

Commentary on ASX Appendix 4E Preliminary Final Report

EGL DELIVERS RECORD REVENUE AND PROFIT ORDERS UP 150%

OVERVIEW

The Directors of The Environmental Group Limited (EGL) are pleased to announce record revenues and profits, reporting a 78% increase in revenue to \$17 million and a 62% increase in Profit before Tax (PBT) to \$1.15 million for the year ended 30 June, 2003.

Order intake increased by 150% to \$24.1 million resulting in a substantial opening order book of \$10.6 million at 1 July, 2003. Further orders approaching \$5 million have been secured since the start of the new financial year.

For the first time in the Company's history earnings per share of 1.15 cents exceeded the psychologically important threshold of one cent per share.

Tax payable increased significantly during the year to \$0.4 million. A Future Income Tax Benefit of \$0.33 million will, however, significantly lower tax rates over the next 2 years.

The market for environmental solutions delivered by EGL is forecast to continue to grow at more than 30 % pa over the next 10 years.

THE YEAR IN REVIEW

	30 June, 2003	30 June, 2002	% Change
Revenue, \$millions	17	9.6	+78
PBT, \$millions	1.15	0.711	+62
EBITDA, \$millions	1.411	0.9	+57
PAT, \$millions	0.745	0.575	+30
Tax, \$millions	0.404	0.135	+200
Net Assets, \$millions	6	4	+51
Cash and cash equivalents, \$millions	2.9	2.8	+4
EPS, cents	1.15	0.94	+22

MAJOR ACHIEVEMENTS

During the year a number of significant projects were completed including:

- Odour control system for North Head Sewage Treatment Plant in Sydney, NSW
- Odour control system for St Marys Sewage Sludge Treatment Facility in NSW
- Wastewater re-use facility for Citiwater in Townsville, QLD
- Odour control system for Woodman Point, WA
- Acid gas removal system for Tiwest, WA
- Pressure Sewer system for South East Water, VIC

The Gypsum Plant for the Hismelt facility in Kwinana, WA is progressing well and will be essentially complete by November, 2003. With an order value of \$7 million this is the largest single order placed with EGL to-date.

The quality, scale and quantity of projects completed and underway have now established EGL as a significant player in the Australian and Asia Pacific environmental sectors.

NEW INITIATIVES

Completion of the acquisition of Water Environment Systems Pty Ltd in April, 2003 and its integration into EGL to form the Pressure Sewer Division has added a significant new source of income. The growth rate of this new market segment is anticipated to exceed 100% p.a over the next few years and for the first time gives EGL direct exposure to the growth in residential and non-residential construction. Over the next few years most activity will centre on the replacement of the 1 million aging septic sewer systems scattered throughout Australia.

Recurrent income from long term supply orders and service work will become a significant portion of revenue over the next 2 years.

Our Water Division was considerably strengthened during the year by the purchase of the Purac AB license and employing the staff and management of their successful Australian operation. With this initiative EGL has become one of the Top 3 Australian water/wastewater treatment companies capable of providing a wide range of leading edge technologies and services.

OUTLOOK

EGL looks forward to an exciting future, underpinned by strong revenue and profit growth. Our revitalised Balance Sheet provides a robust platform for growth.

Each of the three operating divisions are at or approaching market leadership in their relevant market niches. The diverse range of income streams now available to EGL is already smoothing out our order intake and workload providing greater certainty and stability of earnings as well as lowering the risk profile for the Company.

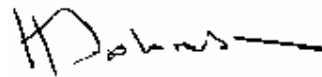
The substantial forward order book and diverse sources of income now established in rapidly growing markets, will see EGL achieve substantial growth over the next 2 to 3 years and improved profitability starting in the first half of the 2003-2004 financial year.

EGL's proven ability to identify and integrate successful new companies in the environmental field will be employed to both strengthen the existing divisions and add a fourth operating division in the near term. Targets will include vulnerable competitors, profitable divisions of larger international companies and successful private companies.

EGL is now the only profitable listed company covering the key air, water and wastewater sectors of the high growth environmental solutions markets in our region. Our high-level ethical rating and sustainable business model makes EGL the outstanding investment opportunity in this sector.



John Read
Chairman
8 September, 2003



Howard Johnson
Managing Director and CEO
8 September, 2003

APPENDIX 4E

Preliminary Final Report

Name of entity

THE ENVIRONMENTAL GROUP LIMITED (EGL)

ABN

89 000 013 427

Current reporting period

Year ended 30 June 2003

Previous reporting period

Year ended 30 June 2002

Results for announcement to the market

				\$A'000
Revenues from ordinary activities	up	78%	to	16,999
Profit (loss) from ordinary activities before tax	up	62%	to	1,149
Profit (loss) from ordinary activities after tax attributable to members	up	30%	to	745
Net profit (loss) for the period attributable to members	up	30%	to	745
Dividends	Amount per security		Franked amount per security	
Final dividend proposed	0c		0c	
Interim dividend paid	0c		0c	
Record date for determining entitlements to the dividends	Not applicable			
Brief explanation of any of the figures reported above. Refer to attached commentary				

The Environmental Group Limited

Consolidated statement of financial performance

		June 2003 \$	June 2002 \$
Revenue from ordinary activities	Notes	16,999,365	9,554,651
Expenses			
Ordinary activities			
Cost of services provided		12,453,424	5,892,510
Employee expenses		1,590,818	1,436,387
Rent and related expenses		313,390	200,714
Marketing and advertising expenses		53,455	92,321
Professional fees		315,685	302,030
Depreciation on plant and equipment		65,936	51,389
Amortisation of intangibles		196,146	137,661
Other expenses		861,236	730,279
Profit from ordinary activities before income tax expense		1,149,275	711,360
Income tax expense	5	(403,821)	(135,615)
Profit from ordinary activities after income tax expense and net profit attributable to the members of The Environmental Group Limited		745,454	575,745
Basic earnings per share (cents)		1.15	0.94
Diluted earnings per share (cents)		1.08	0.94

The Environmental Group Limited

Consolidated statement of financial position

		June 2003 \$	June 2002 \$
Current Assets	Notes		
Cash assets		909,656	420,000
Receivables		6,600,799	1,686,893
Investments	8	1,973,064	2,377,946
Inventories		278,826	157,108
Other		137,996	50,356
Total Current Assets		9,900,341	4,692,303
Non Current Assets			
Plant and equipment		316,356	218,757
Deferred tax assets	9	333,768	73,908
Intangible assets	10	2,649,252	1,213,463
Other		83,623	167,641
Total Non Current Assets		3,382,999	1,673,769
Total Assets		13,283,340	6,366,072
Current Liabilities			
Payables		6,661,833	1,854,553
Tax liabilities		244,507	161,583
Provisions		311,460	239,280
Total Current Liabilities		7,217,800	2,255,416
Non Current Liabilities			
Payables		-	87,500
Provisions		21,308	13,545
Total Non Current Liabilities		21,308	101,045
Total Liabilities		7,239,108	2,356,461
Net Assets		6,044,232	4,009,611
Equity			
Contributed equity	3	5,019,487	3,730,320
Retained profits	4	1,024,745	279,291
Total Equity		6,044,232	4,009,611

The Environmental Group Limited

Consolidated statement of cash flows

	June 2003 \$	June 2002 \$
Cash flows from operating activities		
Receipts from customers	14,817,425	11,239,119
Payments to suppliers and employees	(14,263,774)	(9,738,724)
Interest received	68,229	73,107
Interest paid	(20,612)	(21,258)
Income taxes paid	(303,292)	-
Net cash provided by / (used in) operating activities	297,976	1,552,244
Cash flows from investing activities		
Payment of business acquired	(58,333)	(83,333)
Proceeds from sale of plant and equipment	5,887	124,752
Loans proceeds to other entities	(684,505)	(217,254)
Purchases of plant and equipment	(159,974)	(216,532)
Research & development activities	(36,014)	-
Decrease (increase) in fixed term deposit	524,619	(945,000)
Net cash provided by / (used in) investing activities	(408,320)	(1,337,367)
Cash flows from financial activities		
Proceeds from issues of securities	600,000	-
Net cash provided by / (used in) financing activities	600,000	-
Net increase in cash and cash equivalents	489,656	214,877
Cash at beginning of financial year	420,000	205,123
Cash at end of financial year	909,656	420,000

The Environmental Group Limited

1. Summary of accounting policies

This Preliminary Report has been prepared in accordance with ASX Listing Rule 4.3A and the disclosure requirements of ASX Appendix 4E. There have been no other changes in accounting policies since 30 June 2002, as set out in the published Annual Report for that year.

2. Dividends

No dividends were paid or declared since the end of the previous financial year. The value of the franking credits available as at 1 July 2003 is \$547,799

3. Movement in contributed equity

	June 2003 \$	June 2002 \$
Paid-up capital	5,019,487	3,730,320
68,959,801 (2002: 62,679,342)		
Ordinary shares fully paid		
At the beginning of the financial year	3,730,320	3,701,153
Shares issued during the year:		
- 297,016 in December 2001	-	29,167
- 216,495 in Jan 2002	-	-
- 164,785 in December 2002	29,167	-
- 97,674 in January 2003	-	-
- 3,000,000 in February 2003	600,000	-
- 3,000,000 in April 2003	660,000	-
At the end of the financial year	5,019,487	3,730,320

	June 2003 \$	June 2002 \$
4. Retained Profits		
Retained profits / (accumulated losses)	279,291	(3,023,290)
at beginning of financial year		
Transfer from option premium reserve	-	1,230,571
Transfer from capital profit reserve	-	1,456,265
Transfer from general reserve	-	40,000
Net profit attributable to members of company	745,454	575,745
Retained profits at end of financial year	1,024,745	279,291

The Environmental Group Limited

Notes to the statements of financial performance

	June 2003 \$	June 2002 \$
5. Income Tax Expense		
Change prima facie tax on the operating profit before income tax is reconciled to the income tax expense as follows:		
Prima facie tax on profit from ordinary activities before income tax calculated at 30%	(344,782)	(213,408)
Add:		
Tax effect of:		
Amortisation of goodwill	(58,844)	(41,298)
Non-deductible entertainment expenses	(2,789)	(1,939)
Provision for loans	-	-
	(406,415)	(256,645)
Less:		
Tax effect of:		
Recoupment of prior year tax losses not previously brought to account	-	62,111
Eligible research & development expenditure	2,594	3,800
Recognition of timing differences not previously brought to account	-	55,119
Tax losses utilised by the group	-	-
Tax expense on foreign taxable income	-	-
	(403,821)	(135,615)
Income tax benefit / (expense) attributable to profit from ordinary activities before income tax		

	June 2003	June 2002
6. Earnings per security (EPS)		
Earnings used in the calculation of Basic EPS	745,454	575,745
Weighted average number of shares used in the denominator	64,483,527	62,697,342
Earnings used in the calculation of Dilutive EPS	745,454	575,745
Weighted average number of shares used in the denominator	68,983,527	62,697,342

The Environmental Group Limited

7. Asset backing per security

	June 2003	June 2002
Net Tangible asset backing per ordinary security (cents)	4.9	4.4
Net asset backing per ordinary share (cents)	8.7	6.4

8. Investments

	June 2003 \$	June 2002 \$
Term deposits & bank bills	1,973,064	2,377,946

9. Deferred tax assets

	June 2003 \$	June 2002 \$
Future income tax benefit	333,768	73,908

10. Intangibles

	June 2003 \$	June 2002 \$
Trade mark	2,710	2,710
Goodwill – at cost	3,108,591	1,776,630
Accumulated amortisation	(674,493)	(565,877)
Licence – at cost	349,677	-
Accumulated depreciation	(137,233)	-
	2,649,252	1,213,463

11. Contingent Liabilities

	June 2003 \$	June 2002 \$
Bank guarantees given in respect of performance guarantees in favour of third parties	1,341,093	668,228

The Environmental Group Limited

12. Control gained over entities having material effect

Name of entity	Water Environment Systems Pty Ltd
Date control gained	23 rd April 2003
Contribution of the entity to the profit from ordinary activities during the period (if material)	-
Profit/loss of the entity during the previous reporting period (if material)	-

13. Loss of control of entities having material effect

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

14. Details of associates and joint venture entities

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

15. Commentary on the results

Refer to attached commentary

The Environmental Group Limited

Compliance statement

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

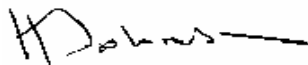
Identify other standards used

N/A

- 2 This report, and the accounts upon which the report is based, use the same accounting policies.
- 3 This report does give a true and fair view of the matters disclosed.

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

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



Signature: _____

Print Name: Howard Johnson

Position: Managing Director / CEO

Date: 8 September 2003