4,295,375
	5,799,717	17,831,812
Progress billings	(6,682,799)	(17,946,016)
Amount due from customers for contract work *	(883,082)	(114,204)

*2010 balance of \$883,082 (2009: \$114,204) is included in Trade and other payables under Note 17.

Note 12. Inventories

	Consolidated	
	2010 \$	2009 \$
At cost		
Raw materials	380,416	427,036
	380,416	427,036
At net realisable value		
Raw materials	292,662	328,526
Work-in-progress	422,072	94,644
	725,734	423,170
	1,106,159	850,206

Inventory write-down

Write-downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2010 amounted to \$175,407 (2009: \$Nil). The expense was included in 'subcontracting and material costs' in the statement of comprehensive income.

Note 13. Other current assets

	Consolidated	
	2010 \$	2009 \$
Prepayments	223,384	133,536
Other assets	110,932	34,797
	334,316	168,333

Note 14. Plant and equipment

Consolidated	Equipment \$	Vehicles \$	Leasehold improvements \$	Total \$
Year ended 30 June 2009				
Opening Net book amount	1,469,795	277,702	192,649	1,918,146
Additions	826,623	255,005	26,039	1,107,667
Acquired in business combinations	69,671	-	-	69,671
Disposals	(26,638)	(51,789)	(2,428)	(80,855)
Depreciation and amortisation charge	(338,095)	(111,786)	(34,430)	(484,311)
Closing net book amount	2,001,356	347,132	181,830	2,530,318

At 1 July 2010				
Cost	3,019,860	1,240,648	240,530	4,501,038
Accumulated depreciation and amortisation	(1,444,178)	(467,842)	(58,700)	(1,970,720)
Net book amount	1,575,682	772,806	181,830	2,530,318

Consolidated	Equipment \$	Vehicles \$	Leasehold improvements \$	Total \$
Year ended 30 June 2010				
Opening net book amount	1,575,682	772,806	181,830	2,530,318
Additions	113,523	321,388	-	434,911
Acquired in business combinations	-	-	-	-
Disposals	(3,500)	-	(25,622)	(29,122)
Depreciation and amortisation charge	(62,175)	(125,924)	(7,462)	(195,561)
Closing net book amount	1,623,530	968,270	148,746	2,740,546

At 30 June 2010				
Cost	3,325,645	1,366,274	214,908	4,906,827
Accumulated depreciation and amortisation	(1,702,115)	(398,004)	(66,162)	(2,166,281)
Net book amount	1,623,530	968,270	148,746	2,740,546

The net carrying amount of assets under finance lease at 30 June 2010 was \$1,370,097 (2009: \$802,961).

Note 15. Intangible assets

a) Reconciliation of carrying amounts

Consolidated	Goodwill \$	Trademark \$	Licences \$	Development \$	Total \$
Year ended 30 June 2009					
Opening Net book amount	9,135,206	2,710	7,276	324,544	9,469,736
Additions	692,890	-	-	-	692,890
Amortisation charge	-	-	-	(196,942)	(196,942)
Net book amount	9,828,096	2,710	7,276	127,602	9,965,684
At 30 June 2009					
Cost	9,828,096	2,710	61,357	754,232	10,646,395
Accumulated amortisation and impairment	-	-	(54,081)	(626,630)	(680,711)
Net book amount	9,828,096	2,710	7,276	127,602	9,965,684
Year ended 30 June 2010					
Opening Net book amount	9,828,096	2,710	7,276	127,602	9,965,684
Additions	391,247	-	-	85,180	476,427
Amortisation charge	-	-	-	(118,980)	(118,980)
Net book amount	10,219,343	2,710	7,276	93,802	10,323,131
At 30 June 2010					
Cost	10,219,343	2,710	61,357	757,937	11,041,347
Accumulated amortisation and impairment	-	-	(54,081)	(664,135)	(698,216)
Net book amount	10,219,343	2,710	7,276	93,802	10,323,131

The carrying amount of trademarks at 30 June 2010 was \$2,710 (30 June 2009: \$2,710). There was no change to the carrying value in the years ended 30 June 2010 and 30 June 2009.

(b) Description of the Group's intangible assets and goodwill

(i) Goodwill

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

(ii) Licences

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

(iii) Development costs

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

(c) Impairment test for goodwill and intangibles with indefinite useful lives

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

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

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

	EGL Infrastructure Operations \$	EGL Management Services \$	EGL Facility Services \$	EGL Pollution Control \$	Total \$
Goodwill	2,790,876	470,162	2,680,270	4,278,035	10,219,343
Trademark	2,710	-	-	-	2,710
Licences	7,276	-	-	-	7,276

EGL Infrastructure Operations Cash Generating Unit

The recoverable amount of the EGL infrastructure Operations Cash Generating Unit has been determined 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 10% (2009: 19%). The growth rate used to extrapolate the cash flows beyond the budget period is 5.0%.

An increase in the discount rate to 25% or a decrease in the growth rate to 2% would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash generating unit.

EGL Management Services Cash Generating Unit

The recoverable amount of the EGL Management Services Cash Generating Unit has been determined using a value in use calculation which is based on financial cash flow projections over a five year period. The pre tax discount rate applied to the cash flow projections is 10% (2009: 14%). The growth rate used to extrapolate the cash flows beyond the budget period is 5.0%.

The goodwill for the CGU is likely to be impaired if the growth rate is reduced below 5% or if the discount rate is increased to 15% and above.

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 12% (2009: 19%). The growth rate used to extrapolate the cash flows beyond the budget period is 5.0%.

An increase in the discount rate to 23% or a decrease in the growth rate to 2% would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash generating unit.

EGL Pollution Control Cash Generating Unit

The recoverable amount of the EGL Pollution Control 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 10% (2009: 19%). The growth rate used to extrapolate the cash flows beyond the budget period is 5.0%.

An increase in the discount rate to 27% or a decrease in the growth rate to negative 1% would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash generating unit.

Key assumptions used in calculations of values

The calculation of value in use for each of the four Cash Generating units is most sensitive to assumptions made concerning gross margins, discount rates, and growth rates used to extrapolate cash flows beyond the budget period.

Gross margins are based on the values achieved in recent years preceding the start of the budget period.

Discount rates reflect management's estimate of the time value of money and the risks specific to each unit that are not already reflected in the cash flows. In determining the appropriate discount rates, regard has been given to the weighted average cost of capital of the entity as a whole and adjusted for business risk specific to each unit.

Growth rate estimates reflect recent past experience

Note 16. Other financial assets

	Consolidated	
	2010 \$	2009 \$
<i>Current</i>		
Term deposits and Bank bills	394,256	395,903

Note 17. Trade and other payables

	Consolidated	
	2010 \$	2009 \$
Trade payables	4,342,702	2,161,184
Sundry creditors and other payables	1,292,151	1,640,791
Deferred purchase consideration accruals (see note 23)	-	445,885
Progress claims (see note 11 (c))	883,082	114,204
	6,517,935	4,362,064

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

(a) Fair values

The carrying amount of the Group's trade and other payables approximate their fair value.

Note 18. Other financial liabilities

	Consolidated	
	2010 \$	2009 \$
<i>Current</i>		
Obligations under finance leases and hire purchase contracts (note 24)	318,542	214,987
Insurance premium funding	-	125,416
Commercial Bill (c)	350,000	200,000
	668,542	540,403
<i>Non-Current</i>		
Obligations under finance leases and hire purchase contracts (note 24)	701,555	559,610
Commercial Bill (c)	-	350,000
	701,555	909,610

(a) Fair values

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

(b) Interest rate and liquidity risk

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

(c) Commercial Bill Facility

The commercial bill relates to a bank loan facility which has a rolling maturity of 90 days. The loan was refinanced during July 2009, requiring quarterly principle reductions of \$50,000 per quarter.

Note 19. Provisions

	2010 \$	Consolidated 2009 \$
Current		
Long service leave	131,277	192,033
Annual leave	456,664	402,806
Warranty	31,547	-
Rectification and maintenance provision	-	150,000
	619,488	744,839
Non-Current		
Long service leave	130,314	121,744
	130,314	121,744

Provision for Warranties

A provision of \$31,547 at 30 June 2010 has been recognised by the Group for estimated warranty claims in respect of products and services sold which are still under warranty at balance date. The provision for warranties has been based upon a fixed percentage of the total value of the sales contract.

Rectification & Maintenance provision

A nil provision (2009: \$150,000) at 30 June 2010 has been recognised for estimated costs associated with rectification and maintenance resulting from operations during the financial year.

Movements in provisions

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

Consolidated	Warranty provision \$	Employee leave provision \$	Rectification provision \$	Total \$
At 1 July 2009	-	716,583	150,000	866,583
Arising during the year	31,547	424,834	-	456,381
Utilised	-	(423,162)	(150,000)	(573,162)
At 30 June 2010	31,547	718,255	-	749,802

Note 20. Issued capital

(a) Share capital

	Consolidated	
	2010 \$	2009 \$
Ordinary shares		
237,181,212 fully paid shares (2009: 233,221,767)	16,855,632	16,610,134

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

(b) Movements in ordinary share capital:

Date	Details	Number of Ordinary Shares	Share Capital \$
1 Jul 2008	Opening Balance	235,027,291	16,707,670
6 Feb 2009	Shares Cancelled *	(1,805,524)	(97,536)
30 Jun 2009	Balance	233,221,767	16,610,134
29 January 2010	Share Issued **	3,959,445	245,498
30 Jun 2010	Closing Balance	237,181,212	16,855,632

* On 13 January 2009, the Group announced an on-market share buy-back for capital management purposes, to buy a maximum of 22,680,449 fully-paid ordinary shares over a maximum 12 month period. Up to the year ended 30 June 2009, the Group has re-purchased 1,805,524 shares at a total cost of \$97,536 at 0.185 cents per share.

**On 27 November 2009, the Group announced a dividend reinvestment plan including a 5% discount. Shares were issued at 0.161 cents per share.

(b) Capital management

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

	Consolidated	
	2010 \$	2009 \$
Total borrowings *	7,888,032	5,812,077
Less cash and cash equivalents	(3,265,723)	(5,040,290)
Net debt	4,622,309	771,787
Total equity	17,938,049	17,599,820
Total capital	22,560,358	18,371,607

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

Management controls the capital of the Group in order to maintain a good debt to equity ratio, provide the shareholders with adequate returns and ensure that the Group can fund its operations and continue as a going concern. The Group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets. There are no externally imposed capital requirements.

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year.

Note 21. Statement of cash flows reconciliation

	2010 \$	Consolidated 2009 \$
(a) Reconciliation of Cash Flow from Operations with Profit after Income Tax		
Profit from operating activities after tax	559,175	958,484
<i>Non-cash flows in profit from operating activities:</i>		
Depreciation & amortisation	314,541	681,253
Other Non-cash flow items	-	(14,410)
Options Issued – share based payments (Profit) / Loss on disposal of plant and equipment	29,122	35,293
<i>Changes in assets and liabilities:</i>		
(Increase) / decrease in Receivables	(3,076,374)	3,362,341
Increase in Inventories	(255,944)	(237,491)
Increase in Prepayments	(165,983)	(28,178)
Decrease in Deferred tax assets	194,387	348,398
Increase / (decrease) in Payables	2,156,051	(3,702,520)
(Decrease) / increase in Provisions	(116,781)	144,622
(Decrease) / increase in Tax Liabilities	(183,974)	139,348
Decrease in Deferred tax Liabilities	(18,234)	(27,474)
Net cash from operating activities	(564,014)	1,660,643

(b) Non-cash Financing and Investing Activities

- **Share issue**

On 27 November 2009, the Group announced a dividend reinvestment plan including a 5% discount. Shares were issued at 0.161 cents per share. The total value of dividends reinvested was \$245,498.

- During the year the consolidated group acquired plant and equipment with an aggregate value of \$798,329 (2009: \$357,804) by means of finance leases. These acquisitions are not reflected in the statement of cash flows.

Note 22. Subsidiaries

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

Name of Entity	Country of Incorporation	Class of Shares	Equity Holding	
			2010 %	2009 %
The Environmental Group Share Plans Pty Limited	Australia	Ordinary	100	100
Environmental Group (Operations) Pty Limited (formerly Environmental Systems Pty Limited)	Australia	Ordinary	100	100
Horizon APC Australia Pty Limited (formerly Activated Carbons Australia Pty Limited)	Australia	Ordinary	100	100
Environmental Products Pty Limited	Australia	Ordinary	100	100
Coal and Carbon Industries (Australia) Pty Limited	Australia	Ordinary	100	100
Environmental Systems International Pty Limited (formerly Stannary Hills Mining Pty Limited)	Australia	Ordinary	100	100
Jetflote Australia Pty Limited	Australia	Ordinary	100	100
Water Environment Systems Pty Limited	Australia	Ordinary	100	100
EGL Developments Pty Limited	Australia	Ordinary	100	100
EGL Water Operations Pty Limited	Australia	Ordinary	100	100
EGL Management Services Pty Limited (formerly Anglian Water Pty Limited)	Australia	Ordinary	100	100
Coriolis Water Services (Australia) Pty Limited	Australia	Ordinary	100	100
Mine Assist Pty Limited	Australia	Ordinary	100	100
Pump Assist Pty Limited	Australia	Ordinary	100	100
Total Air Pollution Control Pty Limited	Australia	Ordinary	100	100

Note 23. Business Combinations

Prior Period Acquisition

On 10 October 2007, The Environmental Group Limited acquired 100% of the voting shares of Total Air Pollution Control Pty Limited ("TAPC"). Under the terms of the share sale agreement, the previous shareholders of TAPC were paid \$355,932 during the current period for a share of the profits generated by the business in the financial year ended 30 June 2009. In addition an amount of \$355,932 has been recognised as goodwill as a result of payments accrued under the TAPC earn out agreement specified in note 31.

Note 24. Commitments

Leasing commitments

Operating lease commitments

The Group has entered into commercial leases on certain items of property and equipment. Equipment leases are generally taken over a 36 - 48 month period. Property leases have been taken out for up to 10 years.

Future minimum rentals payable under Non-cancellable operating leases as at 30 June 2010 are as follows:

	Consolidated	
	2010 \$	2009 \$
Within one year	450,706	400,147
Later than one year but not more than five years	406,824	522,993
After more than five years	147,875	266,153
	1,005,405	1,189,293

Finance leases and hire purchase commitments

The Group leases motor vehicles and items of plant and equipment. These leases have an average term of 4.5 years. Commitments in relation to finance and hire purchase arrangements are as follows:

	Consolidated	
	2010 \$	2009 \$
Within one year	318,542	272,831
Later than one year but not more than five years	701,555	625,510
After more than five years	-	-
Total minimum lease payments	1,020,097	898,341
Less amounts representing finance charges	-	(123,744)
Total lease liabilities	1,020,097	774,597
<i>Representing lease liabilities:</i>		
Current	318,542	214,987
Non-current	701,555	559,610
Total	1,020,097	774,597

Note 25. Dividends

(a) Recognised amounts

	2010 \$	Consolidated 2009 \$
<i>Declared and paid during the year:</i>		
Franked dividend on ordinary shares (0.2 cents)	466,444	705,082

(b) Unrecognised amounts

Since reporting date, the consolidated entity has not declared or paid dividends.

(c) Franking credit balance

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

	2010 \$	Consolidated 2009 \$
Franking account balance as at the end of the financial year:	818,400	913,091
	818,400	913,091

(d) Tax rates

The tax rate at which paid dividends have been franked is 30%

Note 26. Events after the reporting date

There have been no significant events that have occurred after reporting date up to the date of this report.

Note 27. Key management personnel disclosures

Compensation for key management personnel

	2010 \$	Consolidated 2009 \$
Short term employee benefits	1,196,644	1,370,962
Long term employee benefits	33,849	28,921
Post-employment benefits	60,600	83,445
Termination benefits	-	112,500
Share-based payments	-	28,000
Total compensation	1,291,093	1,623,828

Details relating to key management personnel are included in the Remuneration Report on page 23.

Note 28. Related party disclosure

Key management personnel

Details relating to key management personnel, including remuneration paid are included in note 27.

(i) Loans to key management personnel

In 2010 no loans were made to Directors of The Environmental Group Limited or other key management personnel of the group, including their personally related parties.

(ii) Other transactions with key management personnel

During the year ended 30 June 2010 the Group paid:

- Director fees to Cannington Corporation Pty Ltd totalling \$84,000 of whom John Read is a Director.
- Director fees to CVC Managers Pty Ltd totalling \$21,000 for the services of Elliott Kaplan, an employee of CVC Managers Pty Ltd.
- Director fees to Closeburn Pty Ltd totalling \$34,500 of whom Alex Fabbri is a Director.
- Company secretarial services to Walt Deltco Pty Ltd totalling \$31,667 of whom Johannes Van der Walt is a Director.
- Earn-out of \$355,932 and rental fees of \$64,511 to TAPC (Holdings) Pty Limited of whom Gary Hardie is a Director.

During the year ended 30 June 2009 the Group paid:

- Director fees to Cannington Corporation Pty Ltd totalling \$80,000 of whom John Read is a Director.
- Director fees to CVC Managers Pty Ltd totalling \$35,000 for the services of Elliott Kaplan, an employee of CVC Managers Pty Ltd.
- Earn-out of \$354,291 and rental fees of \$61,818 to TAPC (Holdings) Pty Limited of whom Gary Hardie is a Director.

Except for the above, no other transactions occurred with Key Management Personnel of the Group, including their personally related parties.

Note 29. Remuneration of auditors

The auditor of The Environmental Group Limited is Grant Thornton (2009: Ernst & Young (Australia)). During the year the following fees were paid or payable for services provided by the auditor of the parent entity and its related practices and Non-related audit firms:

	Consolidated	
	2010 \$	2009 \$
<i>Amounts received or due and receivable by Grant Thornton (2009: Ernst & Young (Australia)) for:</i>		
• an audit or review of the financial report of the entity and any other entity in the consolidated group	71,000	108,377

The Group has not employed Grant Thornton on any assignments additional to their statutory audit duties.

Note 30. Share based payment plans

(a) Recognised share based payment expenses

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

	Consolidated	
	2010 \$	2009 \$
Expense arising from share-based payment transactions	-	28,000

The share-based payment plans are described below. There have been no cancellations or modifications to any of the plans during 2010 and 2009.

(b) Types of share based payment plans and summary of option granted

Employee Share Plan

In a resolution approved by shareholders at the AGM of 29 November 2000, the Group operates a Staff Share Plan for the benefit of all employees. A total of 621,111 ordinary shares have been issued since commencement of the scheme at no cost to the employees. A further 195,812 shares were purchased "on market" at no cost to the employees. No shares have been purchased or issued during the years ended 30 June 2009 and 2010.

Employee Share Option Plan ("ESOP")

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

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

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

Set out below is the summary of options granted under the plan. The table also indicates the movement in the numbers of employee options over the year ended 30 June 2010.

Grant date	Expiry Date	Exercise Price	Opening Balance	Issued	Exercised	Cancelled	Closing Balance
1 Jul 06	30 Jun 09	\$0.20	250,000	-	-	-	250,000
1 Jul 06	30 Jun 09	\$0.20	250,000	-	-	250,000	-
1 Jul 06	30 Jun 09	\$0.275	250,000	-	-	-	250,000
1 Jul 06	30 Jun 09	\$0.275	250,000	-	-	250,000	-
Total			1,000,000			500,000	500,000
Weighted average exercise price:		\$0.24	-	-	-	\$0.24	\$0.24

The total number of outstanding ESOP options represents 0.2% (2009: 0.2%) of the total number of issued ordinary shares in the capital of The Environmental Group Ltd.

The fair value of the options granted is estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. No other options are on issue than those noted above. No options were granted during the year under this plan. All options have vested and were able to be exercised at 30 June 2010. There was no specific performance conditions associated with the above granted options.

Other Options granted and on issue

Other options on issue relate to outstanding Board and Executive options. Set out below is the summary of Executive options on issue and the movement in the numbers of options over the year ended 30 June 2010.

Grant date	Expiry Date	Exercise Price	Opening Balance	Issued	Exercised	Cancelled	Closing Balance	Dates exercisable
01 Feb 08	31 Jan 13	\$0.08	1,400,000	-	-	(1,000,000)	400,000	01 Feb 08
26 June 09	25 Jun 12	\$0.08	4,000,000	-	-	-	4,000,000	26 Jun 09
Total			5,400,000	-	-	(1,000,000)	4,400,000	
Weighted average exercise price:	-	\$0.08	-	-	-	\$0.08	\$0.08	

The total number of outstanding Board and Executive options represents 2.3% (2009: 2.3%) of the total number of issued ordinary shares in the capital of The Environmental Group Ltd.

The following terms apply to Board and Executive options:

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

The fair value of the options granted is estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model for the year ending 30 June 2010.

Weighted average share price	\$0.051
Dividend yield	Nil
Exercise period of options from issue	1.5 year
Expected volatility	60%
Weighted average risk free interest rate at date of grant	4.50%

The weighted average life for the share options outstanding is 3.5 years. The weighted average fair value of options granted during 2009 was 0.7 cents.

Note 31. Contingent Liabilities

Guarantees

The group has given bank guarantees to unrelated parties in respect of performance guarantees. No liability is expected to arise from these guarantees and accordingly no provision has been recognised in these financial statements. The total performance guarantees for the Group at 30 June 2010 are \$394,256 (2009: \$1,385,897).

Earn out agreements from business combinations

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 ended 30 June 2009 and 2010. The payment amount is calculated on the profit before tax recorded each year.

Under the terms of the share sale agreement, the former shareholders of Total Air Pollution Control Pty Limited are entitled to a share of certain future profits generated by the business during the five years commencing on 10 October 2008 and concluding 9 October 2012. The payment amount is calculated on the profit before tax recorded each year.

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

Note 32. The Environmental Group Limited Parent Company Information

	2010 \$	2009 \$
ASSETS		
Current Assets	10,362,699	33,432
Non-Current Assets	5,249,547	18,104,791
Total assets	15,612,246	18,138,223
Current Liabilities	174,010	178,556
Total liabilities	174,010	178,556
Net assets	15,438,236	17,959,667
EQUITY		
Equity attributable to the ordinary equity holders of the company		
Contributed equity	16,805,618	16,610,134
Retained earnings	(1,426,292)	1,290,623
Reserves	58,910	58,910
Total Equity	15,438,236	17,959,667
Financial performance		
Profit for the year	(3,183,359)	1,354,513
Other comprehensive income	-	-
Total comprehensive income	(3,183,359)	1,354,513

Directors' Declaration

The Directors of The Environmental Group Limited declare that:

1. In the opinion of the Directors:

The financial statements, notes and the additional disclosures included in the Directors' report designated as audited, of the consolidated entity are in accordance with the Corporations Act 2001, including:

- (i) Giving a true and fair view of consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
- (ii) Complying with Accounting Standards and Corporations Regulations 2001, and
- (iii) Complying with International Financial Reporting Standards as discussed in Note 1

2. The Chief Executive Officer and Chief Financial Officer have each declared that:

- (i) the Financial Records of the consolidated entity for the financial year have been properly maintained in accordance with s 286 of the Corporations Act 2001
- (ii) the Financial statements and notes for the financial year comply with the Accounting standards, and
- (iii) the Financial statements and notes for the financial year give a true and fair view

3. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

4. 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 ended 30 June 2010.

On behalf of the Board



Mr John Read
Chairman
Sydney



Mr William Highland
Director

28 September 2010

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Independent Auditor's Report To the Members of The Environmental Group Limited

Report on the financial report

We have audited the accompanying financial report of The Environmental Group Limited (the "Company"), which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes to the financial report and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with 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 are 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. The directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

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 which require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control 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 control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Electronic presentation of audited financial report

This auditor's report relates to the financial report of The Environmental Group Limited and controlled entities for the year ended 30 June 2010 included on The Environmental Group Limited's web site. The Company's directors are responsible for the integrity of The Environmental Group Limited's web site. We have not been engaged to report on the integrity of The Environmental Group Limited's web site. The auditor's report refers

only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Auditor's opinion

In our opinion:

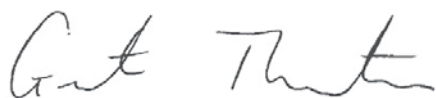
- a the financial report of The Environmental Group Limited is in accordance with the Corporations Act 2001, including:
 - i giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

Report on the remuneration report

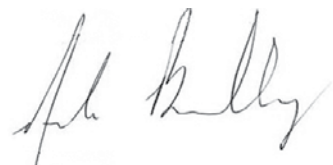
We have audited the Remuneration Report included in pages 23 to 28 of the directors' report for the year ended 30 June 2010. The directors of the Company are responsible for the preparations and presentations of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion on the remuneration report

In our opinion, the Remuneration Report of The Environmental Group Limited for the year ended 30 June 2010, complies with section 300A of the Corporations Act 2001.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



N J Bradley
Director – Audit & Assurance

Sydney, 28 September 2010

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Shareholding Statistics

The following information is current as at 29 September 2010

• Distribution of equity securities

• Ordinary share capital

237,181,213 fully paid ordinary shares are held by 2,310 individual shareholders.

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

• Options

4,400,000 options are held by 2 individual option holders. Voting rights: Options do not carry a right to vote.

• Marketable Parcel

The number of shareholdings held in less than marketable parcel is 1,665.

• Substantial Shareholders

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

Holder Name	Balance at 29-09-2010	%
CVC Sustainable Investments Ltd	81,655,346	34,427

• Twenty largest holders of quoted equity securities

Holder Name	Number of Ordinary Shares Held	% of Ordinary Shares Issues
CVC Sustainable Investments No2 Ltd	81,655,346	34.427
Mr Clarence John Kelly & Mrs Robyn Suzanne Kelly <Chas Kelly Super Fund A/C>	11,587,202	4.885
Mandalay Capital Pty Limited <Mandalay Super Fund A/C>	9,201,850	3.880
Ace Property Holdings Pty Ltd	9,000,000	3.795
Doldory Pty Ltd <Lewis Family Superfund A/C>	7,603,534	3.206
Cannington Corporation Pty Limited <Read Family A/C>	7,517,157	3.169
Bros Nominees Pty Ltd <Bros Nominees S/F A/C>	5,660,594	2.387
TAPC (Holdings) Pty Ltd <G & K Hardie Super Fund A/C>	5,000,000	2.108
Mr Ian Geoffrey Drummond & Mrs Janice Lorraine Drummond <Instil Enterprises S/F A/C>	4,450,000	1.876
325Th P & C Nominees Pty Ltd <Higgs Super Fund A/C>	4,020,856	1.695
Sysuper Pty Ltd <M Symonds Super Fund A/C>	3,416,474	1.440
Clapsy Pty Ltd <Baron Super Fund Account>	2,558,727	1.079
Mr Peter Neil McIntyre & Mrs Frances Marilyn McIntyre <McIntyre Retirement Fund A/C>	2,355,000	0.993
Mr Gary Denis Hardie & Mrs Karen Anne Hardie	2,018,518	0.851
Dr Russell Kay Hancock	2,000,000	0.843
Mr Michael Arthur How & Mrs Susan How <Sumik Super Fund A/C>	2,000,000	0.843
Lotsa Wealth Pty Ltd <Hampic (No2) Super Fund A/C>	1,500,000	0.632
Mr Leonard Frazer Tanks & Mrs Teresa Alice Tanks <L & T Tanks Super Fund A/C>	1,234,750	0.521
Herfield Pty Ltd <I E L No 7 Super Fund A/C>	1,230,106	0.519
Eastmain (Nsw) Pty Limited <Rr Hield S/F A/C>	1,200,000	0.506
	165,210,114	69.656

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

Holdings Ranges	Fully paid ordinary shares	%	Options	%
1-1,000	939	0.145		
1,001-5,000	503	0.528		
5,001-10,000	170	0.586		
10,001-100,000	498	8.156		
100,001 and over	200	90.585	2	100
Totals	2,310	100.00	2	100