

# FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2016

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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 1A, 9 Packard Avenue, Castle Hill, NSW, 2154

## DIRECTORS' REPORT

### Chairman's Report

Dear Shareholders,

I would like to thank my fellow Directors, our Executive Leadership Team and all staff for their continued commitment and support over the past twelve months, as during the previous financial year, The Environmental Group Limited (EGL) has been further consolidated, commercially refocused and organisational improvements have been made. This process was a continuation from the previous year.

On behalf of the Board I particularly extend my thanks to Ellis Richardson who stepped in to fill the role of Group Managing Director after the resignation and departure of Henk van Kruining. As Group Managing Director, Ellis began to critically focus on the Baltec IES Pty Limited (Baltec) business with particular emphasis on obtaining more appropriate projects within the agreed targeted strategic focus. This Ellis successfully implemented and has led to a larger number of smaller yet significantly superior projects being won. As a result, and discussed in the Managing Director's report, the pipeline build of work carried over into the 2017 financial year is encouraging.

During the year under review EGL's profit was \$21,741 with Total Air Pollution Control Pty limited (TAPC) continuing to disappoint and drag down EGL's financial performance. In response to this poor performance by TAPC, which was driven by an increasing competitive environment and contracting investment by the mining sector, the two business units of TAPC were combined under the direct leadership of one single General Manager, Robert Henderson, who on streamlining TAPC reviewed the activities and resources and delivered some good cost savings. Importantly TAPC's General Manager has refocused efforts on business development and sales activities and has invested additional resources in these key areas. This has had an immediate and positive impact on the TAPC business, and we cautiously expect this continued focus should improve its future business opportunities. However, TAPC will remain under the active scrutiny of the Directors to try and avoid losses such as TAPC incurred in FY 2016.

As you may be aware, Sinan Boratav resigned as a director of EGL and Baltec in July 2016, but continues to work within the Baltec business. The Board extend our thanks and gratitude to Sinan for his significant hard work, commitment and dedication to Baltec and the group over many years, and look forward to continuing to work with him in the future.

### Outlook

Whilst a more detailed review of the results of the group will be discussed in the Managing Director's report, I note that the overall results are disappointing due to the adverse impact of the losses within TAPC. Despite the disappointing and small profit generated by the group, the restructuring and refocus of TAPC and the significant Baltec pipeline are nevertheless a strong basis for a cautious improvement outlook in EGL's future prospects.

The Directors and management continue to work on restoring the profitability of the group to deliver results acceptable to our shareholders. The cautious improvement to profitability that we are now beginning to see will also be dependent on TAPC continuing to deliver revenue growth in its difficult markets and Baltec remaining focused to win and deliver on its pipeline and source future likewise targeted projects.

The Directors cautiously expect that the FY 2017 should see an improvement in the profitability and improved stability within the EGL Group, particularly as the recent organisational changes settle down and the company continues to concentrate on its core business.



Mr David Cartney

Chairman

**Managing Directors' Report.**

I would like to thank the EGL team including the board for their dedication and support throughout the year and in particular over the past six months since my appointment as Managing Director. The reversal from a loss before taxation of \$500,000 for the first 6 months period to a profit before tax of \$47,723 for the full 12 month period has required both structural and mindset changes throughout the organisation to improve company performance. Growth has been redefined to embrace targeted marketing to build cash flow and gross margins. Structural changes in Baltec implemented to improve flexibility and focus are now almost complete. TAPC continues to undergo refinements to build on the decisions made mid-year. These changes have impacted positively over the past 6 months and allowed a stronger base to be developed for the 2017 financial year.

**Baltec**

Revenue for the first 6 months was \$10.2 Million with a profit of \$640,000 Revenue for the second 6 months was \$9.1 Million however profit was \$740,000. The change in a net profit from 6.3% in the first 6 months of financial year 2016 to 8.1% in the second 6 months resulted from targeting and winning smaller but more profitable work, with reduced cash and bond requirements. The outcome from this focused building of the pipeline is a carryover of work into financial year 2017 of over \$14 Million at a healthy net margin. This is the best start to a new financial year in Baltec's history. One of the additional exciting developments has been success in supplying to blue ribbon turbine manufactures which has the additional benefit of reduced marketing costs as a result of strong customer relationships and ongoing contracts.

Organisational changes have included the establishment of two separate non competing teams to provide greater flexibility and focused growth in existing and new markets. One of the points of difference in Baltec's history has been the ability to quickly respond to customers' requirements and to solve the difficult technical challenges which competitors are unable to resolve. The new structure provides the opportunity for continued skills development and education for our people, building on key strengths of innovation and flexibility to allow Baltec to solidify its reputation as a leader in engineering unique solutions.

It is expected that next year's performance should result in a revenue increase in excess of 10% and strong profit growth reflecting the target marketing and improved margins achieved in the past 6 months.

**TAPC**

Revenue for the first 6 months was \$3M producing a loss of \$800,000. The second 6 months significantly improved to a net loss before taxation of \$50,000 from a revenue of \$3.3M. TAPC consists of two distinct businesses one in the declining local electrostatic precipitator market servicing the coal and process industries, and the other in gas and fume control. This latter market requires engineering and process technology skills but in a tight competitive market. Management and staff have worked hard to return TAPC to profitability and are to be congratulated in their efforts, however further improvements are still required to ensure the ongoing success of the business. Central to profitable performance is greater focus on export markets where TAPC offerings are in higher demand. I look forward to continue working with senior management to deliver improved results in the 2017 financial year.

**Future**

It is anticipated that the refocus in markets particularly within Baltec will improve the profitability of EGL next year. The cash generated from improved profitability and reduced cash usage on contracts, is expected to provide a springboard to both organically expand existing operations and provide the opportunity to acquire compatible high technology businesses capable of global expansion.



Ellis Richardson  
Managing Director

Your Directors submit their report for the year ended 30 June 2016.

## **Directors**

The names and details of the Director in office during or since the end of the financial year are set out as below:

### **Information on Directors**

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

#### **MR DAVID CARTNEY - CHAIRMAN (NON-EXECUTIVE)**

Appointed to the Board initially as a Non-executive Director on 22 September 2014 thereafter, appointed Non-executive Chairman on 1 December 2014. David is also Chairman of the Audit and Risk Committee.

David has more than 15 years' experience as an independent and non-executive board director and chairman, David provides strong commercial acumen and corporate governance as well as adding value as an independent director which strengthens EGL's leadership and risk management.

David is a fellow of the Australian Institute of Company Directors (AICD) and a member of the Institute of Directors in London (IoD), and a Chartered Accountant and holds a number of other qualifications including a PHD in Finance from Ashley University as well as an MA (Hons.) from the University of St Andrews.

#### **MR ELLIS RICHARDSON – DIRECTOR (EXECUTIVE)**

Appointed to the Board 29 November 2013.

Ellis is a foundation Fellow of The Institute of Company Directors, a Member of The Institute of Engineers Australia and a Chartered Engineer. He has over 30 years of business experience as CEO of Comeng and Managing Director of Evans Deakin Industries and later in the venture capital industry. Comeng was Australia's premier rolling stock manufacturer producing trams, trains and locomotives. Evans Deakin Industries also produced Rolling stock in addition to power stations and draglines for the mining industry. Ellis was the previous owner of Baltec prior to its purchase by EGL

#### **MR SINAN BORATAV - DIRECTOR (EXECUTIVE)**

Appointed as an Executive Director to the Board on 01 October 2014.

Sinan commenced as a Project Engineer with Baltec and was soon promoted to the role of Project Manager, thereafter to the position of Operations Manager. He has been instrumental in the development and growth of Baltec into the well-respected and leading global business in the power industry.

Sinan was an Executive Director and was not independent and resigned as a Director of The Environmental Group Limited and Baltec IES Pty Limited on 1 July 2016. Sinan continues to focus his efforts on growing Baltec through targeted business development and marketing activities.

#### **MS. LYNN RICHARDSON - DIRECTOR (NON-EXECUTIVE)**

Appointed to the Board on 22 May 2015.

Prior to the sale of Baltec to EGL, Lynn was a member of the Executive Committee of Baltec, during which time she utilised her experience in general management and provided strategic leadership, contributing towards the growth of the company.

Lynn is well qualified with an MBA, Graduate Certificate in Accounting and is a member of the Australian Institute of Company Directors.

***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 Limited ("EGL") were:

	Number of Ordinary Shares	Number of Options over Ordinary Shares
E. Richardson	94,314,441	-
D Cartney	1,300,000	-
S Boratav	6,189,059	-
L Richardson	3,571,429	-

**Company Secretary**

The company Secretary for the year and at the date of this report is Allan Fink

**Dividends**

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 emission control systems, inlet and exhaust systems for gas turbines and engineering services to a wide variety of industries.

**Significant Changes in the State of Affairs**

In the opinion of the Directors, no other 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**

EGL as it is currently structured, and on the assumption that budgeted income is achieved, is expected to continue operating profitably in the current financial year.

**Environmental Regulation and Performance**

The Group's operations may have an 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 the Group met all its obligations in this area.

**Share Options****Unissued Shares**

As at the date of this report, there were 20,000,000 unissued ordinary shares under option.

### 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 EGL.

### Indemnification and Insurance of Directors and Auditors

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

No indemnities have been given or insurance premiums paid during or since the end of the financial year for the auditors of the Group.

### 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:

	Meetings of Committees					
	Directors' Meeting		Audit & Risk		Nomination & Remuneration	
	15		2		-	
Number of meetings held	A	B	A	B	A	B
Number of meetings attended:						
Ellis Richardson	15	15	*	*	-	-
David Cartney	15	15	2	2	-	-
Sinan Boratav	5	15	*	*	-	-
Lynn Richardson	15	15	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

Two Audit & Risk Committee meetings was held subsequent to the year ended 30 June 2016, and attended by all members.

David Cartney is Chairman of the Audit and Risk committee and of the Nomination and Remuneration committee.

### Non-Audit Services

Consultancy fees of Nil (2015: Nil ) were paid to McIntosh Bishop during the year under review

No other fees were paid or payable to McIntosh Bishop for non-audit services provided during the year ended 30 June 2016.

### After Reporting Date Events

There are 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 the Company**

No person has applied for leave of 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 19.

**Directors' Resolution**

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

A handwritten signature in black ink, appearing to read 'David Cartney', with a stylized flourish at the end.

Mr David Cartney

Melbourne

29 August 2016

## REMUNERATION REPORT (AUDITED)

This Remuneration Report outlines the Director and Executive Key Management Personnel remuneration arrangements of the Group in accordance with the requirements of the *Corporations Act 2001* and the Corporate Regulations 2001. 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, and secretaries of the Group.

### Remuneration Committee and Philosophy

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.

### Executive and Non-Executive Director Remuneration

The Executive and Non-Executive Directors of the company 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 company.

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 receives a fee of \$48,000 for being a Director of the company. The Chairman of the Board receives a maximum fee of \$150,000. No additional fee is paid to a Director who sits on a Board committee.

The Directors do not receive retirement benefits, nor do they participate in any incentive programmes. The remuneration of Directors for the periods ended 30 June 2016 and 30 June 2015 are detailed in table 1 and 2 respectively of this report.

### Executive Remuneration

The total remuneration for senior Executives is 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.



## REMUNERATION REPORT (AUDITED)

## 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. Other than reflected within the tables below, no short term or long term incentives have been paid for the 2016 financial year.

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

	2012	2013	2014	2015	2016
Revenue (\$)	33,996,413	20,495,765	18,859,499	26,650,858	25,726,811
Net Profit/(loss) (\$)	(10,118,281)	(795,647)	779,714	369,659	21,741
Number of shares issued	79,060,389	79,060,389	162,060,389	162,060,389	215,931,711
Share price at year-end (cents)	5.0	3.0	2.1	1.9	3.0
Dividends paid per share (cents)	-	-	-	-	-

EGL's revenues include income from continuing & discontinuing acquisitions

**Executives**

All Executives have rolling contracts. The Group may terminate the Executive's employment agreement by providing one month's written notice or providing payment in lieu of the notice period with the exception of the CEO who has a 3 month written notice period. The Group may terminate these contracts 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 REPORT (AUDITED)

## Remuneration of Key Management Personnel (KMP)

Key management personnel include the Directors of the Group:

- Mr David Cartney: Chairman
- Mr Ellis Richardson: Managing Director
- Mr Sinan Boratav: Director and General Manager – Baltec
- Ms. Lynn Richardson: Director
- Mr Allan Fink: Chief Financial Officer and Company Secretary

**Table 1**  
**Remuneration for the year ended 30 June 2016**

	Short-term benefits		Long-term benefits	Post Employment	Share-Based payments				
2016	Salary and Fees	Cash bonus	Long service leave	Super-annuation (incl sal sacrifice)	Other	Options	Total	% performance related	Notes
	\$	\$	\$	\$	\$		\$		
<b>Directors</b>									
Ellis Richardson	155,836	-	-	-	-	-	155,836	-	1
David Cartney	54,000						54,000		2
Sinan Boratav	257,102	71,500		26,251			354,853	20%	3
Lynn Richardson	39,362			4,207			43,569		
<b>Sub-Total</b>	<b>506,300</b>	<b>71,500</b>	<b>-</b>	<b>30,458</b>	<b>-</b>	<b>-</b>	<b>608,258</b>		
<b>Other key management personnel</b>									
Allan Fink	172,250	18,200	-	24,850	-	-	215,300	8%	
Henk van Kruining <sup>^</sup>	141,171			13,224			154,395		4
<b>Sub-Total KMP</b>	<b>313,421</b>	<b>18,200</b>	<b>-</b>	<b>38,074</b>	<b>-</b>	<b>-</b>	<b>369,695</b>		
<b>Totals</b>	<b>819,721</b>	<b>89,700</b>	<b>-</b>	<b>68,532</b>	<b>-</b>	<b>-</b>	<b>977,953</b>		

1) Paid to Baltec Inlet and Exhaust Systems Pty Limited in relation to Directors Fees

2) Paid to Cabernet House Pty Limited in relation to Directors Fees

3) Resigned as a Director on 1 July 2016

4) Resigned 3 February 2016

Table 2: Remuneration for the year ended 30 June 2015

2015	Short-term benefits		Long-term benefits	Post Employment	Share-Based payment		Total	% performance related
	Salary and Fees	Cash bonus	Long service leave	Super-annuation (incl sal sacrifice)	Other	Options		
	\$	\$	\$	\$	\$		\$	
<b>Directors</b>								
Ellis Richardson #	150,000	-	-	-	-	-	150,000	-
David Cartney *	44,067						44,067	
Sinan Boratav **	232,827	50,000		21,850			304,677	16%
Lynn Richardson ***	4,923						4,923	
Louis Niederer ****	12,000	-	-	-	-	-	12,000	-
Tim Hargreaves *****	10,930	-	-	-	-	-	10,930	-
Giles Woodgate *****	12,000	-	-	-	-	-	12,000	-
<b>Sub-Total</b>	<b>466,747</b>	<b>50,000</b>	<b>-</b>	<b>21,850</b>	<b>-</b>	<b>-</b>	<b>538,597</b>	
<b>Other key management personnel</b>								
Allan Fink	164,000	17,600	-	26,530	-	-	208,130	8%
Henk van Kruining ^	25,641			2,436			28,077	
Gary Hardie ^ ^	140,225		-	15,660	-	-	155,885	
Oscar Sikorski ^ ^ ^	60,251	-	-	3,995	-	-	64,246	-
<b>Sub-Total KMP</b>	<b>390,117</b>	<b>17,600</b>	<b>-</b>	<b>48,621</b>	<b>-</b>	<b>-</b>	<b>456,338</b>	
<b>Totals</b>	<b>856,864</b>	<b>67,600</b>	<b>-</b>	<b>70,471</b>	<b>-</b>	<b>-</b>	<b>994,935</b>	

# During the year directors fees were paid or payable to Baltec Inlet & Exhaust Systems Pty Ltd totalling \$150,000 in relation to Director services of Ellis Richardson.

\* Appointed September 2014 - During the year directors fees were paid or payable to Cabernet House Pty Ltd totalling 44,067 in relation to Director services of David Cartney.

\*\* Appointed October 2014

\*\*\* Appointed May 2015

\*\*\*\* Resigned September 2014 - During the year directors fees were paid or payable to L.A Niederer & Company Pty Ltd totalling \$12,000 in relation to Director services of Louis Niederer

\*\*\*\*\* Resigned September 2014 - During the year directors fees were paid or payable to TJ & T Hargreaves totalling \$10,930 in relation to Director services of Tim Hargreaves.

\*\*\*\*\* Resigned October 2014 - During the year directors fees were paid or payable to Woodgate & Co. totalling \$12,000 in relation to Director services of Giles Woodgate.

^ Joined May 2015

^^ Left December 2014

^^^ Left October 2014

### 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 (2015: \$0).

### Option holdings

The number of options over ordinary shares in the Group held during the financial year by each Director of EGL and other key management personnel of the Group, including their personally related parties, are set out in Note 28 to the financial statements.

The value date per option, grant date and exercise price of last exercise are disclosed in Note 31

### Shareholdings

The number of shares held during the financial year by each Director of EGL and other key management personnel of the Group, including their personally related parties, are set out in Note 28. There were no shares granted during the reporting period as remuneration.

### Shares issued on exercise of Compensation options

No shares have been issued during the years ended 30 June 2016 and 30 June 2015 on exercise of compensation options

**CORPORATE GOVERNANCE STATEMENT**

EGL is committed to maintaining a sound corporate governance framework in the best interests of EGL, shareholders and stakeholders more generally. The Statement below outlines EGL's approach to corporate governance for the last financial year, and its compliance with the ASX Corporate Governance Principles and Recommendations (the Recommendations). A summary checklist is set out in section 8. Where EGL has not adopted a recommendation either in whole or in part, the reasons for that variance are given. The Board's approach has been to adopt the principles and practices that it considers are in stakeholders' best interests, while taking into account the relative size of EGL and its business operations.

**1. THE BOARD OF DIRECTORS****1.1 Role of Board and Management**

The key functions and responsibilities of the Board are set out in its Charter and include:

- providing strategic guidance to EGL 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 EGL's strategic goals and objectives and compliance with EGL's code of professional ethics and conduct;
- monitoring financial performance including approval of the annual and half-year financial reports and liaison with EGL's auditors;
- appointment or removal of EGL's auditors, evaluation of auditor performance and independence;
- setting 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 EGL 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.

Senior Management is responsible for:

- implementation of corporate strategy;
- development of business plans and day to day management of EGL;
- establishment, oversight, review and maintenance of EGL's risk management framework; and
- keeping the Board fully informed of any material developments.

## 1.2 Board Composition

The Board currently comprises one Executive and two Non-Executive Directors. Details of the members of the Board, their experience, expertise, and qualifications are set out in the Directors' Report. Information on Directors is also available on EGL's website at [www.environmental.com.au](http://www.environmental.com.au). The Board seeks to ensure that its membership represents an appropriate balance between Directors with experience and knowledge of EGL, 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 current Chairman, Mr David Cartney, is a Non-Executive Director and was elected Chairman in November 2014 and is not a substantial shareholder of EGL. Accordingly, the Chairman does satisfy the independence criteria of the Recommendations

Mr Ellis Richardson, is currently Managing Director of EGL in addition he has a substantial shareholding in EGL, he is not considered as independent.

The Non-Executive Director Ms. Lynn Richardson is not an executive nor held a position in the last three years with EGL and is a substantial shareholder (and does not meet the independence criteria).

Mr Sinan Boratav who resigned on July 1, 2016 as an Executive Director and is not independent

The board has one independent and two non-independent directors, accordingly, EGL does not strictly satisfy the independence criteria of the Recommendations, as the majority of the Board is not independent. However the independent chairman has a casting vote.

## 1.3 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 entered 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 EGL's expense, in order to fulfil their duties and responsibilities as Directors.

## 1.4 Conflicts of interest

In accordance with the Corporations Act 2001 and Board Policy, Directors must disclose any actual or potential conflict of interest both on appointment as a Director and on an ongoing basis. 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.

## 2. BOARD COMMITTEES

The Board has established two Committees to assist in the execution of its duties. The Committees and their membership as at the date of this statement are set out in the table below:

	Audit & Risk Committee	Nomination & Remuneration Committee
Ellis Richardson (Executive)	-	-
David Cartney (Independent Non-Executive)	● Chair	● Chair
Sinan Boratav (Executive)	-	-
Lynn Richardson (Non-Executive)	●	●

The respective Committee Charters set out the responsibilities of each Committee, composition and membership requirements and the manner in which the Committee is to operate. Committee meetings are currently held at such times as may be necessary to address any specific or general matters, as required. Any matters determined by Committees are submitted to the full Board as recommendations for Board decisions.

## 2.1 Audit and Risk Committee

The Audit and Risk Committee (“ARC”) assists the Board to fulfil its responsibilities of oversight and corporate governance. The ARC provides advice and recommendations to the Board on matters of corporate governance, reliability and quality of financial reporting and disclosure. This includes review of EGL’s internal control environment regarding the effectiveness and efficiency of operations, and reliability of financial reporting.

The ARC 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. The ARC 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 members of the ARC are all Non-Executive, as required by Recommendation 4.2.

## 2.2 Nomination & Remuneration Committee

The Nomination & Remuneration Committee (“NRC”) consists of the Chair and at least one Non-Executive Director.

The functions of the NRC are:

- review of remuneration policies and practices generally;
- specific recommendations on remuneration packages and other terms of employment for the Executive and Non-Executive Directors (within shareholder approved levels);
- reviewing the membership of the Board on a regular basis, having regard to present and future needs of EGL;
- 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.

Executive remuneration and other terms of employment are reviewed annually by the NRC having regard to performance, relevant comparative information and independent expert advice where necessary. Remuneration packages are set at levels that are intended to attract and retain Executives capable of managing the consolidated entity's operations and achieving EGL’s strategic objectives.

Remuneration and other terms of employment for the employees are formalised in service agreements, covering a range of matters including their duties, rights, responsibilities and entitlements. Remuneration of Executive and Non-Executive Directors is determined by the Board within the maximum amount approved by the shareholders from time to time.

## 3. INTEGRITY OF FINANCIAL REPORTING

### 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.

McIntosh Bishop have been appointed external auditors since 2012. As required by the Corporations Act, the responsibilities of the lead audit partner and review audit partner cannot be performed by the same people for longer than five years, as such EGL will appoint new Auditors. The current lead audit partner assumed the role in 2012.

The ARC reviews the annual and half-year financial reports. The ARC provides assurance that the Board is receiving adequate, up to date and reliable information, and that accounting policies and practices applied by management

comply with applicable regulations and standards. At least annually, the ARC meets separately with the external auditor without management being present.

The external auditor is required 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.

#### 4. RISK MANAGEMENT

Risk management is undertaken to provide a structured approach to managing risk across the EGL group of companies. The Risk Management Policy and framework utilised by EGL provides a detailed methodology for 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. EGL has adopted the risk categories listed below. These categories assist risk identification, measurement and provide a basis for organising and reporting outcomes.

Risk Categories	Broad Definitions
Corporate	Risks relating to the management or maintenance of EGL's key assets including EGL'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 EGL'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 EGL's perception amongst its shareholders, including the maintenance and growth of EGL's share price.

#### Accountabilities

The ARC 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 senior management team members have responsibility and accountability for the management of risk in 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/programmes 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 EGL'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 senior management team 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. No such audit has been conducted in the current year.

## 5. PROMOTE ETHICAL AND RESPONSIBLE BEHAVIOUR

### 5.1 Code of Conduct

EGL has adopted a Code of Conduct for Directors, Executives, employees, consultants and advisors to promote ethical and responsible decision-making. The Code of Conduct 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 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 ARC is responsible for ensuring compliance with the Code. An employee that breaches the Code of Conduct may face disciplinary action and possible dismissal.

### 5.2 Securities Trading

EGL's Trading Policy requires all Directors and employees, contractors and consultants to comply with the law relating to insider trading and the requirements of EGL's Trading Policy.

Trading of company securities by directors or employees 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. The blackout periods were updated on 5 August 2016 and are in place for the following periods each year:

- from 15 July until one trading day after release of the full year preliminary financial report to the ASX;
- from 15 January until one trading day after the release of the half year financial report to the ASX;
- any other price sensitive disclosure made to ASX in accordance with the ASX Listing Rules as determined by Directors, including those made under continuous and periodic disclosure provisions; and
- Other periods, as determined by the Board of Directors, in anticipation of significant announcements.

This policy extends to former directors for a period of 3 months or the later of the end of a blackout period, where the 3 months ends within such a period. The Directors may agree to a lesser period where deemed appropriate

### 5.3 Environmental & Occupational Health and Safety

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

Information on compliance with significant environmental regulations is set out in the Directors' Report under the heading Environmental Regulation and Performance.

#### 5.4 Diversity

EGL has not established a formal Diversity Policy. All Potential employees are assessed according to each candidate's ability to perform a specified role, regardless of gender, age, ethnicity, religion or cultural background, and are appointed on merit. The Board considers that this is the most efficient and effective way of meeting the needs of EGL, taking into account EGL's culture and broader objectives, whilst also having regard to the size of EGL and its business operations.

#### 6. CONTINUOUS DISCLOSURE

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

#### 7. SHAREHOLDER COMMUNICATIONS

EGL is committed to ensuring all shareholders have equal access to comprehensive and timely information. The methods by which this is achieved include:

- Timely disclosure of all material matters is released to ASX;
- EGL website provides access to company information, which should be viewed in conjunction with the announcements lodged on the ASX
- Electronic copies of the Annual Report are available to all shareholders, with a hard copy distributed to those shareholders who have requested one.
- The financial statements are sent to any shareholder upon request.

#### 8. ASX CORPORATE GOVERNANCE COUNCIL RECOMMENDATIONS - COMPLIANCE TABLE

Best Practice Recommendations	Reference	Compliance
Principle 1: Lay solid foundations for management and oversight		
1.1 Establish the functions reserved to the Board and those delegated to Senior Executives and disclose those functions	1.1	✓
1.2 Disclose the process for evaluating the performance of Senior Executives	2.2	✓
1.3 Provide the information indicated in Guide to reporting on Principle 1		✓
2.1 A majority of the Board should be Independent Directors	1.2	×
2.2 The chairperson should be an Independent Director.	1.2	✓
2.3 The roles of chairperson and Chief Executive Officer should not be exercised by the same individual.	1.2	✓
2.4 The Board should establish a nomination committee.	2.2	✓
2.5 Disclose the process for evaluating the performance of the Board, its Committee and Directors	2.2	✓
2.6 Provide the information indicated in Guide to reporting on Principle 2.	2.2	✓
3.1 Establish a code of conduct to guide the Directors, the Chief Executive Officer (or equivalent) and any other key Executives as to:	5.1	✓



- 3.1.1 the practices necessary to maintain confidence in the company's integrity;
- 3.1.2 the practice necessary to take into account their legal obligations and the reasonable expectations of stakeholders; and
- 3.1.3 the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

		Reference	Compliance
3.2	Establish a policy concerning diversity and disclose the policy or a summary of that policy	5.4	×
3.3	Disclose in each annual report the measurable objectives for achieving gender diversity set by the board in according with the diversity policy and progress towards achieving them.	5.4	×
3.4	Disclose in each annual report the support and encouragement for women to join a board as a part of professional development.	1.2	×
3.5	Provide the information indicated in Guide to reporting on Principle 3.	5.1	✓
4.1	The Board should establish an audit committee.	2.1	✓
4.2	Structure the audit committee so that it consists of:	2.1	
	• only Non-Executive Directors		✓
	• a majority of independent Directors		✓
	• an independent chairperson, who is not chairperson of the Board		×
	• at least three members.		×
4.3	The audit committee should have a formal charter.	2.1	✓
4.4	Provide the information indicated in Guide to reporting on Principle 4.	2.1	✓
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.	6	✓
5.2	Provide the information indicated in Guide to reporting on Principle 5.	6	✓
6.1	Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.	7	✓
6.2	Provide information indicated in Guide to reporting on Principle 6.	7	✓
7.1	The Board or appropriate Board committee should establish policies on risk oversight and management.	4	✓
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	4	✓

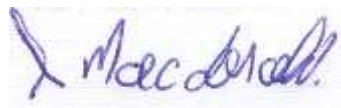
	reported to it as to the effectiveness of the Company's management of its material business risks.		
7.3	The Chief Executive Officer (or equivalent) should state to the Board in writing that:	4	✓
7.3.1	the statement given in accordance with best practice recommendation 4.1 (the integrity of financial 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.		
7.4	Provide the information indicated in Guide to reporting on Principle 7.	4	✓
8.1	The Board should establish a remuneration committee.	2.2	✓
8.2	The remuneration committee should be structured so that it:	Remuneration report	
	- Consist of mainly independent directors		✓
	- Is chaired by an independent director		✓
	- Has at least 3 members		×
8.3	Clearly distinguish the structure of Non-Executive Directors' remuneration from that of Executives.	Remuneration report	✓
8.4	Provide the information indicated in Guide to reporting on Principle 9.	2.2	✓

**AUDITOR'S INDEPENDENCE DECLARATION  
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001  
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 2016, I declare that, to the best of my knowledge and belief, there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

**McIntosh Bishop**  
**Chartered Accountants**



**Robert David Macdonald**  
**Partner**  
Sydney, 29 August 2016

McIntosh Bishop

Chartered Accountants

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## STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME

For the year ended 30 June 2016

	Notes	Consolidated	
		2016	2015
		\$	\$
<b>Revenue from continuing operations</b>	6	<b>25,726,811</b>	<b>26,650,858</b>
Subcontracting and material costs	7(d)	(19,723,983)	(21,319,497)
<b>Gross profit</b>		<b>6,002,828</b>	<b>5,331,361</b>
Employee expenses	7(b)	(3,189,819)	(3,058,243)
Occupancy expenses		(212,036)	(206,637)
Marketing expenses		(248,537)	(70,376)
Travel expenses		(459,153)	(402,620)
Professional fees		(865,512)	(670,757)
Depreciation and amortisation	7(a)	(71,411)	(69,814)
Other expenses		(683,603)	(227,511)
<b>Operating Profit</b>		<b>272,757</b>	<b>805,759</b>
Interest expense		(228,735)	(331,204)
Interest income		3,701	62,110
<b>Profit before tax</b>		<b>47,723</b>	<b>536,665</b>
Income tax benefit/(expense)	8(a)	(60,324)	(190,408)
<b>Profit for the year from continuing operations</b>		<b>(12,601)</b>	<b>346,257</b>
<b>Discontinued operations</b>			
Profit/Loss for the year from discontinued operations	20	(1,383)	(12,338)
<b>Profit for the year</b>		<b>(13,984)</b>	<b>333,919</b>
<b>Other comprehensive income</b>			
Issue of options		-	-
<b>Total comprehensive income for the year</b>		<b>(13,984)</b>	<b>333,919</b>
<b>Attributable to:</b>			
Non-controlling interest		35,725	35,740
<b>Total comprehensive income for the year</b>		<b>21,741</b>	<b>369,659</b>
<b>Earnings per share for loss attributable to the ordinary equity holders of the Group</b>	9	<b>Cents</b>	<b>Cents</b>
<b>Basic earnings per share</b>			
Profit from continuing operations before taxation		0.02	0.33
Profit from continuing operations after taxation		(0.01)	0.21
Loss from discontinued operations		-	(0.01)
<b>Total</b>		<b>(0.01)</b>	<b>0.20</b>
<b>Diluted earnings per share</b>			
Profit from continuing operations after taxation		(0.01)	0.21
Loss from discontinued operations		-	(0.01)
<b>Total</b>		<b>(0.01)</b>	<b>0.20</b>

This statement should be read in conjunction with the notes to the financial statements

## STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

		Consolidated	
	Notes	2016 \$	2015 \$
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	10	3,115,448	2,420,167
Trade and other receivables	11	5,425,107	5,758,009
Inventories	12	120,283	120,702
Other current assets	13	316,184	342,908
Other financial assets	16	126,360	125,370
Total Current Assets		<b>9,103,382</b>	<b>8,767,156</b>
<b>Non-Current Assets</b>			
Deferred tax assets	8(d)	1,996,038	2,098,944
Property, plant and equipment	14	699,302	724,664
Intangible assets	15	9,182,837	9,109,118
Total Non-Current Assets		<b>11,878,177</b>	<b>11,932,726</b>
<b>Total Assets</b>		<b>20,981,559</b>	<b>20,699,882</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables	17	5,243,867	6,518,695
Financial liabilities	18	703,010	68,004
Tax liabilities	8(c)	-	89,209
Short term borrowings and Bank overdrafts	10	1,117,081	
Short-term provisions	19	350,393	356,378
Total Current Liabilities		<b>7,414,351</b>	<b>7,032,286</b>
<b>Non-Current Liabilities</b>			
Financial liabilities	18	1,105,947	1,953,034
Deferred tax liabilities	8(e)	58,659	101,834
Long-term provisions	19	68,520	43,041
Total Non-Current Liabilities		<b>1,233,126</b>	<b>2,097,909</b>
<b>Total Liabilities</b>		<b>8,647,477</b>	<b>9,130,195</b>
<b>Net Assets</b>		<b>12,334,082</b>	<b>11,569,687</b>
<b>EQUITY</b>			
<b>Equity attributable to the ordinary equity holders of the Group</b>			
Issued capital	21(a)	21,759,831	21,005,632
Retained earnings		(9,575,870)	(9,597,611)
Reserves	21(b)	225,730	201,550
Minority interest		(75,609)	(39,884)
<b>Total Equity</b>		<b>12,334,082</b>	<b>11,569,687</b>

This statement should be read in conjunction with the notes to the financial statements

## STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2016

	Share Capital	Retained Earnings	Reserve	Total attributable to Owners of parent	Non-Controlling interest	Total
Consolidated	\$	\$	\$	\$	\$	\$
<b>Balance at 30 June 2014</b>	<b>21,005,632</b>	<b>(9,967,270)</b>	<b>179,444</b>	<b>11,217,806</b>	<b>(4,144)</b>	<b>11,213,662</b>
<b>Total comprehensive income for the year</b>	-	369,659	-	369,659		369,659
Shares issued	-			-		-
Options issued			-	-		-
Foreign translation			22,106	22,106		22,106
Non-Controlling Interest					(35,740)	(35,740)
<b>Balance at 30 June 2015</b>	<b>21,005,632</b>	<b>(9,597,611)</b>	<b>201,550</b>	<b>11,609,571</b>	<b>(39,884)</b>	<b>11,569,687</b>
<b>Total comprehensive income for the year</b>	-	21,741	-	21,741		21,741
Shares issued	754,199			754,199		754,199
Options issued			-	-		-
Foreign translation			24,180	24,180		24,180
Non-Controlling Interest					(35,725)	(35,725)
<b>Balance at 30 June 2016</b>	<b>21,759,831</b>	<b>(9,575,870)</b>	<b>225,730</b>	<b>12,409,690</b>	<b>(75,609)</b>	<b>12,334,082</b>

## STATEMENT OF CASH FLOWS

For the year ended 30 June 2016

	Notes	Consolidated	
		2016 \$	2015 \$
<b>Operating activities</b>			
Receipts from customers		28,632,394	26,806,762
Payments to suppliers and employees		(29,322,663)	(25,791,071)
Interest paid		(230,311)	(334,800)
Interest received		3,701	62,110
<b>Net cash provided by operating activities</b>	22	<b>(916,879)</b>	<b>743,000</b>
<b>Investing activities</b>			
Contingent consideration paid for subsidiary		-	-
Purchases of plant and equipment		(47,320)	(22,585)
Proceeds from shareholders- rights issued		754,199	-
Proceeds from sale of plant and equipment		1,271	-
Increase (Decrease in fixed term deposit)		(990)	832,454
Net cash from continuing operations		707,160	15,676
<b>Net cash used in investing activities</b>		<b>707,160</b>	<b>809,869</b>
<b>Financing activities</b>			
Repayment of borrowings		(212,081)	(325,447)
Net cash from continuing operations		(212,081)	(325,447)
<b>Net cash used in financing activities</b>		<b>(212,081)</b>	<b>(325,447)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(421,800)</b>	<b>1,227,423</b>
Cash and cash equivalents at the beginning of the financial year		2,420,167	1,125,352
Cash realised - discontinued operations		-	67,393
<b>Cash and cash equivalents at the end of the financial year</b>	10	<b>1,998,367</b>	<b>2,420,167</b>

Refer 10.1 for Reclassification of comparatives

**NOTE 1. CORPORATE INFORMATION**

This financial report of The Environmental Group Limited ("EGL") for the year ended 30 June 2016 was authorised for issue by the Directors in accordance with a resolution of the Directors on 25 August 2016. EGL's registered office is Unit 1A, 9 Packard Avenue, Castle Hill, NSW 2154.

The financial report includes financial statements for EGL and its controlled entities as a consolidated entity ("the Group"). EGL is a public listed company, limited by shares traded on the Australian Security Exchange, incorporated and domiciled in Australia. For the purposes of preparing the financial statements the company and group are for profit entities.

The principal activities during the year of entities within the consolidated entity were design, application and servicing of innovative gas and vapour emission control systems, inlet and exhaust systems for gas turbines and engineering services to a wide variety of industries.

**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 2016. For more information on these standards and interpretations, refer to note 2(W).

**(A) Basis of Consolidation**

The consolidated financial statements comprise the financial statements of EGL and its subsidiaries as at 30 June each year.

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 (i.e. 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 2(J)) or a gain from a discounted 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 re-measured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or a liability is re-measured 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, deposits held as security by financial institutions and other 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 Key Management Personnel 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.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment.

**(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	Depreciation Method
Leasehold Improvements	10%	Straight-line
Plant and Equipment	7.5% - 40%	Diminishing-value
Motor Vehicles	15% - 22.5%	Diminishing-value

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 the EGL Pollution Control and EGL Gas Turbine cash generating units.

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:

	<b>Trade Mark</b>	<b>Licences</b>	<b>Goodwill</b>	<b>Development costs</b>
Useful lives	Indefinite	Indefinite	Indefinite	5 years
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 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) Profit or loss from discontinued operations**

A discontinued operation is a component of the entity that has been disposed of and:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Profit or loss from discontinued operations, including prior year components of profit or loss, are presented in a single amount in the statement of comprehensive income. This amount, which comprises the post-tax profit or loss of discontinued operations and is further analysed in note 20.

The disclosures for discontinued operations in the prior year relate to all operations that have been discontinued by the reporting date for the latest period presented.

#### **(S) 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*

EGL and its wholly-owned Australian controlled entities implemented the tax consolidation legislation as of 1 July 2003. The head entity, EGL 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, EGL 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.

#### **(T) 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.

#### **(U) Foreign Currency Transactions and Balances**

##### **Functional and presentation currency**

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

##### **Transactions and balances**

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Exchange differences are recognised in profit or loss.

#### **(V) Comparative figures**

Where required by accounting standards, comparative figures have been adjusted to conform to changes in presentation for the current period.

#### **(W) New standards and interpretations not yet adopted**

##### **Adoption of New and Revised Accounting Standards**

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the Group. The Group has decided not to early adopt any of the new and amended pronouncements. The Group's assessment of the new and amended pronouncements that are relevant to the Group but applicable in future reporting periods is set out below:

##### **AASB 9: Financial Instruments and associated Amending Standards (applicable to annual reporting periods beginning on or after 1 January 2018).**

The Standard will be applicable retrospectively (subject to the provisions on hedge accounting outlined below) and includes revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments and simplified requirements for hedge accounting.

The key changes that may affect the Group on initial application include certain simplifications to the classification of financial assets, simplifications to the accounting of embedded derivatives, upfront accounting for expected credit loss, and the irrevocable election to recognise gains and losses on investments in equity instruments that are



not held for trading in other comprehensive income. AASB 9 also introduces a new model for hedge accounting that will allow greater flexibility in the ability to hedge risk, particularly with respect to hedges of non-financial items. Should the entity elect to change its hedge policies in line with the new hedge accounting requirements of the Standard, the application of such accounting would be largely prospective

Although the directors anticipate that the adoption of AASB 9 may have an impact on the Group's financial instruments, including hedging activity, it is impracticable at this stage to provide a reasonable estimate of such impact.

**AASB 15: Revenue from Contracts with Customers (applicable to annual reporting periods beginning on or after 1 January 2018, as deferred by AASB 2015-8: Amendments to Australian Accounting Standards – Effective Date of AASB 15)**

When effective, this Standard will replace the current accounting requirements applicable to revenue with a single, principles-based model. Except for a limited number of exceptions, including leases, the new revenue model in AASB 15 will apply to all contracts with customers as well as non-monetary exchanges between entities in the same line of business to facilitate sales to customers and potential customers. The core principle of the Standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. To achieve this objective, AASB 15 provides the following five-step process:

- identify the contract(s) with a customer;
- identify the performance obligations in the contract(s);
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract(s); and
- recognise revenue when (or as) the performance obligations are satisfied.

The transitional provisions of this Standard permit an entity to either: restate the contracts that existed in each prior period presented per AASB 108: Accounting Policies, Changes in Accounting Estimates and Errors (subject to certain practical expedients in AASB 15); or recognise the cumulative effect of retrospective application to incomplete contracts on the date of initial application. There are also enhanced disclosure requirements regarding revenue.

Although the directors anticipate that the adoption of AASB 15 may have an impact on the Group's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impact

**AASB 16: Leases (applicable to annual reporting periods beginning on or after 1 January 2019).**

When effective, this Standard will replace the current accounting requirements applicable to leases in AASB 117: Leases and related Interpretations. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases.

The main changes introduced by the new Standard include:

- recognition of a right-to-use asset and liability for all leases (excluding short-term leases with less than 12 months of tenure and leases relating to low-value assets);
- depreciation of right-to-use assets in line with AASB 116: Property, Plant and Equipment in profit or loss and unwinding of the liability in principal and interest components;
- variable lease payments that depend on an index or a rate are included in the initial measurement of the lease liability using the index or rate at the commencement date;
- by applying a practical expedient, a lessee is permitted to elect not to separate non-lease components and instead account for all components as a lease; and
- additional disclosure requirements.

The transitional provisions of AASB 16 allow a lessee to either retrospectively apply the Standard to comparatives in line with AASB 108 or recognise the cumulative effect of retrospective application as an adjustment to opening equity on the date of initial application.

Although the directors anticipate that the adoption of AASB 16 will impact the Group's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impact.

**AASB 2014-3: Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations (applicable to annual reporting periods beginning on or after 1 January 2016).**

This Standard amends AASB 11: Joint Arrangements to require the acquirer of an interest (both initial and additional) in a joint operation in which the activity constitutes a business, as defined in AASB 3: Business Combinations, to apply all of the principles on business combinations accounting in AASB 3 and other Australian Accounting Standards except for those principles that conflict with the guidance in AASB 11; and disclose the information required by AASB 3 and other Australian Accounting Standards for business combinations.

The application of AASB 2014-3 will result in a change in accounting policies for the above described transactions, which were previously accounted for as acquisitions of assets rather than applying the acquisition method per AASB 3.

The transitional provisions require that the Standard should be applied prospectively to acquisitions of interests in joint operations occurring on or after 1 January 2016. As at 30 June 2016, management is not aware of the existence of any such arrangements that would impact the financial statements of the entity going forward and as such is not capable of providing a reasonable estimate at this stage of the impact on initial application of AASB 2014-3.

AASB 2014-10: Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (applicable to annual reporting periods beginning on or after 1 January 2018, as deferred by AASB 2015-10: Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128).

This Standard amends AASB 10: Consolidated Financial Statements with regards to a parent losing control over a subsidiary that is not a "business" as defined in AASB 3 to an associate or joint venture, and requires that:

- a gain or loss (including any amounts in other comprehensive income (OCI)) be recognised only to the extent of the unrelated investor's interest in that associate or joint venture;
- the remaining gain or loss be eliminated against the carrying amount of the investment in that associate or joint venture; and
- any gain or loss from remeasuring the remaining investment in the former subsidiary at fair value also be recognised only to the extent of the unrelated investor's interest in the associate or joint venture. The remaining gain or loss should be eliminated against the carrying amount of the remaining investment.

The application of AASB 2014-10 will result in a change in accounting policies for transactions of loss of control over subsidiaries (involving an associate or joint venture) that are businesses per AASB 3 for which gains or losses were previously recognised only to the extent of the unrelated investor's interest.

The transitional provisions require that the Standard should be applied prospectively to sales or contributions of subsidiaries to associates or joint ventures occurring on or after 1 January 2018. Although the directors anticipate that the adoption of AASB 2014-10 may have an impact on the Group's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impact.

**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 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.

*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 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 reporting 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. 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.

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.

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<i>Financial Assets</i>		
Cash and cash equivalents	3,115,448	2,420,167
Trade and other receivables	5,425,107	5,758,009
Financial assets	126,360	125,370
	<b>8,666,915</b>	<b>8,303,546</b>
<i>Financial Liabilities</i>		
Trade and other payables	5,243,867	6,518,695
Loans from companies controlled by Directors	1,501,484	1,690,000
Bank Facilities and lease liability	1,424,554	331,038
	<b>8,169,905</b>	<b>8,539,733</b>

Refer note 10.1 for details on reclassification of comparatives

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

Consolidated	Weighted Average Interest rate	Floating interest rate \$	Non-interest bearing \$	Total \$
<b>30 June 2016</b>				
<b>Financial Assets</b>				
Cash at bank and on hand	0.01%	1,840,412	-	1,840,412
Cash on deposit as security for Project bonds	0.001%	1,275,036	-	1,275,036
Trade and other receivables		-	5,425,107	5,425,107
Term deposits and bank bills	0.10%	126,360	-	126,360
		<b>3,241,808</b>	<b>5,425,107</b>	<b>8,666,915</b>
<b>Financial Liabilities</b>				
Loans from Directors	8.50%	1,501,484	-	1,501,484
Property Loan lease liability and overdrafts	4.93%	1,424,554	-	1,424,554
Trade and other payables		-	5,243,867	5,243,867
		<b>2,926,038</b>	<b>5,243,867</b>	<b>8,169,905</b>
<b>Net Financial assets</b>		<b>315,770</b>	<b>181,240</b>	<b>497,010</b>
<b>30 June 2015</b>				
<b>Financial Assets</b>				
Cash at bank and on hand	0.04%	2,420,167	-	2,420,167
Trade and other receivables		-	5,758,009	5,758,009
Term deposits and bank bills	0.40%	125,370	-	125,370
		<b>2,545,537</b>	<b>5,758,009</b>	<b>8,303,546</b>
<b>Financial Liabilities</b>				
Loans from Directors	Cash rate plus 6%	1,690,000	-	1,690,000
Bank overdraft and lease liability	8.32%	331,038	-	331,038
Trade and other payables		-	6,518,695	6,518,695
		<b>2,021,038</b>	<b>6,518,695</b>	<b>8,539,733</b>
<b>Net Financial assets</b>		<b>524,499</b>	<b>(760,686)</b>	<b>(236,187)</b>

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, considered reasonable in respective of current market conditions, with an accompanying change in deposit rates would increase or decrease pre-tax profit for the group by \$3,158 (2015: \$5,254), directly impacting the equity in the Group.

#### 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. 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			
	2016		2015	
	USD A\$	Euro A\$	USD A\$	Euro A\$
<b>Financial Assets</b>				
Cash and cash equivalents	1,862,491	845,190	1,412,168	-
Trade and other receivables	3,461,820	637,707	4,056,215	-
<b>Financial Liabilities</b>				
Trade and other payables	2,793,527	150,346	4,141,319	-

At current exchange rates sourced from the Reserve Bank of Australia, 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 \$183,968 (2015: increase of \$63,194 ), 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 \$429,259 (2015: increase of \$147,452 ), 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. The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. 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 Group constantly reviews the liquid position including cash flow forecasts to determine the forecast liquidity position and maintain appropriate liquidity levels

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

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
6 months or less	6,945,245	6,582,736
6 – 12 months	118,714	3,450
1 – 5 years	1,105,947	1,953,546
	<b>8,169,906</b>	<b>8,539,733</b>

## 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 substantially in Australia and the environmental sector. Revenue, profit and assets relate to operations in Australia and Indonesia. The Indonesian business is not considered material such that it would be meaningful to report a distinct business segment this business has therefore been included in the products business segment.. The following are the reportable segments:

*Products segment* incorporates the operations related to the supply, design, construction and installation services to industry, this segment includes activities related to air pollution control, pressure sewer systems and design and manufacture of gas turbine equipment and solutions which incorporates the TAPC Pollution Control Dust and Fume (Electrostatic Precipitators and Filtration businesses) and Gas vapour business units and the Baltec design and manufacture business.

*Services segment* reflects the services provided by MMS the discontinued operation.

*The Corporate Segment* incorporates the expenditures and assets incurred by the EGL group head office.

#### **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.

(b) 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.

(c) 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.

(d) 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.

## (e) Segment performance

The following table present revenue and profit information and certain asset and liability information regarding business segments for the years ended 30 June 2016 and 30 June 2015

**(i) Revenue**

	Products \$	Services \$	Coporate \$	Total \$
<b>Year ended 30 June 2016</b>				
<b>Revenue</b>				
From external customers	25,726,811	-	-	25,726,811
<b>Total segment revenue</b>	<b>25,726,811</b>	<b>-</b>	<b>-</b>	<b>25,726,811</b>
<b>Expenses from continuing operations</b>				
Subcontracting and material costs	(19,723,983)	-	-	(19,723,983)
Employee benefit expense	(2,654,503)	-	(535,316)	(3,189,819)
Occupancy expenses	(212,036)	-	-	(212,036)
Professional fees	(972,221)	-	106,709	(865,512)
Deprecation and amortisation	(68,937)	-	(2,474)	(71,411)
Impairment of non financial assets	-	-	-	-
Other expenses	(1,481,294)	-	(135,033)	(1,616,327)
Tax expense	(245,080)	-	184,756	(60,324)
<b>Total expenses from continuing operations</b>	<b>(25,358,054)</b>	<b>-</b>	<b>(381,358)</b>	<b>(25,739,412)</b>
<b>Expenses from discontinued operations</b>	<b>-</b>	<b>(1,383)</b>	<b>-</b>	<b>(1,383)</b>
<b>Segment net profit/(loss)</b>	<b>368,757</b>	<b>(1,383)</b>	<b>(381,358)</b>	<b>(13,984)</b>
	<b>Products</b>	<b>Services</b>	<b>Coporate</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Year ended 30 June 2015</b>				
<b>Revenue</b>				
<b>From external customers</b>	<b>26,650,858</b>	<b>-</b>	<b>-</b>	<b>26,650,858</b>
Discontinued operations				
<b>Total segment revenue</b>	<b>26,650,858</b>	<b>-</b>	<b>-</b>	<b>26,650,858</b>
<b>Expenses from continuing operations</b>				
Subcontracting and material costs	(21,319,497)	-	-	(21,319,497)
Employee benefit expense	(2,735,943)	-	(322,300)	(3,058,243)
Occupancy expenses	(198,775)	-	(7,862)	(206,637)
Professional fees	(439,883)	-	(230,874)	(670,757)
Deprecation and amortisation	(66,731)	-	(3,083)	(69,814)
Impairment of fixed assets	-	-	-	-
Impairment of non financial assets	84,660	-	95,696	180,356
Other expenses	(785,832)	-	(183,770)	(969,601)
Tax expense	(513,763)	-	323,355	(190,408)
<b>Total expenses from continuing operations</b>	<b>(25,975,764)</b>	<b>-</b>	<b>(328,837)</b>	<b>(26,304,601)</b>
<b>Expenses from discontinued operations</b>	<b>-</b>	<b>(12,338)</b>	<b>-</b>	<b>(12,338)</b>
<b>Segment net profit/(loss)</b>	<b>675,094</b>	<b>(12,338)</b>	<b>(328,837)</b>	<b>333,919</b>



**(ii) Assets**

	Products	Corporate	Total
	\$	\$	\$

**Year ended 30 June 2016****Assets**

Total Segment Assets	15,034,112	5,947,447	20,981,559
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**Year ended 30 June 2015****Assets**

Total Segment Assets	14,968,456	5,731,426	20,699,882
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**Major customers**

The Group has a number of customers to whom it provides both products and services. The Group supplies to a single external customer in the products segment who accounts for 20.8% of external revenue (2015: 22.1%). The next most significant client accounts for 6.67% (2015: 22 %) of external revenue.

The totals presented for the Group's operating segment reconcile to the key financial figures as presented in its financial statements as follows:

**(iii) Reconciliation to financial statement**

	2016	2015
	\$	\$
<b>Revenues</b>		
Total reportable segment revenues	25,726,811	26,650,858
Discontinued operations	-	-
<b>Group revenues</b>	<b>25,726,811</b>	<b>26,650,858</b>
<b>Assets</b>		
Total reportable segment assets	20,981,559	20,699,882
<b>Group assets</b>	<b>20,981,559</b>	<b>20,699,882</b>

**NOTE 6. REVENUE**

	Consolidated	
	2016	2015
	\$	\$
<b>Revenue</b>		
Product	25,726,811	26,650,858
Revenue from continuing operations	<b>25,726,811</b>	<b>26,650,858</b>
Revenue from discontinued operations	-	-
<i>Other revenue</i>		
Interest income	3,701	62,110
	<b>3,701</b>	<b>62,110</b>
<b>Total revenue</b>	<b>25,730,512</b>	<b>26,712,968</b>

**NOTE 7. EXPENSES**

The loss before income tax includes the following specific expenses.

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<i>(a) Depreciation, impairment and amortisation included in the income statement</i>		
Depreciation of equipment	48,540	39,441
Depreciation of vehicles	18,712	26,206
Depreciation of leasehold improvements	4,159	4,169
Impairment of non financial assets (Distribution received from liquidated companies previously impaired)	-	(180,356)
	<b>71,411</b>	<b>(110,541)</b>
<i>(b) Employee benefits expense</i>		
Wages and salaries	2,254,731	2,262,718
Defined contribution superannuation expense	295,497	293,196
Other employee benefits expense	639,591	502,329
	<b>3,189,819</b>	<b>3,058,243</b>
<i>(c) Minimum lease payments</i>		
Rent leases	141,821	272,676
Operating lease	308,102	75,403
<i>(d) Cost of sales</i>	19,723,983	21,319,497
<i>(e) Foreign exchange (gains)/losses</i>	20,178	(387,353)

**NOTE 8. INCOME TAX**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<b>(a) Income tax (benefit)/expense</b>		
Current tax	52,771	92,513
Deferred tax	7,553	97,895
	<b>60,324</b>	<b>190,408</b>
<b>(b) Numerical reconciliation between aggregate tax expense recognised in the income statement and tax expense calculated per the statutory income tax rate</b>		
Total accounting profit / (loss) before income tax expense	<b>47,723</b>	<b>536,665</b>
Tax at the Australian tax rate of 30%	67,906	214,610
Tax at the Overseas tax rate of 25%	(44,657)	(44,675)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
<b>Adjustments in respect of current income tax of previous years</b>		<b>(92,513)</b>
Recognition of deferred tax	(3,998)	91,041
Sundry items	41,073	21,945
Aggregate Income tax expense/(benefit)	<b>60,324</b>	<b>190,408</b>
The applicable weighted average effective tax rates are as follows:	126%	35%

**(c) Tax liabilities**

There were no tax liabilities for the year, as losses carried forward have been utilised.

**(d) Deferred tax asset**

	Opening Balance	Charged to income	Consolidated Charged directly to Equity	Exchange Differences	Closing Balance
	\$	\$	\$	\$	\$
Fixed assets	24,176	16,488	-	-	40,664
Accruals	165,177	(40,680)	-	-	124,497
Provisions	332,519	(123,252)	-	-	209,267
Other	-	-	-	-	-
Tax losses	1,817,029	(92,513)	-	-	1,724,516
Balance at 30 June 2015	2,338,901	(239,957)	-	-	2,098,944
Fixed assets	40,664	(11,408)	-	-	29,256
Accruals	124,497	(40,043)	-	-	84,454
Provisions	209,267	(74,660)	-	-	134,607
Other	-	69,412	-	-	69,412
Tax losses	1,724,516	(46,207)	-	-	1,678,309
Balance at 30 June 2016	2,098,944	(102,906)	-	-	1,996,038

**(e) Deferred tax liability**

	Opening Balance	Charged to income	Consolidated Charged directly to Equity	Exchange Differences	Closing Balance
	\$	\$	\$	\$	\$
Other	161,894	(60,060)	-	-	101,834
Balance at 30 June 2015	161,894	(60,060)	-	-	101,834
Other	101,834	(43,175)	-	-	58,659
Balance at 30 June 2016	101,834	(43,175)	-	-	58,659

**(f) Tax losses**

	Consolidated	
	2016	2015
	\$	\$
Unused tax losses for which no deferred tax asset has been recognised	817,016	817,016
Potential tax benefit at 30%	245,105	245,105

No deferred tax asset has been recognised for these tax losses as they relate to pre consolidated losses transferred in from subsidiaries and are subject to available fraction calculations.

## 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	
	2016	2015
	\$	\$
<i>Basic and diluted earnings per share</i>		
Net profit from continuing operations attributable to ordinary equity holders of the parent	(12,602)	346,257
Net loss from discontinued operations attributable to ordinary equity holders of the parent	(1,383)	(12,338)

**(b) Weighted average number of shares**

	Consolidated	
	2016	2015
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	210,632,938	162,060,389
Weighted average number of ordinary shares used in calculating dilutive earnings per share	215,931,893	162,060,389

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 31, were not included in the determination of basic earnings per share or dilutive earnings per share in 2016 or 2015 as they were considered antidilutive.

**NOTE 10. CASH AND CASH EQUIVALENTS**

	Consolidated	
	2016	2015
	\$	\$
Cash at bank and in hand	1,840,412	1,625,974
Cash on deposit held as security for bonds issued by financial institutions	1,275,036	794,193
Balance per Statement of Financial Position	<b>3,115,448</b>	<b>2,420,167</b>
Bank overdrafts	<b>(1,117,081)</b>	-

**Reconciliation of cash**

Cash at the end of financial year shown in the Statement of Cash Flow is reconciled to items in the Statement of Financial Positions as follows

Cash and cash equivalents at the end of the financial year	3,115,448	2,420,167
Less bank overdrafts	(1,117,081)	-
Cash and cash equivalents per cash flow	<b>1,998,367</b>	<b>2,420,167</b>

**10.1 Reclassification of comparatives**

Cash on deposit held as security for bonds issued by financial institutions amounting to \$794,193 were previously included in other financial assets. These have now been reclassified and are included in Cash and Cash Equivalents as they better reflect the nature of these assets

**Cash at bank and in hand**

The cash at bank are both non-interest bearing and interest bearing with rates between 0.001% and 0.1% per annum overdrafts currently bear interest at 7.66% per annum

Included in cash and cash equivalents are deposits with financial institutions as security for performance and warranty bonds amounting to amounting to \$1,275,036 (June 2015 - \$794,193)

**NOTE 11. TRADE AND OTHER RECEIVABLES**

	Consolidated	
	2016	2015
	\$	\$
<i>Current</i>		
Trade receivables	5,046,087	5,565,579
Allowance for impairment loss (a)	(35,686)	(35,686)
	<b>5,010,401</b>	<b>5,529,893</b>
Other receivables	414,706	228,116
	<b>5,425,107</b>	<b>5,758,009</b>

**(a) Allowance for impairment loss**

Trade receivables are non-interest bearing vary between 30 and 60 days 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:

	2016	2015
	\$	\$
At 1 July	35,686	35,686
Charge for the year	-	-
Amounts written off	-	-
	<b>35,686</b>	<b>35,686</b>

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

	Total	Current	30 days	60 days PDNI*	90+ days PDNI*	90+ days CI*
2016 Consolidated	5,046,087	3,357,252	427,674	430,280	795,194	35,686
2015 Consolidated	5,565,579	2,589,993	1,514,209	410,621	1,015,070	35,686

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

Receivables past due but not considered impaired are: Consolidated \$795,194 (2015: \$1,015,070). 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.

#### NOTE 12. INVENTORIES

	Consolidated	
	2016	2015
	\$	\$
At cost		
Raw materials	67,986	68,221
	<b>67,986</b>	<b>68,221</b>
At net realisable value		
Raw materials	52,300	52,481
	<b>52,300</b>	<b>52,481</b>
	<b>120,286</b>	<b>120,702</b>

#### INVENTORY WRITE-DOWN

No write-down of inventories to net realisable value occurred during the year ended 30 June 2016 (2015: Nil).

#### NOTE 13. OTHER CURRENT ASSETS

	Consolidated	
	2016	2015
	\$	\$
Prepayments	149,231	143,521
Other assets	166,953	199,387
	<b>316,184</b>	<b>342,908</b>

**NOTE 14. PPROPERTY, PLANT AND EQUIPMENT**

<b>Consolidated</b>	<b>Property</b>	<b>Equipment</b>	<b>Vehicles</b>	<b>Leasehold improvements</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Year ended 30 June 2016</b>					
Opening net book amount	376,670	173,293	43,535	131,166	724,664
Additions	-	47,320	-	-	47,320
Transfers	-	-	-	-	-
Disposals	-	(1,270)	-	-	(1,270)
Impairment	-	-	-	-	-
Depreciation and amortisation charge - continuing operations	-	(48,540)	(18,712)	(4,159)	(71,411)
Depreciation and amortisation charge - discontinued operations	-	-	-	-	-
Closing net book amount	376,670	170,803	24,823	127,007	699,302
<b>At 30 June 2016</b>					
Cost	376,670	784,487	260,775	165,796	1,587,728
Accumulated depreciation and amortisation	-	(613,684)	(235,953)	(38,789)	(888,426)
Net book amount	376,670	170,803	24,822	127,007	699,302

<b>Consolidated</b>	<b>Property</b>	<b>Equipment</b>	<b>Vehicles</b>	<b>Leasehold improvements</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Year ended 30 June 2015</b>					
Opening net book amount	376,670	190,147	69,740	135,335	771,892
Additions	-	22,587	-	-	22,587
Transfers	-	-	-	-	-
Disposals	-	-	-	-	-
Impairment	-	-	-	-	-
Depreciation and amortisation charge - continuing operations	-	(39,441)	(26,205)	(4,169)	(69,815)
Depreciation and amortisation charge - discontinued operations	-	-	-	-	-
Closing net book amount	376,670	173,293	43,535	131,166	724,664
<b>At 30 June 2015</b>					
Cost	376,670	776,088	303,606	165,796	1,622,160
Accumulated depreciation and amortisation	-	(602,796)	(260,071)	(34,630)	(897,496)
Net book amount	376,670	173,293	43,535	131,166	724,664

All depreciation and impairment charges are included within depreciation and amortisation and impairment of non-financial assets respectively.

**NOTE 15. INTANGIBLE ASSETS****(a) Reconciliation of carrying amounts**

Consolidated	Goodwill	Trademark	Licences	Development	Total
	\$	\$	\$	\$	\$
<b>Year ended 30 June 2016</b>					
Opening Net book amount	9,106,408	2,710	-	-	9,109,118
Acquisition through business combination	-	-	-	-	-
Impairment	-	-	-	-	-
Pre acquisition net assets	73,719				73,719
<b>Net book amount</b>	<b>9,180,127</b>	<b>2,710</b>	<b>-</b>	<b>-</b>	<b>9,182,837</b>
<b>At 30 June 2016</b>					
Cost	9,180,127	2,710	-	-	9,182,837
Accumulated amortisation and impairment	-	-	-	-	-
<b>Net book amount</b>	<b>9,180,127</b>	<b>2,710</b>	<b>-</b>	<b>-</b>	<b>9,182,837</b>
<b>Year ended 30 June 2015</b>					
Opening Net book amount	9,106,408	2,710	-	-	9,109,118
Acquisition through business combination	-	-	-	-	-
Impairment	-	-	-	-	-
<b>Net book amount</b>	<b>9,106,408</b>	<b>2,710</b>	<b>-</b>	<b>-</b>	<b>9,109,118</b>
<b>At 30 June 2015</b>					
Cost	9,106,408	2,710	-	-	9,109,118
Accumulated amortisation and impairment	-	-	-	-	-
<b>Net book amount</b>	<b>9,106,408</b>	<b>2,710</b>	<b>-</b>	<b>-</b>	<b>9,109,118</b>

**(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 years. 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 the EGL Pollution Control cash generating unit.

For the purposes of impairment testing this cash generating unit is 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 Pollution Control \$	EGL Gas Turbine	Total \$
Goodwill	-	3,165,100	6,015,027	9,180,127
Trademark	2,710	-	-	2,710

***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% (2015: 10%). The growth rate used to extrapolate the cash flows beyond the budget period is an average of 10. % (between 4-8 %.) The variation to the rates discussed previously are considered reasonable taking into the investment in sales and business development and promotion of the business in international markets, which has already resulted in the Unit winning international business.

An increase in the discount rate to 11% or a decrease in the growth rate to an average of 9.0% would cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash generating unit.

***EGL Gas Turbine Cash Generating Unit***

The recoverable amount of the EGL Gas Turbine 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% (2015: 10%). The growth rate used to extrapolate the cash flows beyond the budget period is an average of 10. % (between 4-8 %.) The variation to the rates discussed previously are considered reasonable taking into the investment in sales and business development and promotion of the business in international markets, which has already resulted in the Unit winning international business.

An increase in the discount rate to 11% or a decrease in the growth rate to an average of 9.0% would cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash generating unit.

***Key assumptions used in value in use calculations***

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. FINANCIAL ASSETS**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<u>Current</u>		
Term deposits and Bank bills*	126,360	125,370

\* Refer note 10.1 for details on reclassification of comparatives

**NOTE 17. TRADE AND OTHER PAYABLES**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Trade payables	4,372,567	5,631,538
Sundry creditors and other payables	871,300	887,157
	<b>5,243,867</b>	<b>6,518,695</b>

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

**Fair values**

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

**NOTE 18. FINANCIAL LIABILITIES**

	<b>Note</b>	<b>Consolidated</b>	
		<b>2016</b>	<b>2015</b>
		<b>\$</b>	<b>\$</b>
<u>Current</u>			
Obligations under finance leases and hire purchase contracts	25	57,473	68,004
Director Loan	29	645,537	-
Commercial Bill		-	-
		<b>703,010</b>	<b>68,004</b>
<u>Non Current</u>			
Obligations under finance leases, hire purchase contracts and bank loan.		250,000	263,034
Directors' Loan	29	855,947	1,690,000
		<b>1,105,947</b>	<b>1,953,034</b>

**(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.

## NOTE 19. PROVISIONS

	Consolidated	
	2016	2015
	\$	\$
<u>Current</u>		
Long service leave	62,557	64,713
Annual leave	287,836	291,665
	<b>350,393</b>	<b>356,378</b>
<u>Non Current</u>		
Long service leave	68,520	43,041
	<b>68,520</b>	<b>43,041</b>

**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	Employee leave provision	Other provision	Total
	\$	\$	\$
At 30 June 2015	399,416	-	399,416
Arising during the year	242,494	-	242,494
Utilised	(222,997)	-	(222,997)
At 30 June 2016	<b>418,913</b>	<b>-</b>	<b>418,913</b>

**NOTE 20. ASSETS AND DISPOSAL GROUPS CLASSIFIED AS DISCONTINUED OPERATIONS**Mine Assist Mechanical Pty Ltd (formerly Moranbah Mechanical Services Pty Ltd)

On 24<sup>th</sup> April 2014 the EGL Board of Directors resolved to cease funding the loss making operations of Mine Assist Mechanical Pty Ltd ("MMS"), a wholly owned subsidiary of the Group. MMS operated a mechanical workshop located in Moranbah Qld. Accordingly, MMS ceased to operate. As a result, revenue and expenses, gains and losses relating to the discontinuation of that business unit have been eliminated from the profit or loss statement from the Group's continuing operations and are shown as a single line item on the face of the statement of profit or loss (see loss for the year from discontinued operations).

The operating loss of MMS is summarised as follows:

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Revenue	-	-
Subcontracting and material costs	-	-
Employee expenses	(280)	(1,600)
Occupancy expenses	-	-
Marketing expenses	-	-
Professional fees	-	(15,000)
Other expenses	(120)	(2,653)
Depreciation and amortisation	-	-
<b>Operating (loss)/profit</b>	<b>(400)</b>	<b>(19,253)</b>
Interest expense	(1,576)	(3,596)
<b>(Loss)/profit from discontinued operations before tax</b>	<b>(1,976)</b>	<b>(22,849)</b>
Income tax benefit/(expense)	593	10,511
<b>(Loss)/profit for the year</b>	<b>(1,383)</b>	<b>(12,338)</b>

The carrying amounts of assets and liabilities in this discontinued group are summarised as follows:

	2016 \$	2015 \$
<b>Assets</b>		
Cash and cash equivalents	155	435
Trade and other receivables	212	212
Inventories	-	-
Other assets	-	9,400
<b>Non-Current Assets</b>		
Deferred tax assets	5,971	5,971
Plant and equipment	-	-
Intangible assets	-	-
<b>Assets included in disposal group</b>	<b>6,338</b>	<b>16,018</b>
<b>Liabilities</b>		
Trade and other payables	18,635	47,939
Intergroup indebtedness	158,588	137,581
Financial liabilities	-	-
Short-term provisions	-	-
<b>Non-Current Liabilities</b>		
Deferred tax liabilities	64	64
Long-term provisions	-	-
<b>Liabilities included in disposal group</b>	<b>177,287</b>	<b>185,584</b>

Cash flows generated by MMS for the reporting period are as follows:

	2016 \$	2015 \$
<b>Operating activities</b>		
Receipts from customers	-	9,479
Payments to suppliers and employees	(20,304)	(153,728)
Interest paid	(1,576)	(3,596)
Interest received	-	-
	(21,880)	(147,845)
<b>Investing activities</b>		
Purchases of plant and equipment	-	-
Proceeds from sale of plant and equipment	-	23,596
	-	23,596
<b>Financing activities</b>		
Proceeds from borrowings	-	-
Repayment of borrowings	-	(1,094)
Loans received from related parties	21,600	58,385
	21,600	57,291
<b>Net decrease in cash and cash equivalents</b>	<b>(280)</b>	<b>(66,958)</b>
<b>Cash and cash equivalents at the beginning of the financial year</b>	<b>435</b>	<b>67,393</b>
<b>Cash and cash equivalents at the end of the financial year</b>	<b>155</b>	<b>435</b>

**NOTE 21. ISSUED CAPITAL AND RESERVES****(a) Share capital**

	<b>Consolidated</b>	
<b>Ordinary shares</b>	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
215,931,711 fully paid shares (2015: 162,060,389)	<b>21,759,831</b>	<b>21,005,632</b>

Fully paid ordinary shares (with no par value) carry one vote per share and carry the right to dividends.

**Movements in ordinary share capital:**

<b>Date</b>	<b>Details</b>	<b>Number of Ordinary Shares</b>	<b>Share Capital \$</b>
	30-Jun-13 Balance	79,060,389	16,855,632
	29-Nov-13 Script issue for Baltec acquisition	79,000,000	3,950,000
	29-Nov-13 Debt to equity conversion of loan	4,000,000	200,000
	30-Jun-14 Closing Balance	<b>162,060,389</b>	<b>21,005,632</b>
	<b>30-Jun-15 Closing Balance</b>	<b>162,060,389</b>	<b>21,005,632</b>
	29-Jul-15 Rights Issue	53,871,322	754,199
	<b>30-Jun-16 Closing Balance</b>	<b>215,931,711</b>	<b>21,759,831</b>

**(b) Reserves**

There were no movements in reserves during the financial year relating to an issue of options. Foreign currency translation on a foreign subsidiary totaling \$24,183 (2015: Loss - \$22,106). The remaining balance relates to employee benefits used to record the value of share based payments provided to employees as part of their remuneration.

**(c) 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:

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Total borrowings *	8,169,905	8,539,733
Less cash and cash equivalents**	(3,115,448)	(2,420,167)
Net debt	<b>5,054,457</b>	<b>6,119,566</b>
Total equity	12,334,082	11,569,687
Total capital	<b>17,388,538</b>	<b>17,689,253</b>
Net debt/total equity	41%	53%

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

\*\*Refer note 10.1 for details on reclassification of comparatives

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 seeks to manage 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, where possible.

#### NOTE 22. STATEMENT OF CASH FLOWS RECONCILIATION

	Consolidated	
	2016	2015
	\$	\$
<b>a. Reconciliation of Cash Flow from Operations with Profit after Income Tax</b>		
Profit/(loss) from operating activities after tax	(13,984)	333,919
<b>Non-cash flows in profit from operating activities:</b>	-	
Depreciation, amortisation & impairment	71,411	69,814
Pre Acquisition Net assets	(162,928)	
Unrealised Foreign Exchange Losses	24,183	22,106
(Increase) / decrease in Receivables	332,902	(2,509,185)
(Increase) / decrease in Inventories	416	40,349
(increase) / decrease in Prepayments	26,724	(4,906)
Decrease in Deferred tax assets	102,906	239,957
(Decrease) / increase in Payables	(1,274,828)	3,202,063
(Decrease) / Increase in Provisions	19,494	(591,057)
Increase / (decrease) in Deferred tax Liabilities	(43,175)	(60,060)
Net cash provided by / (used in) from operating activities	<b>(916,879)</b>	<b>743,000</b>

#### b. Non-cash Financing and Investing Activities

- (i) During the year the consolidated group acquired plant and equipment with an aggregate value of \$47,320 (2015: \$22,585) by means of finance leases. These acquisitions are not reflected in the statement of cash flows.



## NOTE 23. 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	
			2016 %	2015 %
The Environmental Group Share Plans Pty Limited	Australia	Ordinary	<b>100</b>	100
Environmental Group (Operations) Pty Limited	Australia	Ordinary	<b>100</b>	100
<i>(formerly Environmental Systems Pty Limited)</i>				
Total Air Pollution Control Pty Limited	Australia	Ordinary	<b>100</b>	100
Mine Assist Mechanical Pty Limited	Australia	Ordinary	<b>100</b>	100
<i>(formerly Moranbah Mechanical Services Pty Limited)</i>				
Bridge Management Services Pty Limited	Australia	Ordinary	<b>100</b>	100
<i>(formerly Bowen Basin Pipe Services Pty Limited)</i>				
Baltec IES Pty Ltd	Australia	Ordinary	<b>100</b>	<b>100</b>
PT Baltec Exhaust and Inlet System	Indonesia	Ordinary	<b>80</b>	<b>80</b>

## NOTE 25. 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 24 - 48 month period.

Future minimum rentals payable under Non-cancellable operating leases as at 30 June 2016 are as follows:

	Consolidated	
	2016	2015
	\$	\$
Within one year	116,553	130,855
Later than one year but not more than five years	25,268	141,821
After more than five years	-	-
	<b>141,821</b>	<b>272,676</b>

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 years.

Commitments in relation to finance and hire purchase arrangements are as follows:

	Minimum lease payments due		
	Within 1 year	1 to 5 years	Total
	\$	\$	\$
30 June 2016			
Lease payments	59,428	-	59,428
Finance charges	(1,956)	-	(1,956)
Net present values	<b>57,472</b>	-	<b>57,472</b>
30 June 2015			
Lease payments	67,224	21,469	88,693
Finance charges	(1,378)	(1,572)	(2,950)
Net present values	<b>65,846</b>	<b>19,897</b>	<b>85,743</b>

## NOTE 26. DIVIDENDS

**(a) Recognised amounts**

	Consolidated	
	2016	2015
	\$	\$
Declared and paid during the year:		
Franked dividend on ordinary shares (2015: Nil)	-	-

**(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:

	Consolidated	
	2016	2015
	\$	\$
Franking account balance as at the end of the financial year:	1,777,102	1,005,323
	<b>1,777,102</b>	<b>1,005,323</b>

**(d) Tax rates**

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

**NOTE 27. EVENTS AFTER THE REPORTING DATE**

There 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.

**NOTE 28. KEY MANAGEMENT PERSONNEL DISCLOSURES****Compensation for key management personnel**

	Consolidated	
	2016	2015
	\$	\$
Short term employee benefits	909,421	924,464
Post-employment benefits	68,532	70,471
Share-based payments	-	-
<b>Total compensation</b>	<b>977,953</b>	<b>994,935</b>

**Options**

No options were granted or exercised during the year ended 30 June 2016 (Nil – 2015)

## Shareholdings

**2016**

<b>Name</b>	<b>Balance at start of year</b>	<b>Received during year on exercise of options</b>	<b>Other changes during the year</b>	<b>Balance at end of year</b>
<b>Directors</b>				
Ellis Richardson (A)	67,940,000	-	26,374,441	94,314,441
David Cartney (A)	-	-	1,250,000	1,250,000
Sinan Boratav	7,110,000	-	-	7,110,000
Lynn Richardson (A)	-	-	3,571,429	3,571,429
<b>Executives</b>		-		
Nil				-
				-

A - Acquired under Rights Offer and as underwriter

**2015**

<b>Name</b>	<b>Balance at start of year</b>	<b>Received during year on exercise of options</b>	<b>Other changes during the year</b>	<b>Balance at end of year</b>
<b>Directors</b>				
Ellis Richardson	67,940,000	-		67,940,000
David Cartney	-	-	50,000	50,000
Sinan Boratav	7,110,000	-	-	7,110,000
Lynn Richardson	-	-	-	-
<b>Executives</b>		-		
Nil				-
				-

Details relating to key management personnel are included in the Remuneration Report on pages 9-13.

**NOTE 29. RELATED PARTY DISCLOSURE****Key management personnel**

Details relating to key management personnel, including remuneration paid are included in note 28.

**(i) Loans to key management personnel**

In 2016 (2015- Nil) 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 2016 the Group paid or accrued:

Refer Table 1 of the remuneration report for Directors remuneration details. Other transactions with directors are reflected below.

- Interest bearing loans amounting to of \$1,501,484 at an annual interest rate of 6% plus the commercial bank rate from Baltec Inlet and Exhaust Pty Ltd of which Ellis Richardson is a Director.

The company and the lender have reached a conditional agreement in principle, subject to approval by an existing financier of the business. The financial statements have been presented on the basis that this approval will be forthcoming. Conditional upon this approval the amounts will be paid as follows:

- a) \$501,484 payable by 30 November 2016
- b) \$1000,000 payable in 48 equal instalments commencing 30 November 2016

During the year ended 30 June 2015 the Group paid or accrued:

Refer Table 2 of the remuneration report for Directors remuneration details. Other transactions with directors are reflected below.

- Interest bearing loan of \$1,690,000 at an annual interest rate of 6% plus the commercial bank rate from Baltec Inlet and Exhaust Pty Ltd of which Ellis Richardson is a Director.
- Rental fees of \$44,960 was paid to TAPC (Holdings) Pty Limited during the period that Gary Hardie was a Director of Total Air Pollution Control Pty Limited

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

**NOTE 30. REMUNERATION OF AUDITORS**

The auditor of EGL is McIntosh Bishop (2015: McIntosh Bishop). 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:

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<i>Amounts received or due and receivable</i>		
<i>by McIntosh Bishop (2015: McIntosh Bishop) for:</i>		
an audit or review of the financial report of the entity and any other entity in the consolidated group	55,000	55,000

## NOTE 31. SHARE BASED PAYMENT PLANS

**(a) Recognised share based payment expenses**

Total expense recognised for share-based payment transactions during the year is Nil (2015 – Nil)

The share-based payment plans are described below. There have been no cancellations or modifications to any of the plans during 2016 and 2015.

**(b) Types of share based payment plans and summary of option granted**Options granted and on issue

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 2016.

Grant date	Expiry Date	Exercise Price	Opening Balance	Issued	Exercised	Expired	Closing Balance	Dates exercisable
29-Nov-13	29-Nov-18	\$0.05	20,000,000	-	-	-	20,000,000	1-Jul-15
Total			20,000,000	-	-	-	20,000,000	
Weighted average exercise price:			\$0.05	-	-	-	-	

The total number of outstanding Board and Executive options represents 9.26% (2015: 12.3%) of the total number of issued ordinary shares in the capital of EGL at 30 June 2016.

## NOTE 32. 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 2016 are \$3,625,826 (2015: \$2,073,311).

Legal proceedings

There are currently no legal proceedings in process nor is the company aware of any possible future legal proceedings against the company, as at the date of this report

## NOTE 33. THE ENVIRONMENTAL GROUP LIMITED PARENT COMPANY INFORMATION

	2016	2015
	\$	\$
<b>ASSETS</b>		
Current Assets	11,650,325	11,196,708
Non-Current Assets	5,666,660	5,721,618
<b>Total assets</b>	<b>17,316,985</b>	<b>16,918,326</b>
Current Liabilities	1,302,073	1,276,255
<b>Total liabilities</b>	<b>1,302,073</b>	<b>1,276,255</b>
<b>Net assets</b>	<b>16,014,912</b>	<b>15,642,071</b>
<b>EQUITY</b>		
<b>Equity attributable to the ordinary equity holders of the company</b>		
Contributed equity	21,709,816	20,955,617
Retained earnings	(5,749,016)	(5,367,658)
Reserves	54,112	54,112
<b>Total Equity</b>	<b>16,014,912</b>	<b>15,642,071</b>
<b>Financial performance</b>		
Loss for the year	(381,358)	(328,837)
Other comprehensive income	-	-
<b>Total comprehensive income</b>	<b>(381,358)</b>	<b>(328,837)</b>

## 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 2016 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 2;

2. The Non-Executive Chairman has 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. The Directors have been given the declarations required by section 295A of the Corporations Act 2001 from the Managing Director and Chief Financial Officer for the financial year ended 30 June 2016

On behalf of the Board



Mr David Cartney  
Non-Executive Chairman



Mr Ellis Richardson  
Managing Director

29 August 2016



## 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 consolidated statement of financial position as at 30 June 2016, the consolidated statement of profit or loss, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001*, and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards (IFRS).

### Auditor's Responsibility

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

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 judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report which gives a true and fair view, 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.

### Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of The Environmental Group Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

McIntosh Bishop

Chartered Accountants

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North Sydney 2059

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## 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 consolidated entity's financial position as at 30 June 2016 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 consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 2.

## Report on the Remuneration Report

We have audited the Remuneration Report included in pages 8 to 10 of the directors' report for the year ended 30 June 2016. The directors of the Company are responsible for the preparation and presentation 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.

## Opinion

In our opinion, the Remuneration Report of the Company for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

**McIntosh Bishop**

**Chartered Accountants**



**Robert David Macdonald**

**Partner**

Sydney, 29 August 2016

## Shareholding Statistics

The following information is current as at 23 August 2016

### Distribution of equity securities

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

Holdings Ranges	Fully paid ordinary shareholdings	%
1 - 1,000	1,281	0.16
1,001 - 5,000	309	0.36
5,001 - 10,000	117	0.42
10,001 - 100,000	224	3.45
100,001 and over	84	95.61
<b>Totals</b>	<b>2015</b>	<b>100</b>

### Ordinary share capital

215,931,711 fully paid ordinary shares are held by 2,015 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

20,000,000 options held by 1 individual option holder.

Voting rights: Options do not carry a right to vote.

### Marketable Parcel

The number of shareholdings held in less than marketable parcel is 1,801

### Substantial Shareholders

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

Holder Name	Balance at 24-08-2015	%
MR ELLIS RICHARDSON	45,293,334	20.98%
DENISE RICHARDSON	45,293,334	20.98%
ALLABAH PTY LTD	27,000,000	12.50%

### Twenty largest holders of quoted equity securities

Holder Name	Number of Ordinary Shares Held	% of Ordinary Shares Issued
MR ELLIS RICHARDSON	45,293,334	20.98%
DENISE RICHARDSON	45,293,334	20.98%
ALLABAH PTY LTD	27,000,000	12.50%
ACE PROPERTY HOLDINGS PTY LTD	8,000,000	3.70%
MR SAIM SINAN BORATAV	6,189,059	2.87%
BUILDASSIST NSW PTY LTD	5,750,918	2.66%
DOLDORY PTY LTD <LEWIS FAMILY SUPERFUND A/C>	5,522,182	2.56%
CJ & RS KELLY PTY LTD <CJ KELLY FAMILY A/C>	5,372,090	2.49%
INVIA CUSTODIAN PTY LIMITED <HARGREAVES S/FUND A/C>	5,333,334	2.47%
PHIL DART	3,950,000	1.83%
BALTEC INLET & EXHAUST SYSTEMS PTY LTD	3,727,773	1.73%
CANNINGTON CORPORATION PTY LIMITED <CANNINGTON S/F J READ A/C>	3,601,667	1.67%
RICHMARSH INVESTMENTS PTY LIMITED	3,571,429	1.65%
BROS NOMINEES PTY LTD <BROS NOMINEES S/F A/C>	3,315,436	1.54%
TAPC (HOLDINGS) PTY LTD <G & K HARDIE SUPER FUND A/C>	2,339,506	1.08%
MR JOHN DITRIA <DITRIA SUPERANNUATION A/C>	2,250,567	1.04%
CHUCKY PTY LTD <MJ TURNER SUPER FUND>	2,194,886	1.02%
KAILVA PTY LTD <SUPERANNUATION A/C>	2,000,000	0.93%
LIMITS PTY LIMITED <DUNCAN GAMBLE FAMILY A/C>	2,000,000	0.93%
THE THUNDER GROUP PTY LTD <THE THUNDER A/C>	1,961,030	0.91%
	<b>184,666,545</b>	<b>85.52%</b>