

Level 2, 1 Lawson Street, Southport Qld 4215, Australia  
PO Box 3680, Australia Fair, Qld 4215, Australia

**Pacific  
Environment  
Limited**

ABN 42 122 919 948  
ASX CODE: PEH

P: +61 7 5656 9800  
F: +61 7 5580 8211  
E: [info@pelgroup.com](mailto:info@pelgroup.com)  
W: [www.pelgroup.com](http://www.pelgroup.com)

5 March 2010

Company Announcements Office  
Australian Securities Exchange

### **SHAREHOLDER UPDATE**

Please find attached an information update which has been sent to the Company's shareholders.

Yours faithfully

**PACIFIC ENVIRONMENT LIMITED**



John Lemon  
Company Secretary

Dear Shareholders,

On 26 February 2010 your directors submitted the financial report of Pacific Environment Pty Ltd (PEL) for the half-year ended 31 December 2009 to the ASX. I would like to take this opportunity to provide you with a fuller update on the activities of the PEL Group since 1 July 2009.

### **Key Features of the Half Year to 31 December 2009**

“This has been a very pleasing six months for PEL”, noted Mr Darren Herft, the inaugural Chairman of PEL, “with the operating units trading profitably in a tough market. For a small company that floated during the worst of the global financial crisis, the growth and profitability of the underlying assets is confirmation of the support given to the Company over the last couple of years”.

The key features of the six months to 31 December 2009 were –

- At an operating level, the business units have collectively continued to grow and trade profitably in a tough market.
- Overheads have been significantly reduced which means that the Group has been able to post an EBITDA profit for the half year, a significant improvement over the corresponding half-year ended 31 December 2008 when an EBITDA loss of over \$1 million was reported.
- The Group also had abnormal legal expenses during this period to a total of \$160,000.
- The EcoVision acquisition was completed via some further small scale capital raising in December 2009.
- I have also recently taken the Chairman’s role in PEL and hope that my industry knowledge and experience from other listed and unlisted company directorships can support the Group in its continued growth.

The financial report contained our profit and loss results for the half year to 31 December 2009. The table below contains the same data, simply rearranged to provide a different perspective on the operations of the Group.

What has been done in the table below is to pull out what the Board considers were “abnormal expenses”, or in financial terms “non-operating expenses” during the half year. This enables us to look at the underlying profitability of the PEL Group businesses. It is pleasing to note that –

- Two years after listing, the EBITDA is strong, and is close to 9% of revenue.
- The profit (EBIT) from operations, after including the non-cash items, depreciation and amortisation was \$155k. This is a good result, particularly compared to the loss of \$1,218k for the same period a year earlier.

- Even with finance costs included, the PEL Group is very close to break-even (a loss of \$48k). As noted in the financial report, one emphasis going forward will be to increase efficiency and synergies within the business units, and to reduce the cost of finance.
- It is the impairment cost (which is a non-cash item) and the legal fees that tilt the financial results from being at or close to break-even to a loss for the period. It can be argued that incurring the impairments at this time sets a better foundation for growth and positive fundamentals for the following years.

	<u>\$'000</u>
Revenue	3,803
Operating	
Staff costs	(1,888)
Other costs	(1,586)
Total Operating Costs	<u>(3,474)</u>
<b>EBITDA from operations – profit / (loss)</b>	<b>329</b>
Depreciation & amortisation	<u>(174)</u>
<b>EBIT from operations – profit / (loss)</b>	<b>155</b>
Finance costs	<u>(203)</u>
<b>Profit / (Loss) before non-operating expenses</b>	<b>(48)</b>
Non-operating expenses	
Impairment expense	(422)
Legal fees – litigation proceedings CES	(160)
	<u>(582)</u>
<b>Profit / (Loss) before income tax</b>	<b>(630)</b>

So, having noted that at the operational level the Company is at or close to break-even for the period, what is the status of the business units that make up the PEL Group?

### **PAEHolmes**

2010 has begun with a solid pipeline of committed consulting projects, many associated with large mining, mineral processing and coal seam gas projects. The half year to December saw a steady strengthening of the level of new projects and proposals, with momentum proceeding more strongly than is typical through the turn of year. As in past years, there has also been a steady stream of government and industry policy

development projects as well as provision of expert testimony in legal cases and a number of international projects. Sydney and Brisbane offices of PAEHolmes have hired more staff since June 2009 to deal with the growing workload, and there has been a strong flow of new proposals and inquiries in the past few months into both offices.

### **newEQ**

There has been a strong growth in opportunities to tender coming to newEQ in the past half year, up roughly two-fold compared to the previous six month period. A significant part of the increase has resulted from improved synergies between the PEL business units providing more introductions and referrals. So far this year a single new contract worth 15% of existing annual turnover has been won and other similar prospects are up for decision before the end of the financial year. Hence newEQ is optimistic that strong efforts to grow the business are beginning to translate into revenue. newEQ has also recently fitted out a well-equipped mobile laboratory that makes newEQ more competitive on larger projects throughout eastern Australia.

### **Toxikos**

Prior to January 2010, Toxikos experienced a slowdown in industry requests (across the resources and general industrial sectors) for toxicological, risk assessment and regulatory affairs services. Since then Toxikos has experienced an increased level of activity for such clients. The year of 2009 presented Toxikos with some unique opportunities to service some landmark Government projects. These projects have strengthened and reinforced the reputation of Toxikos in the delivery of high quality services. For instance, Toxikos prepared a critical review on the Toxicology of Engineered Nanomaterials for the Australian Government's Office of Nanotechnology and jointly with Monash University co-authored the second edition of Australia's guide to practitioners on how to perform risk assessment. Toxikos principal Dr Roger Drew's expertise was officially recognised with his appointment as an adjunct Professor at Monash University. Since January, the Toxikos team have been busy servicing some very important cutting edge work for the resources industry.

### **EcoVision**

The acquisition of EcoVision was completed in December 2009 via some further small scale capital raising and it is expected that additional capital will be required to now expand and grow this business unit. The EcoVision technology provides many opportunities for growth and has been successfully deployed into some key test sites in 2009. Over the past six months the technology has been trialled by one of Australia's largest energy companies with an installation nearing completion in up to fifty residential houses.

### **PEL Technologies**

Under the enviroXpert banner, our two main web-based technologies are plumeXpert and emissionsXpert. Both are showing movement in terms of sales and genuine client interest, suggesting increased recognition in the market and the surfacing of demand.

The plumeXpert system was recently selected by the Catalan regional government in Spain as the preferred tool for managing odour complaints in the city of Tarragona, where industrial odours are a high profile issue. Our European reselling partner, Odournet, is active in promoting plumeXpert in the European market, which has demonstrated interest in real-time odour management for problem industries such as wastewater treatment and composting. The Tarragona project will be a highly useful demonstration of the product in that market. There are several substantial proposals for plumeXpert installations in France and the UK that are awaiting decision and in Australia we are working through responses to several requests for proposal on installations that would help manage dust, odour and other forms of air pollution real-time at large industrial facilities. This level of genuine interest was not evident 6-12 months ago.

With regard to emissionsXpert, which automatically reports an industry's emissions for the National Pollutant Inventory, we have made a number of sales in the past 6 months and, as for plumeXpert, have seen a recent uplift in genuine interest from large national and multinational clients. It would appear that some of this interest is coming from companies that have found providers of solutions from the non-engineering sector to have insufficient knowledge of the technical aspects of emissions, an area in which PEL is highly regarded.

The enhancement of emissionsXpert through funding from a Federal Government Climate Ready Grant is continuing and is expected to be complete mid-2010. This work is intended to provide a tool that allows real-time analysis and reporting of both NPI pollutants and greenhouse gases, including related financial information in the latter case.

### **Chief Executive Officer**

As noted in the financial report, the Board is close to making an announcement for this key position and I hope that I will be able to make a positive announcement about a CEO appointment within the next couple of weeks.

### **Board of Directors**

There have been a few changes to your Board of Directors in the last eight months –

- In early July 2009 the Board appointed me as a Director. I believe that my wide governance and executive experience has already been of significant value to the Board. Also, with over 40 years experience in the air pollution field, including research, engineering studies, consultancy, management and enforcement, I have brought to the Board a thorough knowledge of PEL and its predecessor companies.
- When Mr Darren Herft resigned as Chairman on 17 February 2010 I was appointed Chairman. Mr Herft remains as a non-executive Director on the PEL Board.
- At the Board meeting on 17 February 2010 Mr Robin Ormerod was appointed to the Board. He is recognised as one of the leading pioneers in air quality consulting in Australia and New Zealand. Mr Ormerod co-founded Pacific Air & Environment

in 1995, itself the foundation business for PEL. Mr Ormerod will also take on the new role of General Manager – Consulting Services in the PEL Group. This role will focus on growth, enhancing synergies and growing profitability within the existing and potentially future environmental consulting businesses.

Mr Geoff Masters, a PEL Director since 13 November, 2008, commented, “The contribution of Darren Herft to the setup and initial stabilising of the PEL Group is substantial. The Board is very appreciative of the time and effort he has put into PEL, and looks forward to the new impetus that will flow from Dr Merv Jones as Chairman and one of the company founders, Robin Ormerod on the Board”.

With the appointment of Mr Ormerod, together with my role on the Board, the Company now contains the appropriate technical ability at Board level. We will now increase our search for at least one new non-executive Board member with exceptional financial skills to round out the Board and complement the current structure.

## **Outlook**

The environmental services and technology sector continues to present major growth opportunities for the Group. The global financial crisis and delay in policy development by the Australian Government has impacted this growth over the past eighteen months, however the Company’s improved financial results during the half-year ended 31 December 2009 suggest demand is now starting to surface.

The Group has remained resolute in pursuit of building more specialist environmental services and technologies over the past eighteen months and recent growth in demand for EcoVision and the enviroXpert suite provides confidence that the Group’s strategy is achievable with resultant returns to shareholders once these technologies materialise into revenue growth.

The Group has a clear strategy for growth together with a team of the most talented environmental scientists, engineers, technicians and consultants. The Group is recognised not only for this deep technical knowledge but also the ability to understand technology solutions and how the two will combine in a more environmentally regulated world.

The Board is confident that the current strategy will provide the ability for the Group to prosper in coming years as the environmental sector undergoes major reform resulting in returns for shareholders.



Merv Jones  
Chairman, Pacific Environment Limited