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Paladio Group Limited ABN 35 111 210 390

29 October 2007

Company Announcements Office
Australian Stock Exchange
Level 10, 20 Bond Street
SYDNEY NSW 2000

By ASX Online

No. of pages: 61

2007 ANNUAL REPORT

Please find following Paladio Group Limited's 2007 Annual Report which is being mailed out today to Shareholders together with the Notice of Annual General Meeting and Proxy Form.

Yours faithfully,
PALADIO GROUP LIMITED



Len Troncone
Company Secretary

Paladio Group Limited

Annual Report 2007

year ended 30 June 2007

Corporate Directory of Paladio Group Limited

Directors

Mr Dennis O'Neill (Non-Executive Chairman)
Mr Richard Wright (Managing Director)
Mr Robert Franco (Executive Director)
Mr Peter Wallace (Non-Executive Director)

Company Secretary

Mr Len Troncone

Australian Business Number

35 111 210 390

Registered and Principal Office

59 Belmont Avenue
BELMONT WA 6104
Telephone: (08) 9262 9999
Facsimile: (08) 9262 9998

Operational Offices

Novacoat (WA) Pty Ltd
60 Office Road
KWINANA WA 6167
Telephone: (08) 9439 2111
Facsimile: (08) 9439 2115

CASE Services Pty Ltd
59 Belmont Avenue
BELMONT WA 6104
Telephone: (08) 9262 9966
Facsimile: (08) 9262 9950

McFee Pty Ltd – Western Region
59 Belmont Avenue
BELMONT WA 6104
Telephone: (08) 9262 9900
Facsimile: (08) 9262 9950

McFee Pty Ltd – Eastern Region
133 O'Riordan Street
MASCOT NSW 2020
Telephone: (02) 9669 5049
Facsimile: (02) 9693 2774

Fabcon Construction Pty Ltd
59 Belmont Avenue
BELMONT WA 6104
Telephone: (08) 9356 3911
Facsimile: (08) 9356 3933

Eastman Fort Pty Ltd
59 Belmont Avenue
BELMONT WA 6104
Telephone: (08) 9262 9977
Facsimile: (08) 9262 9950

Westec Engineering Services Australia Pty Ltd
9 Churchill Street
WILLIAMSTOWN VIC 3016
Telephone: (03) 9397 1833
Facsimile: (03) 9339 9497

Auditor

RSM Bird Cameron Partners
8 St Georges Terrace
PERTH WA 6000

Share Registry

Computershare Investor Services Pty Limited
Level 2, 45 St Georges Terrace
PERTH WA 6000
Telephone: 1 300 557 010
Facsimile: (08) 9323 2033

Solicitors

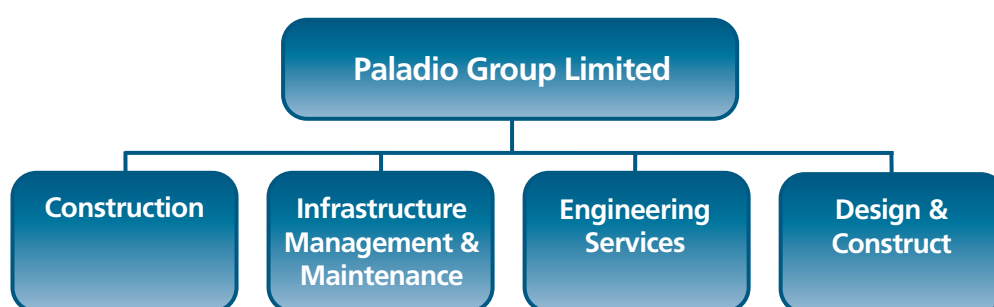
Steinepreis Paganin
Lawyers & Consultants
Level 4, Next Building
16 Milligan Street
PERTH WA 6000

Review of Operations

The 2006/07 financial year was a year of continued investment in growth. Highlights included:

- Growth in revenue by 31% to \$38.4 million;
- Completion of the acquisitions of Fabcon Construction, Westec Engineering Services and Eastman Fort which overall made profitable contributions under Paladio's ownership;
- Exiting the environmental remediation business to renew focus on the group's core business of engineering design, construction and maintenance services; and
- Announcement of the major acquisition of Decmil Australia and associated capital raising. Decmil Australia is a leading construction and maintenance service provider specialising in accommodation villages, non-process infrastructure and civil contracting to the resources and oil and gas sectors, predominantly in Western Australia.

Following Paladio's organic and acquisition growth in the financial year, operations are now aligned to the following operating divisions:



Construction Division

The Construction Division comprises of the operations of McFee, Novacoat and Fabcon. Fabcon was acquired in September 2006. Revenue generated by the Construction Division was \$31,690,000 (2006: \$28,485,000).

In the financial year, the division completed works on a range of projects including the BHPB Mitsubishi Alliance Blackwater Coal Project in Blackwater, Queensland, Alcan's G3 Expansion Project in Gove, Northern Territory, BBI's Dalrymple Bay Coal Project in Queensland and Crescent Gold's Coyote Gold Project in Western Australia.

The Division generated improved margins during the financial year, predominantly from projects performed on a cost reimbursable basis with applicable schedule of rates.

Tendering activities are at an all time high and the outlook for this Division remains positive for the foreseeable future.

Engineering Services Division

The Engineering Services Division comprises of the operations of CASE Services and Eastman Fort, the latter was acquired in February 2007. Revenue generated by the Engineering Division was \$4,962,000 (2006: \$656,000).

In the financial year, the division completed works on a range of projects including the BHPB Mitsubishi Alliance Blackwater Coal Project in Queensland, BHPB's Rapid Growth Project 4 and Fortescue Metals Iron Ore Project in Western Australia.

The Division's drafting and shop detailing business is operating at near capacity with further growth limited by the scarcity of experienced staff.

Paladio remains active in looking for acquisition opportunity to compliment and augment the services provided by this Division which is enjoying excellent prospects for growth.

Review of Operations — *Continued*

Infrastructure Management and Maintenance Division

The newly created Maintenance Division comprises the operations of McFee Maintenance and Westec Engineering Services. Revenue generated by this Division was \$1,460,000 (2006: Nil).

In the financial year, the division completed works for several clients including Caltex, BOC Gases and Dow Chemicals in Victoria.

This start-up division is endeavouring to win long-term maintenance and facilities management contracts and is forecasting moderate growth due to the long lead time nature of these projects.

Design and Construct Division

The Design and Construct Division was established in the financial year to offer clients the benefit of a combined design, construction and maintenance service for their projects. This enables clients to utilise the combined services of the group without external interface thus eliminating unnecessary costs and multiple contact. This area is expected to grow with the increased size, scope and geographical spread of the Company's operations, particularly with the acquisition of Decmil Australia.

Environmental Rehabilitation Division

The economic entity exited this business incurring a consolidated loss before tax of \$2,422,000 including \$223,000 loss on foreign exchange cash holdings associated with the former USA-based joint venture partner.

Financial Position

The net assets of the economic entity have increased by \$27.3 million during the financial year ended 30 June 2007 to \$46.9 million. This increase has largely resulted from net proceeds on share issues which raised \$31.0 million. The economic entity remains virtually debt free and the directors believe the group is in a relatively strong financial position to expand and grow its current operations.

The cash balance at 30 June 2007 was \$35.8M of which \$28.1M has been used to settle the cash consideration payable by Paladio for acquiring Decmil Australia. This occurred in early July 2007.

In summary, the Paladio Group of companies incurred a consolidated loss before tax of \$4,382,000 which included the abnormal loss of \$2,422,000 associated with exiting the environmental rehabilitation division.

Quality Assurance, Occupational Health & Safety and Human Resources

During the financial year, McFee Construction achieved certification to AS/NZS 9001:2000, with Westec Engineering Services maintaining theirs following an audit by SAI Global. Quality Assurance implementation is a key target for the other group entities in the coming year.

There have been no serious reportable OHS incidents by any of the operating entities during 2006/2007. The 'Zero Harm' safety message remains our key value, with OHS continuous improvement strategies remaining the core objective for the coming financial year.

Each operating entity has complied with human resource and industrial legislation of the States and Territories in which they operate. No significant industrial relations incidents were experienced during 2006/2007.

Capital Structure and Corporate Developments

Following the additional capital raisings and acquisitions throughout the year, at balance date the Company had approximately 92.7 million shares on issue (2006: 46.5 million). The number of shares has subsequently increased to 112.6 million shares following the issue of 22.5 million shares at \$0.75 each upon settlement of the Decmil Australia acquisition and the cancellation of 2.65 million shares upon the buy-back and cancellation of shares pursuant to the termination of the environmental rehabilitation joint venture.

Outlook

The market for the services provided by Paladio's operating divisions remains relatively buoyant with little sign of retreating in the foreseeable future. The availability of skilled labour generally in Australia remains a challenge however Paladio and its subsidiaries have maintained the reputation as employers of choice and have access to an extensive database of skilled workers.

Whilst the Board will continue to expand the Company's operations whilst also searching for suitable acquisitions which are complimentary to our existing businesses, its focus in the coming year will be to deliver earnings as well as revenue growth.

Decmil Australia's acquisition has significantly increased the group's size and scope of services. The Board is confident that the 2007/08 financial year will deliver a strong profit result and thus lay strong foundations to deliver sustainable shareholder wealth.



Dick Wright
Managing Director

Corporate Governance Statement

Unless disclosed in the table below, all the best practice recommendations of the ASX Corporate Governance Council have been applied for the entire financial year ended 30 June 2007.

Table of Non-Compliance with ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations

2.1	The majority of the board should consist of independent directors.	As at the date of this report, the company has four directors, two of which are not considered to be independent. The board has determined that the services, skills and experience of the two executive directors make it appropriate for them to be on the board.
2.4	The board should establish a nomination committee.	The board is of the view that due to the nature and size of the company's operations that the functions normally performed by a nomination committee can adequately be performed by the full board.
4.1, 4.2, 4.3 and 4.4	The board should establish an audit committee, that the audit committee be structured appropriately with a formal audit committee charter.	The board was of the view that due to the nature and size of the company's operations up to the date of its acquisition of Decmil Australia Pty Ltd that the functions normally performed by an audit committee could adequately be performed by the full board. However, the board is now planning to establish a formal audit committee once an additional non-executive director is appointed to the board.
8.1	The board should establish a remuneration committee.	The board is of the view that due to the nature and size of the company's operations that the functions normally performed by a remuneration committee can adequately be performed by the full board.

Board Composition

The skills, experience and expertise relevant to the position of each director who is in office at the date of the annual report and their term of office are detailed in the directors' report.

The names of the independent directors of the company are:

Mr Dennis O'Neill

Mr Peter Wallace

When determining whether a non-executive director is independent the director must not fail any of the following materiality thresholds:

- less than 5% of company's shares are held by the director or any entity or individual directly or indirectly associated with the director;
- no material sales are made to, or purchases made from, any entity or individual directly or indirectly associated with the director; and
- none of the director's income or the income of an individual or entity directly or indirectly associated with the director is derived from a contract with any member of the economic entity other than income derived as a director of the entity.

Independent directors have the right to seek independent professional advice in the furtherance of their duties as directors at the company's expense. Written approval must be obtained from the chairman prior to incurring any expense on behalf of the company.

Trading Policy

The company's policy regarding directors and employees trading in its securities restricts directors and employees from acting on material information until it has been released to the market and adequate time has been given for this to be reflected in the security's prices.

Trading in the company's securities is permitted during the 30 day period immediately after the company announces its full year and half year results, and also whenever a disclosure document is current. No trading is permitted outside of these time frames without first obtaining the approval of the chairman.

Remuneration Policies

The remuneration policy, which sets the terms and conditions for the managing director, executive director and other senior executives, was reviewed by a remuneration sub-committee which consisted of two independent directors. Professional advice from independent consultants was sought and considered. All executives receive a base salary, superannuation, performance incentives and retirement benefits. The remuneration sub-committee reviewed the executive packages by reference to company performance, executive performance, comparable information from industry sectors and other listed companies, and independent advice. The performance of executives is measured against predetermined criteria based on forecast growth of the company's activities, profits and

Corporate Governance Statement — *Continued*

shareholder value. The policy is designed to attract high calibre executives and reward them for performance which results in long-term growth in shareholder value.

Executives are also entitled to participate in the employee share option plan approved by shareholders.

The amount of remuneration for all directors and the specified executives, including all monetary and non-monetary components, are detailed in the Note 6 to the financial report. All remuneration paid to executives is valued at the cost to the company and expensed. Options are valued using either the Black-Scholes or Binomial option pricing methodologies.

The board expects that the remuneration structure implemented will result in the company being able to attract and retain the best executives to run the economic entity. It will also provide

executives with the necessary incentives to work to grow long-term shareholder value.

The payment of bonuses, stock options and other incentive payments are reviewed by the board periodically as part of the review of executive remuneration and a recommendation is put to the board for approval. All bonuses, options and incentives must be linked to predetermined performance criteria. The board can exercise its discretion in relation to approving incentives, bonuses and options.

Other Information

Further information relating to the company's corporate governance practices and policies has been made publicly available on the company's web site at www.paladio.com.au.

Directors' Report

Your directors present their report on the company and its controlled entities for the financial year ended 30 June 2007.

Directors

The names of directors in office at any time during or since the end of the year are:

Mr Robert Franco	
Mr Dennis O'Neill	(appointed 29 September 2006)
Mr Peter Wallace	
Mr Richard Wright	
Mr Roy Rose	(appointed 2 May 2006 and retired on 23 August 2006)

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Company Secretary

The following person held the position of company secretary at the end of the financial year:

Mr Leonard Troncone (BBus) was appointed Chief Financial Officer and Company Secretary of Paladio Group Limited since 1 July 2005. Mr Troncone is a senior finance executive with over 25 years' experience working with publicly listed companies in the diversified engineering, mining, mineral exploration, oil and gas, and financial services industries.

Principal Activities

The principal activities of the economic entity during the financial year were:

- site based construction and maintenance services;
- workshop and site based industrial coatings;
- engineering commissioning and completion support services; and
- engineering design and drafting services.

The following significant changes in the nature of the principal activities occurred during the financial year:

- through a newly created wholly-owned subsidiary, the economic entity purchased the business of a small but long established construction company servicing the resources industry predominantly in Western Australia;
- through a newly created wholly-owned subsidiary, the economic entity purchased the business of a small but long established maintenance and workshop service provider

based in Melbourne, Victoria;

- through a newly created wholly-owned subsidiary, the economic entity purchased the business of a leading Western Australian based drafting and shop detailing company servicing the resources industry; and
- the economic entity exited its environmental remediation services joint venture.

Other than the above, there were no other significant changes in the nature of the economic entity's principal activities during the financial year.

Operating Results

The consolidated loss of the economic entity after providing for income tax benefit amounted to \$4,074,000.

Dividends Paid or Recommended

No dividends were paid, declared or recommended for payment.

Review of Operations

Overview

The consolidated operating loss before tax was \$4,382,000 which included the following significant or abnormal items:

- Loss on termination of the environmental remediation joint venture of \$2,190,000;
- Loss on foreign exchange cash holdings associated with the environmental remediation joint venture of \$223,000; and
- Equity based payments of \$630,000.

Excluding the above significant and abnormal items, the consolidated operating loss before tax was \$1,335,000 compared with the previous financial year's loss before tax of \$1,799,000.

Construction Division

The Construction Division comprises of the operations of McFee, Fabcon and Novacoat. Fabcon was acquired in September 2006. Revenue generated by this Division was \$31,690,000 (2006: \$28,485,000) for a near break-even EBITD contribution of \$93,000 (2006: EBITD loss of \$296,000).

The Division generated improved margins during the financial year, predominantly from projects performed on a cost reimbursable basis with applicable schedule of rates. Tendering activities are at an all time high and the outlook for this Division

Directors' Report — Continued

remains positive for the foreseeable future.

Engineering Services Division

The Engineering Services Division comprises of the operations of CASE Services and Eastman Fort, the latter was acquired in February 2007. Revenue generated by this Division was \$4,962,000 (2006: \$656,000) generating an EBITD contribution of \$557,000 (2006: \$68,000).

The Division's drafting and shop detailing business is operating at near capacity with further growth limited by a scarcity in experienced resources. The economic entity is actively looking for acquisition opportunity to compliment and augment the services provided by this Division which is enjoying excellent prospects for growth.

Maintenance Division

The newly created Maintenance Division comprises the operations of McFee Maintenance and Westec Engineering Services. Revenue generated by this Division was \$1,460,000 generating an EBITD loss of \$369,000.

This start-up division is endeavouring to win long-term maintenance and facilities management contracts and is forecasting moderate growth due to the long lead time nature of these projects.

Environmental Rehabilitation Division

The economic entity exited this business and incurred a consolidated EBITD loss of \$2,422,000 including \$223,000 loss on foreign exchange cash holdings associated with the former USA based joint venture partner and technology provider.

Financial Position

The net assets of the economic entity have increased by \$27.3 million during the financial year ended 30 June 2007 to \$46.9 million. This increase has largely resulted from net proceeds on share issues which raised \$31.0 million. The economic entity remains virtually debt free and the directors believe the group is in a relatively strong financial position to expand and grow its current operations.

The cash balance at 30 June 2007 was \$35.8M of which \$28.1M is reserved for settling the cash consideration payable for the economic entity's acquisition of Decmil Australia Pty Ltd which occurred early in the 2007/08 financial year.

Significant Changes in State of Affairs

The following significant changes in the state of affairs of the

parent entity occurred during the financial year:

- (i) On 13 September 2006 the company issued 600,000 ordinary shares at \$0.85 each to partly fund the acquisition of the business assets of Fabcon Construction, a relatively small but long established Western Australian based construction company servicing the resources sector.
- (ii) On 29 June 2007 the company issued 44,000,000 ordinary shares at \$0.75 each pursuant to a private placement to partly fund the acquisition of Decmil Australia Pty Ltd, a large and long established Western Australian based civil design and construction company. The acquisition of Decmil Australia Pty Ltd was settled on 6 July 2007.

Changes in controlled entities and divisions:

- (i) Formation of Fabcon Construction Pty Ltd, a 100% wholly owned subsidiary through which the economic entity acquired a small but long established construction business servicing the resources sector, predominantly in Western Australia.
- (ii) Formation of Westec Engineering Services Australia Pty Ltd, a 100% wholly owned subsidiary through which the economic entity acquired a small but long established maintenance and workshop business servicing the chemical and petrochemical sector in Victoria.
- (iii) Formation of Eastman Fort Pty Ltd, a 100% wholly owned subsidiary through which the economic entity acquired a leading drafting and shop detailing business servicing the resources industry, predominantly in Western Australia.
- (iv) The 51% owned Remtech Environmental Solutions Pty Ltd joint venture with the 49% USA based partner, Remtech Inc, was terminated in June 2007. Settlement of the termination of the joint venture will occur in the 2007/08 financial year and will result in the company owning 100% of Remtech Environmental Solutions Pty Ltd and a reduction of 2,650,000 in the number of the company's issued ordinary shares. The reduction of capital is subject to the approval of the company's shareholders of the selective off-market buyback of the ordinary shares in the company held by Remtech Inc and their subsequent cancellation. A general meeting of shareholders is to be held on 30 August 2007 to seek such approvals.

After Balance Date Events

On 6 July 2007 the economic entity acquired 100% of the issued shares of Decmil Australia Pty Ltd, a large civil design

and construction company servicing the resources sector predominantly in Western Australia. The major terms of the acquisition are:

- \$45 million payable on settlement (6 July 2007), \$28,125,000 payable in cash and \$16,875,000 payable via the issue of 22,500,000 ordinary shares in the company at an issue price of \$0.75 each;
- The granting on settlement of 2,500,000 options to acquire ordinary shares at \$0.75 each to members of the Decmil Australia Pty Ltd management team with vesting terms identical to the company's employee share option plan;
- The granting on settlement of 2,500,000 options to acquire ordinary shares at \$1.00 each to the Decmil Australia Pty Ltd vendors with vesting criteria being tied to the financial performance of the Decmil business over the next two financial years;
- Deferred retention consideration of \$5 million in cash and shares payable over the next two financial years subject to the retention of key executives and achievement of financial performance criteria; and
- Deferred performance payment of \$4 million in cash subject to the Decmil business achieving \$12 million EBIT in the 2007/08 financial year.

Other than the above, no matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the economic entity, the results of those operations, or the state of affairs of the economic entity in future financial years.

Future Developments, Prospects and Business Strategies

To further improve the economic entity's profit and maximise shareholder wealth, the directors are actively considering further acquisitions in the near term to complement current business activities focused in the resources sector. Any acquisitions sought would broaden the company's assets base and provide a diversified source of revenue.

These developments, together with the current strategy of continuous improvement and an adherence to quality control in existing markets, are expected to assist in the achievement of the economic entity's long term goals and development of new business opportunities in the resources sector.

Environmental Issues

The economic entity's operations are subject to significant environmental regulation under the laws of the Commonwealth and State. The economic entity has a licence to operate an industrial blasting and spray painting facility. There have been no non-compliance incidents by the economic entity during the financial year.

Information on Directors

Dennis O'Neill	Non-Executive Chairman
Qualifications	BSc. (Mech. Eng) from the Polytechnic of Wales, U.K., and Dip. Mech. Eng. From Caulfield Institute of Technology, Victoria. FIEA, FAICD and FAIM.
Experience	Appointed as a director on 29 September 2006 and non-executive chairman on 23 November 2006. Mr O'Neill is a well known and respected executive who has held numerous senior positions with private and public companies in Australia and overseas, most notably as Managing Director of United Group Limited and Evans Deakin Industries Limited, and Senior General Manager of a major division of the ANI Group, all delivering growth and earnings. Mr O'Neill has also held Chairman Advisory roles for a number of private companies as well as advisory roles for federal and state government bodies and trade delegations. He was a member of the Australian Contractors' Council, a former Business Queensland Chief Executive of the Year and State President of the previous Metal Trades Industry Association (now part of the Australian Industry Group).
Interest in Shares and Options	100,000 ordinary shares in Paladio Group Limited 1,000,000 options to acquire ordinary shares in Paladio Group Limited

Richard (Dick) Wright	Managing Director
Qualifications	BSc. (Mech. Tech.), University of NSW Postgraduate course in business from the Hass Business School, Berkley Campus, University of California

Directors' Report — Continued

Experience Appointed as a director and executive chairman on 7 December 2004 until 23 November 2006 when he was appointed managing director. Mr Wright has over 35 years' experience in the resource engineering, construction and maintenance industry. Recent positions held by Mr Wright include executive chairman of ADrail Pty Ltd which was responsible for the design and construction of the Alice Springs to Darwin rail project, and prior to that he was managing director of Flour Daniel Australia, a wholly owned subsidiary of an international engineering, construction and maintenance group.

Interest in Shares and Options 1,240,300 ordinary shares in Paladio Group Limited
1,800,000 options to acquire ordinary shares in Paladio Group Limited

Robert Franco Executive Director

Qualifications Bachelor of Engineering (Hons) and Bachelor of Commerce, University of Western Australia, MBA, University of Western Australia Graduate School of Management

Experience Appointed as an executive director on 1 October 2004. Mr Franco worked as an engineering consultant for a major multi-disciplinary engineering firm until 2001 specialising in commercial developments for the resource and commercial industries. Mr Franco more recently held business development and financial roles with Fero Industries Pty Ltd, a rapidly expanding private company in the mining services industry

Interest in Shares and Options 7,600,000 ordinary shares in Paladio Group Limited
450,000 options to acquire ordinary shares in Paladio Group Limited

Peter Wallace Non-Executive Director

Qualifications SF FIN, FAIDC, AFIM

Experience Appointed as a non-executive director on 25 October 2005. Mr Wallace's experience consists of some 40 years in the banking and finance industry. He was the former head of corporate at Bell Potter Securities Ltd where he directed capital raisings and provided corporate advisory services to both private and public companies.

Interest in Shares and Options 40,000 ordinary shares in Paladio Group Limited

450,000 options to acquire ordinary shares in Paladio Group Limited

Directorships held in other listed entities Current non-executive director of RuralAus Investments Limited and Katana Capital Limited

Remuneration Report

This report details the nature and amount of remuneration for each director of Paladio Group Limited, and for the executives receiving the highest remuneration.

Remuneration Policy

The remuneration policy of Paladio Group Limited has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the economic entity's financial results. The board of Paladio Group Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain experienced executives and directors to run and manage the economic entity, as well as create goal congruence between directors, executives and shareholders.

The board's policy for determining the nature and amount of remuneration for board members and senior executives of the economic entity is as follows:

- Given the economic entity's size, there is no formal remuneration committee however the board delegated the most recent review of the remuneration of directors and senior executives to a sub-committee which consisted of two independent directors who considered professional advice from independent external consultants as approved by the board.
- Certain executives receive a base salary (which is based on factors such as length of service and experience), superannuation, fringe benefits, options and performance incentives.
- The board or its delegated sub-committee reviews executive packages periodically by reference to the economic entity's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

The performance of executives is measured against criteria agreed with each executive and is based predominantly on the forecast growth of the economic entity's profits and shareholders' value. All bonuses

and incentives are linked to predetermined performance criteria. The board may, however, exercise its discretion in relation to approving incentives, bonuses and options. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract high calibre executives and reward them for performance that results in long-term growth in shareholder wealth.

Executives are also entitled to participate in the employee share option scheme approved by shareholders.

Where applicable, executive directors and executives receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice all or part of their remuneration to increase payments towards superannuation.

All remuneration paid to directors and executives is valued at the cost to the company and expensed. Where options are given to directors and executives, they are valued using the Black-Scholes or Binomial option pricing methodologies.

The board's policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The board or its nominated sub-committee determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders during a general meeting. Fees for non-executive directors are not linked to the performance of the economic entity however to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the company.

Performance based remuneration

It is the board's intention to introduce as part of each executive director and executives remuneration package a performance-based component measured against key performance indicators (KPIs). The intention of this program is to facilitate goal congruence between directors/executives with that of the business and shareholders. The KPIs will be set annually, with a certain level of consultation with directors/executives to ensure buy-in. The measures will be specifically tailored to the areas each director/executive is involved in and has a level of control over. The KPIs target areas the board believes hold greater potential for group expansion and profit, covering financial and non-financial as well as short- and long-term goals. The level set for each KPI will be based on budgeted figures for the group and respective industry standards.

In determining whether or not a KPI has been achieved, Paladio Group Limited bases the assessment on audited figures.

Company performance, shareholder wealth and directors' and executives' remuneration

The remuneration policy has been tailored to increase goal congruence between shareholders, directors and executives. There have been two methods applied in achieving this aim, the first being a performance based bonus based on key performance indicators, and the second being the issue of options to executive directors and executives to encourage the alignment of personal and shareholder interests. The company believes this policy to have been effective in increasing shareholder wealth over the past year.

The following table shows the revenue generated during the last two reporting periods for the listed entity as well as the share price at the end of the respective reporting periods. The board is of the opinion that the increase in revenue, given the economic entity's start-up phase, illustrates the momentum in rapid growth of operations and can be attributed in part to the previously described remuneration policy and is satisfied that this growth has led to increased shareholder wealth since the company floated on the Australian stock exchange in April 2005.

	2007	2006
Revenue	\$38,419,000	\$29,271,000
Share price at year-end	\$0.86	\$0.90

Details of remuneration for year ended 30 June 2007

The remuneration for each director and of the executive officer of the consolidated entity receiving the highest remuneration during the year was as follows:

Directors	Salary and Fees	Superannuation Contribution	Non-cash Benefits	Options	Total
	\$	\$	\$	\$	\$
Dick Wright	266,667	-	-	204,363	471,030
Robert Franco	156,000	14,040	-	56,376	226,416
Dennis O'Neill ¹	-	60,833	-	164,655	225,488
Peter Wallace	41,902	3,771	-	74,095	119,768
Roy Rose ²	7,500	-	-	-	7,500
	472,069	78,644	-	499,489	1,050,202

Notes: 1. Mr Dennis O'Neill was appointed a director on 29 September 2006.

2. Mr Roy Rose was appointed a director on 2 May 2006 and retired on 23 August 2006.

Directors' Report — Continued

Specified Executive	Salary	Super-annuation Contribution	Non-cash Benefits	Options	Bonus	Total
	\$	\$	\$	\$	\$	\$
Len Troncone	200,000	20,000	-	94,523	100,000	414,523
	200,000	20,000	-	94,523	100,000	414,523

Performance income as a proportion of total remuneration

Executive directors and executives are paid performance based bonuses based on set monetary figures, rather than proportions of their salary. The remuneration sub-committee has set these bonuses to encourage achievement of specific goals that have been given a high level of importance in relation to the future growth and profitability of the economic entity. The remuneration sub-committee will review the performance bonuses to gauge their effectiveness against achievement of the set goals, and adjust future years' incentives as they see fit, to ensure use of the most cost effective and efficient methods.

Options issued as part of remuneration for the year ended 30 June 2007

Options were issued to certain directors (after approval by shareholders was sought and granted) and executives as part of their remuneration. The options were not issued based on performance criteria, but were issued to directors and executives of Paladio Group Limited and its subsidiaries to increase goal congruence between executives, directors and shareholders.

	Granted	Options Granted as Part of Remuneration	Total Remuneration Represented by Options	Total
	No.	\$	%	\$
Directors				
Dick Wright	1,000,000	204,363	43%	204,363
Robert Franco	450,000	56,376	25%	56,376
Dennis O'Neill	1,000,000	164,655	73%	164,655
Peter Wallace	450,000	74,095	62%	74,095
	2,900,000	499,489	48%	499,489
Specified Executive				
Len Troncone	450,000	94,523	23%	94,523
	450,000	94,523	23%	94,523

Employment contracts of directors and senior executives

The employment conditions of the executive directors, namely Dick Wright and Robert Franco, and the specified executive are formalised in contracts of employment. All executives are permanent employees of Paladio Group Limited.

The employment contracts stipulate a range of one to three months resignation periods. The company may terminate an employment contract without cause by providing between one and three months written notice or making payment in lieu of notice, based on the individual's annual salary component together with a discretionary redundancy payment. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the company can terminate employment at any time. Executives have thirty days from leaving their employment with Paladio Group Limited to exercise any vested options after which time the vested options will automatically lapse. Any unvested options lapse automatically upon termination.

Meetings of Directors

During the financial year, 16 meetings of directors were held. Attendances by each director during the year were:

	DIRECTORS' MEETINGS	
	Number eligible to attend	Number attended
Robert Franco	16	16
Dennis O'Neill	13	13
Peter Wallace	16	16
Richard Wright	16	16
Roy Rose	2	2

Indemnifying Officers or Auditor

During or since the end of the financial year the company has given an indemnity or entered an agreement to indemnify, or paid or agreed to pay insurance premiums as follows:

The company has paid premiums to insure each of the directors 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 director of the company, other than conduct involving a wilful breach of duty in relation to the company. The total amount of the premium was \$15,544.

Options

At the date of this report, the unissued ordinary shares of Paladio Group Limited under option are as follows:

Grant Date	Date of Expiry	Exercise Price	Number Under Option
28 April 2005	31 December 2008	\$0.30	500,000
16 December 2005	31 December 2008	\$0.40	200,000
16 December 2005	31 December 2008	\$0.50	250,000
16 December 2005	31 December 2007	\$0.30	150,000
16 December 2005	31 December 2008	\$0.30	50,000
3 May 2006	30 April 2010	\$0.80	350,000
26 June 2006	30 April 2011	\$0.77	325,000
12 December 2006	30 September 2013	\$0.81	1,450,000
12 December 2006	30 September 2013	\$0.90	1,900,000
12 December 2006	30 April 2010	\$0.90	100,000
12 December 2006	31 December 2011	\$0.85	150,000
12 December 2006	31 December 2011	\$0.76	50,000
1 May 2007	30 April 2012	\$0.64	50,000
			<u>5,525,000</u>

During the year ended 30 June 2007, the following ordinary shares of Paladio Group Limited were issued on the exercise of options. No further shares under option have been exercised since that date. No amounts are unpaid on any of the shares.

Grant Date	Exercise Price	Number of Shares Issued
30 June 2005	\$0.40	750,000
30 June 2005	\$0.50	250,000
16 December 2005	\$0.30	500,000
16 December 2005	\$0.40	50,000
31 March 2007	\$0.01	50,000

During the year ended 30 June 2007, the following options to acquire ordinary shares of Paladio Group Limited were cancelled due to not meeting vesting criteria. No further options have been cancelled since that date.

Grant Date	Exercise Price	Number of Options Cancelled
3 May 2006	\$0.80	400,000
26 June 2006	\$0.69	100,000
26 June 2006	\$0.71	75,000

No person entitled to exercise an option had or has any right by virtue of the option to participate in any share issue of any other body corporate.

Proceedings on Behalf of 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.

Non-audit Services

No non-audit services were provided to the company by the company's external auditor during the financial year.

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2007 has been received and can be found on page 14.

Rounding of Amounts

The company is an entity to which ASIC Class Order 98/100 applies and, accordingly, amounts in the financial statements and directors' report have been rounded to the nearest thousand dollars.

Signed in accordance with a resolution of the Board of Directors.



R Wright
Director

Dated this 30th day of August 2007

AUDITOR'S INDEPENDENCE DECLARATION TO THE BOARD OF DIRECTORS OF PALADIO GROUP LIMITED

As lead audit partner for the audit of the financial report of Paladio Group Limited for the year ended 30 June 2007, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

RSM Bird Cameron Partners
RSM BIRD CAMERON PARTNERS
Chartered Accountants



J A KOMNINOS
Partner

Perth, WA
Dated: *30 August 2007*

Income Statement

For Year Ended 30 June 2007

	Note	Economic Entity		Parent Entity	
		2007 \$000	2006 \$000	2007 \$000	2006 \$000
Revenue from ordinary activities	3	38,419	29,271	1,150	960
Cost of sales		(31,049)	(25,662)	-	-
Administration expenses		(7,815)	(4,913)	(1,732)	(954)
Borrowing expenses	4	(82)	(9)	(2)	-
Depreciation and amortisation expense	4	(812)	(486)	(33)	(18)
Equity based payments		(630)	(368)	(630)	(368)
Diminution in value of inter-company loans		-	-	(1,969)	-
Loss on termination of environmental rehabilitation joint venture		(2,190)	-	(2,451)	-
Loss on foreign exchange cash holding		(223)	-	(223)	-
Loss before income tax expense		(4,382)	(2,167)	(5,890)	(380)
Income tax (expense)/benefit	5	308	358	207	(1)
Loss after income tax (expense)/benefit		(4,074)	(1,809)	(5,683)	(381)
Net (profit)/loss attributable to minority equity interest		-	86	-	-
Net loss attributable to members of the parent entity		(4,074)	(1,723)	(5,683)	(381)
Basic earnings per share (cents per share)	8	(8.49)	(5.89)		
Diluted earnings per share (cents per share)	8	(8.49)	(5.89)		

The accompanying notes form part of these financial statements.

Balance Sheet

As At 30 June 2007

	Note	Economic Entity		Parent Entity	
		2007 \$000	2006 \$000	2007 \$000	2006 \$000
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	9	35,781	6,038	33,666	5,149
Trade and other receivables	10	8,959	10,106	-	-
Inventories	11	1,454	88	-	-
Other current assets	16	492	293	92	99
TOTAL CURRENT ASSETS		46,686	16,525	33,758	5,248
NON-CURRENT ASSETS					
Trade and other receivables	10	-	-	8,434	8,140
Other financial assets	12	-	-	5,619	7,806
Property, plant and equipment	14	4,317	6,038	90	48
Deferred tax assets	19	1,659	749	1,136	327
Intangible assets	15	5,145	1,816	-	-
TOTAL NON-CURRENT ASSETS		11,121	8,603	15,279	16,321
TOTAL ASSETS		57,807	25,128	49,037	21,569
CURRENT LIABILITIES					
Trade and other payables	17	8,393	4,751	2,092	213
Short-term borrowings	18	651	79	-	-
Short-term provisions	20	643	480	26	18
TOTAL CURRENT LIABILITIES		9,687	5,310	2,118	231
NON-CURRENT LIABILITIES					
Long-term borrowings	18	1,201	180	-	-
TOTAL NON-CURRENT LIABILITIES		1,201	180	-	-
TOTAL LIABILITIES		10,888	5,490	2,118	231
NET ASSETS		46,919	19,638	46,919	21,338
EQUITY					
Issued capital	21	53,070	21,806	53,070	21,806
Reserves	22	-	(5)	-	-
Retained earnings		(6,151)	(2,077)	(6,151)	(468)
Parent interest		46,919	19,724	46,919	21,338
Minority equity interest		-	(86)	-	-
TOTAL EQUITY		46,919	19,638	46,919	21,338

The accompanying notes form part of these financial statements.

Statement Of Changes In Equity

For Year Ended 30 June 2007

	Note	Issued Capital	Foreign Currency Translation Reserve	Retained Earnings
		\$000	\$000	\$000
Economic Entity				
Balance at 1 July 2005		5,814	-	(354)
Shares issued during the year		16,209	-	-
Transaction costs net of tax benefit		(585)	-	-
Equity based payments		368	-	-
Profit/(loss) attributable to members of parent entity		-	(5)	(1,809)
Profit/(loss) attributable to outside shareholders		-	-	86
Balance at 30 June 2006		21,806	(5)	(2,077)
Balance at 1 July 2006		21,806	(5)	(2,077)
Shares issued during the year		34,117	-	-
Transaction costs net of tax benefit		(1,363)	-	-
Cancellation of shares during the year		(2,120)	-	-
Equity based payments		630	-	-
Profit/(loss) attributable to members of parent entity		-	5	(4,074)
Balance at 30 June 2007		53,070	-	(6,151)
Parent Entity				
Balance at 1 July 2005		5,814	-	(87)
Shares issued during the year		16,209	-	-
Transaction costs net of tax benefit		(585)	-	-
Equity based payments		368	-	-
Profit/(loss) attributable to members of parent entity		-	-	(381)
Balance at 30 June 2006		21,806	-	(468)
Balance at 1 July 2006		21,806	-	(468)
Shares issued during the year		34,117	-	-
Transaction costs net of tax benefit		(1,363)	-	-
Cancellation of shares during the year		(2,120)	-	-
Equity based payments		630	-	-
Profit/(loss) attributable to members of parent entity		-	-	(5,683)
Balance at 30 June 2007		53,070	-	(6,151)

The accompanying notes form part of these financial statements.

Cash Flow Statement

For Year Ended 30 June 2007

	Economic Entity		Parent Entity	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	42,841	22,724	-	-
Payments to suppliers and employees	(42,769)	(29,342)	(772)	(145)
Interest received	315	130	242	101
Finance costs	(86)	(9)	(2)	-
Net cash provided by (used in) operating activities	25a 301	(6,497)	(532)	(44)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(2,307)	(2,361)	(75)	(36)
Purchase of investments	(1,154)	(146)	(1,476)	(2,107)
Borrowings with related companies	-	-	(1,027)	(7,338)
Net cash provided by (used in) investing activities	(3,461)	(2,507)	(2,578)	(9,481)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issue of shares	33,000	13,923	33,000	13,923
Proceeds from borrowings	1,573	-	-	-
Repayment of borrowings	(297)	(39)	-	-
Conversion of options	595	-	595	-
Costs of issuing shares	(1,968)	(784)	(1,968)	(784)
Net cash provided by (used in) financing activities	32,903	13,100	31,627	13,139
Net increase in cash held	29,743	4,096	28,517	3,614
Cash at beginning of financial year	6,038	1,942	5,149	1,535
Cash at end of financial year	9 35,781	6,038	33,666	5,149

The accompanying notes form part of these financial statements.

Notes To The Financial Statements

For The Year Ended 30 June 2007

Note 1: Statement of Significant Accounting Policies

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report covers the economic entity of Paladio Group Limited and controlled entities, and Paladio Group Limited as an individual parent entity. Paladio Group Limited is a listed public company, incorporated and domiciled in Australia.

The financial report of Paladio Group Limited and controlled entities, and Paladio Group Limited as an individual parent entity comply with all Australian equivalents to International Financial Reporting Standards (IFRS) in their entirety. Compliance with A-IFRS ensures that the financial statements and notes of the company and the Group comply with International Financial Reporting Standards (IFRS)

The following is a summary of the material accounting policies adopted by the economic entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

Basis of Preparation

Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, and financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Accounting Policies

(a) Principles of Consolidation

A controlled entity is any entity Paladio Group Limited has the power to control the financial and operating policies of so as to obtain benefits from its activities.

A list of controlled entities is contained in Note 13 to the financial statements. All controlled entities have a June financial year-end.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the

parent entity.

Where controlled entities have entered or left the economic entity during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

Minority equity interests in the equity and results of the entities that are controlled are shown as a separate item in the consolidated financial report.

(b) Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Paladio Group Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. Paladio Group Limited is responsible for recognising the current and deferred tax assets and liabilities for the tax consolidated group. The group notified the Australian Taxation Office on 20 January 2006 that it had formed an income tax consolidated group to apply from 14 December 2004. The tax consolidated

Notes To The Financial Statements

For The Year Ended 30 June 2007 — *Continued*

group has entered a tax sharing agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group.

(c) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of work in progress includes direct materials and direct labour.

(d) Construction Contracts and Work in Progress

Construction 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.

Construction 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.

Construction revenue has been recognised on the basis of the terms of the contract adjusted for any variations or claims allowable under the contract.

(e) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Depreciation

The depreciable amount of all fixed assets and capitalised lease assets is depreciated on a straight-line basis over their useful lives to the economic entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of

the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Plant and equipment	Between 10% and 30%
Computer equipment	Between 30% and 33%
Motor vehicles	22.5%
Leased computer equipment	33%
Leased motor vehicles	22.5%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(f) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that are transferred to entities in the economic entity are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over their estimated useful lives.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

(g) Impairment of Assets

At each reporting date, the economic entity reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and

intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the economic entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(h) Intangibles

Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its net assets at date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

(i) 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.

Transaction 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. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

Group companies

The financial results and position of foreign operations whose functional currency is different from the group's

presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- Income and expenses are translated at average exchange rates for the period; and
- retained profits are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the group's foreign currency translation reserve in the balance sheet. These differences are recognised in the income statement in the period in which the operation is disposed.

(j) Employee Benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance 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, plus related on-costs. 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.

Equity-settled compensation

The company operates a number of share-based compensation plans including discretionary granting of options and an employee share option scheme. The bonus element over the exercise price of the employee services rendered in exchange for the grant of shares and options is recognised as an expense in the income statement. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares of the options granted.

(k) Provisions

Provisions are recognised when the economic entity has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

(l) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and deposits held at call with banks.

Notes To The Financial Statements

For The Year Ended 30 June 2007 — *Continued*

(m) Revenue

Revenue from the sale of goods is recognised upon the delivery of goods to customers.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

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

All revenue is stated net of the amount of goods and services tax (GST).

(n) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in income in the period in which they are incurred.

(o) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(p) Rounding of Amounts

The parent entity has applied the relief available to it under ASIC Class Order 98/100 and accordingly, amounts in the financial report and directors' report have been rounded off to the nearest \$1,000.

(q) Critical accounting estimates and judgments

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the economic entity.

Impairment of goodwill and intangibles with indefinite useful lives

The economic entity assesses whether goodwill and intangibles with indefinite useful lives are assessed for impairment at least annually. These calculations involve an estimation of the recoverable amount of the cash generating units to which goodwill and intangibles with indefinite useful lives are allocated.

Environmental Rehabilitation Joint Venture

The economic entity has assessed the loss on exiting the environmental rehabilitation joint venture based on a future event being the market price of the company's shares once it receives shareholder approval to buy-back 2,650,000 shares held by its joint venture partner and such buy-back is settled. The market price of the company's shares used in deriving the loss reflected in this financial report is \$0.80 per share. The actual loss that will be incurred may differ depending on the buy-back price. Every \$0.01 difference in the company's share price will result in a variance of \$26,500 with the maximum additional loss which may be incurred being \$265,000 in the company's share price falls at or below \$0.70 per share.

Note 2: New Accounting Standards and Interpretations Issued But Not Yet Effective

The economic entity has reviewed accounting standards and interpretations which have been issued but are not as yet effective as at the date of this financial report. No material impact is anticipated to arise from the application of these accounting standards and interpretations.

Note 3: Revenue

	Note	Economic Entity		Parent Entity	
		2007 \$000	2006 \$000	2007 \$000	2006 \$000
Operating activities:					
— sale of goods and services		38,102	29,141	-	-
— interest received	3(a)	317	130	243	101
		38,419	29,271	243	101
Non-operating activities:					
— intra-group corporate charges		-	-	907	859
		-	-	907	859
Total revenue		38,419	29,271	1,150	960
(a) Other income					
Interest revenue from:					
— other persons		317	130	243	101
Total interest revenue		317	130	243	101

Note 4: Profit for the Year

Expenses:					
Employee benefits costs		27,789	18,917	709	367
Borrowing costs:					
— external		82	9	2	-
Total borrowing costs		82	9	2	-
Depreciation of non-current assets:					
— plant and equipment owned		745	425	33	18
— plant and equipment leased		67	61	-	-
Total depreciation		812	486	33	18
Rental expense on operating leases		298	217	24	14

Notes To The Financial Statements

For The Year Ended 30 June 2007 — *Continued*

Note 5: Income Tax Expense

	Note	Economic Entity		Parent Entity	
		2007 \$000	2006 \$000	2007 \$000	2006 \$000
(a) The components of tax expense comprise:					
Current tax		-	-	-	-
Deferred tax	19	308	358	207	(1)
		308	358	207	(1)
(b) The prima facie tax benefit on loss from ordinary activities before income tax is reconciled to the income tax benefit as follows:					
Prima facie future tax benefit on loss from ordinary activities before income tax at 30% (2006: 30%)		1,315	650	1,767	114
Adjusted by the tax effect of:					
— shares and options expensed during year		(189)	(110)	(189)	(110)
— impairment of goodwill		(86)	-	-	-
— diminution in value of inter-company loans		-	-	(591)	-
— loss on termination of joint venture		(657)	-	(735)	-
— difference between depreciation for tax and accounting purposes		(74)	(56)	(1)	(1)
— movements in provisions and accruals		(1)	(126)	(44)	(4)
Income tax (expense)/benefit attributable to loss from ordinary activities before income tax		308	358	207	(1)

Note 6: Key Management Personnel

(a) *Names and positions held of parent entity directors and specified executives in office at any time during the financial year are:*

Parent Entity Directors

Dick Wright

Robert Franco

Peter Wallace

Dennis O'Neill

(appointed on 29 September 2006)

Roy Rose

(appointed on 2 May 2006 and retired on 23 August 2006)

Geoff Gander

(retired on 31 July 2006)

Specified Executives

Len Tronccone

Note 6: Key Management Personnel - *Continued*

(b) Parent Entity Directors' Remuneration

2007	Primary				Total
	Salary and Fees	Superannuation Contribution	Non-cash Benefits	Options	
	\$000	\$000	\$000	\$000	
Dick Wright	267	-	-	204	471
Robert Franco	156	14	-	56	226
Peter Wallace ¹	41	4	-	74	119
Dennis O'Neill ¹	-	61	-	165	226
Roy Rose ²	8	-	-	-	8
Geoff Gander ³	-	-	-	-	-
	472	79	-	499	1,050

Notes: 1. Mr Dennis O'Neill was appointed a director on 29 September 2006.
 2. Mr Roy Rose was appointed a director on 2 May 2006 and retired on 23 August 2006.
 3. Mr Geoff Gander retired on 31 July 2006.

2006	Primary				Total
	Salary and Fees	Superannuation Contribution	Non-cash Benefits	Options	
	\$000	\$000	\$000	\$000	
Dick Wright	167	-	-	191	358
Robert Franco	137	12	-	68	217
Peter Wallace ¹	20	2	-	-	22
Roy Rose ²	5	-	-	-	5
Geoff Gander ³	36	2	-	40	78
	365	16	-	299	680

Notes: 1. Mr Peter Wallace was appointed a director on 25 October 2005.
 2. Mr Roy Rose was appointed a director on 2 May 2006 and retired on 23 August 2006.
 3. Mr Geoff Gander retired on 31 July 2006, hence the above table shows his remuneration for the full financial year.

The service and performance criteria set to determine remuneration are included in Note 6(h).

Notes To The Financial Statements

For The Year Ended 30 June 2007 — *Continued*

Note 6: Key Management Personnel - *Continued*

(c) Specified Executive's Remuneration

2007	Primary					Total
	Salary	Superannuation Contribution	Non-cash Benefits	Options	Bonus	
	\$000	\$000	\$000	\$000	\$000	
Len Troncone	200	20	-	95	100	415
	200	20	-	95	100	415

2006	Primary					Total
	Salary	Superannuation Contribution	Non-cash Benefits	Options	Bonus	
	\$000	\$000	\$000	\$000	\$000	
Len Troncone	185	17	2	52	-	256
	185	17	2	52	-	256

The service and performance criteria set to determine remuneration are included in Note 6(h).

(d) Remuneration Options

Options Granted as Remuneration

	Vested No.	Granted No.	Grant Date	Value per Option at Grant Date	Exercise Price \$	First Exercise Date	Last Exercise Date
Parent Entity Directors:							
Dick Wright	-	1,000,000	12-Dec-06	\$0.35	\$0.90 ¹	12-Dec-07	30-Sep-13
Robert Franco	-	450,000	12-Dec-06	\$0.35	\$0.90 ¹	12-Dec-07	30-Sep-13
Dennis O'Neill	-	1,000,000	12-Dec-06	\$0.39	\$0.81 ²	12-Dec-07	30-Sep-13
Peter Wallace	-	450,000	12-Dec-06	\$0.39	\$0.81 ²	12-Dec-07	30-Sep-13
Specified Executive:							
Len Troncone	-	450,000	12-Dec-06	\$0.35	\$0.90 ¹	12-Dec-07	30-Sep-13
	-	3,350,000					

Notes: 1. Exercise price was 10% higher than the market price of the company's shares at the date of the board's decision to grant the options.

2. Exercise price was the same as the market price of the company's shares at the date of the board's decision to grant the options.

The service and performance criteria set to determine remuneration are included in Note 6(h).

Note 6: Key Management Personnel - *Continued*

(e) Shares Issued on Exercise of Remuneration Options

Options exercised during the year that were granted as remuneration in prior periods

	Ordinary Shares Issued No.	Amount Paid per Share \$	Amount Unpaid per Share \$
Parent Entity Director:			
Dick Wright	50,000	\$0.40	-
Dick Wright	100,000	\$0.30	-
Robert Franco	250,000	\$0.30	-
Geoff Gander	150,000	\$0.30	-
	<u>550,000</u>		

(f) Options and Rights Holdings

Number of Options Held by Directors and Specified Executive

	Balance 1.7.06	Granted as Remun- eration	Options Exercised	Options Cancelled	Balance 30.6.07	Total Vested & Exercisable 30.6.07	Total Unexer- cisable 30.6.07
Parent Entity Directors:							
Dick Wright	1,350,000	1,000,000	150,000	400,000	1,800,000	450,000	1,350,000
Robert Franco	250,000	450,000	250,000	-	450,000	-	450,000
Peter Wallace	-	450,000	-	-	450,000	-	450,000
Dennis O'Neill (appointed 29 September 2006)	-	1,000,000	-	-	1,000,000	-	1,000,000
Geoff Gander (retired 31 July 2006)	150,000	-	150,000	-	-	-	-
Specified Executive:							
Len Troncone	450,000	450,000	-	-	900,000	316,667	583,333
Total	<u>2,200,000</u>	<u>3,350,000</u>	<u>550,000</u>	<u>400,000</u>	<u>4,600,000</u>	<u>766,667</u>	<u>3,833,333</u>

Notes To The Financial Statements

For The Year Ended 30 June 2007 — *Continued*

Note 6: Key Management Personnel - *Continued*

(g) Shareholdings

Parent Entity Directors and Specified Executive Interests in Shares

	Balance 1.7.06	Received as Remuneration	Options Exercised	Net Change Other*	Balance 30.6.07
Parent Entity Directors:					
Dick Wright	970,000	-	150,000	120,300	1,240,300
Robert Franco	7,350,000	-	250,000	-	7,600,000
Peter Wallace	40,000	-	-	-	40,000
Dennis O'Neill (appointed 29 September 2006)	-	-	-	100,000	100,000
Roy Rose (appointed 3 May 2006 retired 23 August 2006)	3,000,000	-	-	(3,000,000)	-
Geoff Gander (retired 31 July 2006)	305,000	-	150,000	(455,000)	-
Specified Executive:					
Len Tronccone	100,000	-	-	-	100,000
	<u>11,765,000</u>	<u>-</u>	<u>550,000</u>	<u>(3,234,700)</u>	<u>9,080,300</u>

* Net change other refers to shares purchased or sold during the financial year. In the case of Mr Roy Rose and Mr Geoff Gander, it refers to the effect of these individuals retiring as directors of the company.

(h) Remuneration Practices

The company's policy for determining the nature and amount of emoluments of board members and senior executives of the company is as follows:

The remuneration structure for executive officers, including executive directors, is based on a number of factors, including length of service, particular experience of the individual concerned, and overall performance of the company. The contracts for service between the company and specified directors and executives are on a continuing basis the terms of which are not expected to change in the immediate future. Upon retirement specified directors and executives are paid employee benefit entitlements accrued to the date of their retirement. The company may terminate the respective contracts without cause by providing between one and three months written notice or making payment in lieu of notice based on the individual's annual salary component together with a discretionary redundancy payment. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the company can terminate employment at any time. Executives have 30 days from leaving their employment with the company to exercise any vested options after which time the vested options will automatically lapse. Any unvested options lapse automatically upon termination.

Note 7: Auditors' Remuneration

	Economic Entity		Parent Entity	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
Remuneration of the auditor of the parent entity for:				
— auditing or reviewing the financial report	51	35	51	35
— other services	-	-	-	-
	51	35	51	35

Note 8: Earnings/(Loss) per Share

	Economic Entity	
	2007 \$000	2006 \$000
(a) Reconciliation of Earnings to Profit or Loss		
Profit/(loss)	(4,074)	(1,809)
(Profit)/loss attributable to minority equity interest	-	86
Earnings used to calculate basic and dilutive EPS	(4,074)	(1,723)
	No.	No.
(b) Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	48,008,042	28,801,547
Weighted average number of options outstanding	-	-
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	48,008,042	28,801,547

Note 9: Cash Assets

	Economic Entity		Parent Entity	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
Cash at bank	35,781	6,038	33,666	5,149
Reconciliation of cash				
Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet as follows:				
Cash and cash equivalents	35,781	6,038	33,666	5,149

Notes To The Financial Statements

For The Year Ended 30 June 2007 — *Continued*

Note 10: Receivables

	Economic Entity		Parent Entity	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
CURRENT				
Trade receivables	8,961	10,108	-	-
Provision for impairment of receivables	(2)	(2)	-	-
	8,959	10,106	-	-
NON-CURRENT				
Amounts receivable from:				
— wholly-owned subsidiaries	-	-	10,403	8,070
— provision for impairment of receivables	-	-	(1,969)	
— partly-owned subsidiaries	-	-	-	70
	-	-	8,434	8,140

Note 11: Inventories

CURRENT				
At cost:				
Raw materials and stores	93	79	-	-
Work in progress	1,361	9	-	-
	1,454	88	-	-

Note 12: Other Financial Assets

	Note	Economic Entity		Parent Entity	
		2007 \$000	2006 \$000	2007 \$000	2006 \$000
NON-CURRENT					
Shares in Controlled Entities					
Unlisted at cost:					
Novacoat (WA) Pty Ltd		-	-	2,823	2,823
Principal activity is abrasive blasting and protective coatings.					
McFee Pty Ltd		-	-	625	625
Principal activity is provision of construction services					
CASE Services Pty Ltd		-	-	152	152
Principal activity is provision of completion, commissioning support and engineering services					
Remtech Environmental Solutions Pty Ltd		-	-	-	4,206
Principal activity is provision of environmental remediation services					
Fabcon Construction Pty Ltd		-	-	2,019	-
Principal activity is provision of construction services					
Investment at cost		-	-	5,619	7,806

Note 13: Controlled Entities

(a) Controlled Entities Consolidated

	Country of Incorporation	Percentage Owned (%)	
		2007	2006
Parent Entity:			
Paladio Group Limited	Australia		
Subsidiaries of Paladio Group Limited:			
Novacoat (WA) Pty Ltd	Australia	100%	100%
Novacoat Workforce Pty Ltd	Australia	100%	100%
McFee Pty Ltd	Australia	100%	100%
McFee Engineering Pty Ltd	Australia	100%	100%
CASE Services Pty Ltd	Australia	100%	100%
Remtech Environmental Solutions Pty Ltd	Australia	51%	51%
McFee Maintenance Pty Ltd	Australia	100%	100%
Fabcon Construction Pty Ltd	Australia	100%	-
Subsidiary of CASE Services Pty Ltd:			
Eastman Fort Pty Ltd	Australia	100%	-
Subsidiary of McFee Maintenance Pty Ltd:			
Westec Engineering Services Australia Pty Ltd	Australia	100%	-

Notes To The Financial Statements

For The Year Ended 30 June 2007 — *Continued*

Note 13: Controlled Entities — *Continued*

(b) Acquisition of Controlled Entities

On 13 September 2006, the parent entity acquired 100% of Fabcon Construction Pty Ltd, with Paladio Group Limited entitled to all profits earned from the date of acquisition for a purchase consideration of \$2,019,000.

On 12 October 2006, a wholly owned subsidiary of the parent entity acquired 100% of Westec Engineering Services Australia Pty Ltd, with the economic entity entitled to all profits earned from the date of acquisition for a purchase consideration of \$395,000.

On 29 January 2007, a wholly owned subsidiary of the parent entity acquired 100% of Eastman Fort Pty Ltd, with the economic entity entitled to all profits earned from the date of acquisition for a purchase consideration of \$3,374,000.

(c) Closed Group

A deed of cross guarantee between Paladio Group Limited and its wholly owned subsidiaries Novacoat (WA) Pty Ltd, Novacoat Workforce Pty Ltd, McFee Pty Ltd, McFee Engineering Pty Ltd, CASE Services Pty Ltd and McFee Maintenance Pty Ltd existed during the financial year and relief was obtained from preparing a financial report for Paladio Group Limited's wholly owned subsidiaries under ASIC Class Order 98/1418. Under the deed, Paladio Group Limited and the above named wholly owned subsidiaries guarantee to support each others' liabilities and obligations. Paladio Group Limited and its above named wholly owned subsidiaries are the only parties to the deed of cross guarantee and are members of the Closed Group. The following are the aggregate totals, for each category, relieved under the deed.

	Closed Group 2007 \$000	Closed Group 2006 \$000
--	--	--

Financial information in relation to:

(i) Income Statement:

Profit/(loss) before income tax	(5,143)	(1,915)
Income tax (expense)/benefit	580	282
Profit/(loss) after income tax	(4,563)	(1,633)
Profit/(loss) attributable to members of the parent entity	(4,563)	(1,633)

(ii) Retained Earnings:

Retained profits/(losses) at the beginning of the year	(1,987)	(354)
Profit/(loss) after income tax	(4,563)	(1,633)
Retained earnings at the end of the year	(6,550)	(1,987)

Note 13: Controlled Entities — *Continued*

	Closed Group 2007 \$000	Closed Group 2006 \$000
(iii) Balance Sheet:		
CURRENT ASSETS		
Cash and cash equivalents	34,614	6,038
Trade and other receivables	7,600	10,105
Inventories	1,392	88
Other current assets	448	287
TOTAL CURRENT ASSETS	44,054	16,518
NON-CURRENT ASSETS		
Trade and other receivables	2,656	69
Other financial assets	2,019	4,206
Property, plant and equipment	2,119	2,118
Deferred tax assets	2,000	674
Intangible assets	1,529	1,529
TOTAL NON-CURRENT ASSETS	10,323	8,596
TOTAL ASSETS	54,377	25,114
CURRENT LIABILITIES		
Trade and other payables	7,018	4,556
Short-term borrowings	200	79
Short-term provisions	450	480
TOTAL CURRENT LIABILITIES	7,668	5,115
NON-CURRENT LIABILITIES		
Long-term borrowings	189	180
TOTAL NON-CURRENT LIABILITIES	189	180
TOTAL LIABILITIES	7,857	5,295
NET ASSETS	46,520	19,819
EQUITY		
Issued capital	53,070	21,806
Retained earnings	(6,550)	(1,987)
	46,520	19,819

Notes To The Financial Statements

For The Year Ended 30 June 2007 — *Continued*

Note 14: Property, Plant and Equipment

	Economic Entity		Parent Entity	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
PLANT AND EQUIPMENT				
Plant and Equipment:				
At cost	3,761	6,411	141	67
Accumulated depreciation	(1,231)	(614)	(51)	(19)
	2,530	5,797	90	48
Leased plant and equipment	2,065	307	-	-
Accumulated depreciation	(278)	(66)	-	-
	1,787	241	-	-
Total Property, Plant and Equipment	4,317	6,038	90	48

Movements in Carrying Amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year:

	Owned Plant and Equipment \$000	Leased Plant and Equipment \$000	Total \$000
Economic Entity:			
Balance at the beginning of year	5,797	241	6,038
Additions	1,253	1,758	3,011
Disposals	(3,920)	-	(3,920)
Depreciation expense	(600)	(212)	(812)
Carrying amount at the end of year	2,530	1,787	4,317
Parent Entity:			
Balance at the beginning of year	48	-	48
Additions	75	-	75
Depreciation expense	(33)	-	(33)
Carrying amount at the end of year	90	-	90

Note 15: Intangible Assets

	Economic Entity		Parent Entity	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
Goodwill at cost	5,145	1,816	-	-

Movements in Carrying Amounts

Movements in the carrying amounts for each class of intangible asset between the beginning and the end of the current financial year:

	2007 \$000	2006 \$000
Goodwill:		
Balance at the beginning of year	1,816	1,378
Additions	3,615	438
Impairment write-off	(286)	-
Balance at the end of year	5,145	1,816

The recoverable amount of each cash-generating unit is determined based on value-in-use calculations. Value-in-use is calculated based on the present value of cash flow projections over a five year period with the period extending beyond one year extrapolated using an estimated growth rate. The cash flows are discounted using a discount rate of 10%.

Management has based the value-in-use calculations on budgets for each cash generating unit. Costs are calculated taking into account historical gross margins as well as estimated weighted average inflation rates over the period which are consistent with inflation rates applicable to the locations in which the cash generating units operate. Discount rates are pre-tax and are adjusted to incorporate risks associated with a particular industry.

Note 16: Other Assets

	Economic Entity		Parent Entity	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
CURRENT				
Prepayments	161	71	24	24
Other	331	222	68	75
	492	293	92	99

Notes To The Financial Statements

For The Year Ended 30 June 2007 — *Continued*

Note 17: Payables

	Economic Entity		Parent Entity	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
CURRENT				
Unsecured liabilities:				
Trade payables	2,442	2,629	181	101
Sundry payables and accrued expenses	5,951	2,122	1,911	112
	8,393	4,751	2,092	213

Note 18: Borrowings

	Note	Economic Entity		Parent Entity	
		2007 \$000	2006 \$000	2007 \$000	2006 \$000
CURRENT					
Unsecured liabilities:					
Lease liability	23	530	79	-	-
Premium funding liability	23	121	-	-	-
		651	79	-	-
NON-CURRENT					
Unsecured liabilities:					
Lease liability	23	1,201	180	-	-
		1,201	180	-	-

Note 19: Tax

	Note	Economic Entity		Parent Entity	
		2007 \$000	2006 \$000	2007 \$000	2006 \$000
(a) Assets					
Deferred tax assets comprise:					
Provisions and accruals		193	144	8	5
Transaction costs on equity issue		888	286	888	286
Other		578	319	240	36
		1,659	749	1,136	327
(b) Reconciliations					
(i) Gross Movements					
The overall movement in the deferred tax benefit account is as follows:					
Opening balance		749	156	327	93
(Charge) / credit to income statement	5	308	358	207	(1)
(Charge) / credit to equity		602	235	602	235
Closing balance		1,659	749	1,136	327
(ii) Deferred Tax Assets					
The movement in deferred tax assets for each temporary difference during the year is as follows:					
Provisions and accruals					
At 1 July 2006		144	26	5	17
(Charge) / credit to income statement		49	118	3	(12)
At 30 June 2007		193	144	8	5
Transaction costs on equity issue					
At 1 July 2006		286	51	286	51
Credit directly to equity		602	235	602	235
At 30 June 2007		888	286	888	286
Other					
At 1 July 2006		319	79	36	25
(Charge) / credit to income statement		259	240	204	11
At 30 June 2007		578	319	240	36

Notes To The Financial Statements

For The Year Ended 30 June 2007 — *Continued*

Note 20: Provisions

	Economic Entity		Parent Entity	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
CURRENT				
Employee entitlements	643	480	26	18
Reconciliation of Provisions				
Opening balance at 1 July 2006	480	61	18	5
Additional provisioning	493	747	26	23
Amounts used	(330)	(328)	(18)	(10)
Balance at 30 June 2007	643	480	26	18

Provision for Employee Entitlements

A provision has been recognised for employee entitlements relating to annual, long service and vesting sick leave. In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based on historical data. The measurement and recognition criteria relating to employee benefits have been included in Note 1 to this report.

Note 21: Issued Capital

	Economic Entity		Parent Entity	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
92,683,521 (2006: 46,483,521) fully paid ordinary shares	53,070	21,806	53,070	21,806
	No.	No.	No.	No.
(a) Ordinary Shares				
At the beginning of reporting period	46,483,521	21,473,519	46,483,521	21,473,519
Shares issued during the year				
— 2 September 2005	-	950,000	-	950,000
— 30 November 2005	-	6,360,000	-	6,360,000
— 3 May 2006	-	17,500,002	-	17,500,002
— 27 June 2006	-	50,000	-	50,000
— 28 June 2006	-	150,000	-	150,000
— 13 September 2006	600,000	-	600,000	-
— 29 September 2006	250,000	-	250,000	-
— 13 October 2006	150,000	-	150,000	-
— 18 October 2006	250,000	-	250,000	-
— 21 November 2006	500,000	-	500,000	-
— 23 April 2007	150,000	-	150,000	-
— 29 June 2007	44,300,000	-	44,300,000	-
At reporting date	92,683,521	46,483,521	92,683,521	46,483,521

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At the shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

(b) Options

(i) For information relating to the Paladio Group Limited employee share option plan, including details of options issued, exercised and lapsed during the financial year and the options outstanding at year-end, refer to Note 26.

(ii) For information relating to share options issued to executive directors during the financial year, refer to Note 26.

Notes To The Financial Statements

For The Year Ended 30 June 2007 — *Continued*

Note 22: Reserves

Foreign Currency Translation Reserve

The foreign currency translation reserve records exchange differences arising on translation of a foreign controlled subsidiary.

Note 23: Capital and Leasing Commitments

	Note	Economic Entity		Parent Entity	
		2007 \$000	2006 \$000	2007 \$000	2006 \$000
(a) Finance Lease Commitments					
Payable — minimum lease payments					
— not later than 1 year		604	80	-	-
— between 1 and 5 years		1,362	215	-	-
Minimum lease payments		1,966	295	-	-
Less future finance charges		(235)	(36)	-	-
Present value of minimum lease payments	18	1,731	259	-	-
(b) Premium Funding Commitments					
Payable — minimum lease payments					
— not later than 1 year		125	-	-	-
Minimum lease payments		125	-	-	-
Less future finance charges		(4)	-	-	-
Present value of minimum lease payments	18	121	-	-	-
(c) Operating Lease Commitments					
Non-cancellable operating leases contracted for but not capitalised in the financial statements					
Payable — minimum lease payments					
— not later than 1 year		249	229	-	-
— between 1 and 5 years		1,328	1,261	-	-
— greater than 5 years		425	712	-	-
		2,002	2,202	-	-

The property lease for the Kwinana workshop facilities is a non-cancellable lease with a ten year term, with rent payable monthly in advance. Rental provisions within the lease agreement require the minimum lease payments shall be increased by CPI each year with market reviews performed initially after two years and then each five years thereafter. Options exist to renew the lease at the end of the 10 year term for an additional term of 5 years with a further 5 year term after the initial option period.

The property lease for the Belmont office premises is a non-cancellable lease with a two year term, with rent payable monthly in advance. Rental provisions within the lease agreement require the minimum lease payments shall be increased by CPI each year. Options exist to renew the lease at the end of the two year term for an additional term of 7 years with a further 7 year term after the initial option period.

The property lease for the Williamstown workshop premises is a non-cancellable lease with a two year term, with rent payable monthly in advance. No provisions for rental reviews or options to extend the lease term are provided for in the lease agreement.

Note 24: Segment Reporting

Business

The economic entity operates in the single business segment being the supply of industrial services predominantly to the resources industry.

The directors believe this to be the case because of the following reasons:

- The economic entity performs services for a common industry sector being the resources sector;
- The economic entity operates with a centralised system and shared services personnel;
- There is common use of plant, equipment and sub-contractors;
- Operations are conducted within a single regulatory environment; and
- Common customers exist within the economic entity's divisions which are exposed to similar operational risks and rewards.

Geographical

Paladio Group Limited and its subsidiaries operate in a single secondary reporting segment being Australia.

Note 25: Cash Flow Information

	Economic Entity		Parent Entity	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
(a) Reconciliation of Cash Flow from Operations with Profit from Ordinary Activities after Income Tax				
Profit/(loss) from ordinary activities after income tax	(4,074)	(1,809)	(5,683)	(381)
Non-cash flows in profit from ordinary activities				
Depreciation	812	486	33	18
Equity based payments	630	368	630	368
Loss on exit of environmental rehabilitation joint venture	2,190	-	2,451	-
Diminution in value of inter-company loans	-	-	1,969	-
Insurance expense funded by external premium funding	196	-	-	-
Insurance premium funding instalments paid	(75)	(44)	-	-
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries				
Trade receivables	1,146	(9,329)	-	-
Prepayments	(90)	29	-	(9)
Other assets	(108)	(145)	7	(39)
Inventories	(1,375)	(3)	-	-
Trade payables and accruals	1,259	3,889	260	(15)
Deferred tax assets	(308)	(358)	(207)	1
Provisions	98	419	8	13
Cash flow from operations	301	(6,497)	(532)	(44)

Notes To The Financial Statements

For The Year Ended 30 June 2007 — *Continued*

Note 25: Cash Flow Information — *Continued*

	Economic Entity		Parent Entity	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
(b) Acquisition of Entities				
On 13 September 2006, 100% of the controlled entity Fabcon Construction Pty Ltd was acquired. Details of this transaction are:				
Purchase consideration	2,019	-	2,010	-
Cash consideration	1,509	-	1,500	-
Issue of shares	510	-	510	-
Total purchase consideration	2,010	-	2,010	-
Assets and liabilities held at acquisition date:				
Plant and equipment	(2,010)	-	(2,010)	-
Goodwill on consolidation	-	-	-	-
Contribution to consolidated net loss after income tax	403	-	403	-
On 12 October 2006, 100% of the controlled entity Westec Engineering Services Australia Pty Ltd was acquired. Details of this transaction are:				
Purchase consideration	395	-	395	-
Cash consideration	395	-	395	-
Total purchase consideration	395	-	395	-
Assets and liabilities held at acquisition date:				
Property, plant and equipment	(32)	-	(32)	-
Employee entitlements	65	-	65	-
Goodwill on consolidation	428	-	428	-
Contribution to consolidated net loss after income tax	(46)	-	(46)	-
On 29 January 2007, 100% of the controlled entity Eastman Fort Pty Ltd was acquired. Details of this transaction are:				
Purchase consideration	3,374	-	3,374	-
Cash consideration	990	-	990	-
Deferred cash consideration	850	-	850	-
Issue of shares	34	-	34	-
Deferred issue of shares	1,500	-	1,500	-
Total purchase consideration	3,374	-	3,374	-
Assets and liabilities held at acquisition date:				
Plant and equipment	(303)	-	(303)	-
Prepayments	(4)	-	(4)	-
Employee entitlements	84	-	84	-
Lease liability	27	-	27	-
Goodwill on consolidation	3,178	-	3,178	-
Contribution to consolidated net loss after income tax	161	-	161	-

There is no disclosure of the effect on the consolidated income statement if the acquired entities were assumed to be made on 1 July 2006 as reliable information is not available.

Note 25: Cash Flow Information — *Continued*

	Economic Entity		Parent Entity	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
(c) Non-cash Financing and Investing Activities				
(i) Share issues:				
- 600,000 fully paid ordinary shares at \$0.85 each issued in part consideration for the acquisition of Fabcon Construction Pty Ltd	510	-	510	-
- 50,000 options to acquire ordinary shares exercisable at \$0.01 each as part consideration for the acquisition of Eastman Fort Pty Ltd	34	-	34	-
- 214,287 fully paid ordinary shares at \$0.70 each issued in consideration for the acquisition of CASE Services Pty Ltd	-	150	-	150
- 3,000,000 fully paid ordinary shares at \$0.70 each issued as part consideration for the acquisition of a 51% interest in Remtech Environmental Solutions Pty Ltd	-	2,100	-	2,100
(ii) Finance leases:				
- Finance leases to acquire motor vehicles and office equipment	197	150	-	-
(iii) Plant and equipment:				
- Plant and equipment acquired via equity issue by a subsidiary entity	-	1,960	-	-

Notes To The Financial Statements

For The Year Ended 30 June 2007 — *Continued*

Note 26: Share-based Payments

The following share-based payment arrangements were made during the financial year ended 30 June 2007.

The company established the Paladio Group Limited Share Option Plan ("the Plan") on 24 November 2005 following approval of the Plan by shareholders at a general meeting held on that date. All employees of the economic entity are entitled to participate in the Plan at the parent entity's board's discretion. The exercise price of the options granted pursuant to the plan is calculated as the average market value of the company's share price on the five days preceding the date in which the board resolved to grant the options pursuant to the Plan. The vesting conditions are that one third of the number of options granted pursuant to the Plan may be exercised within one year from the date of granting, a further one third within 2 years from the date of granting and the remainder fully vested thereafter. Options issued under the Plan have an expiry date of 5 years from the date of granting. Shares issued pursuant to the exercise of vested options are entitled to full dividend and voting rights. The number of options that may be granted under the Plan is restricted to no more than 5% of the number of ordinary shares on issue by the parent company.

The company has granted options as part of contracts of employment with key employees to attract them to join and retain their services within the economic entity. The exercise prices of the granted options pursuant to contracts of employment were set based on the market value of the company's share price at the time of the offer of employment was made. These options have varying vesting terms and expiry periods.

The company has granted options to executive directors pursuant to shareholder approval gained during general meetings to grant such options. The exercise prices of the options granted to executive directors was set based on the market value of the company's share price at the time of the board's decision to recommend such granting of options to the company's shareholders. These options have varying vesting terms and expiry periods.

Common terms and conditions applicable to all options granted are:

- options have no rights to any dividends;
- options are not transferable;
- any vested options must be exercised within 30 days of ceasing employment with the economic entity or they automatically expire thereafter; and
- any unvested options automatically expire upon ceasing employment with the economic entity.

Note 26: Share-based Payments — Continued

2007		Economic and Parent Entity											
Exercise Price	Expiry Date	Vesting Terms	Beginning of Year	Granted	Exercised	Cancelled	Outstanding at Year-End	Exercisable at Year-End	Value of Options Granted	Underlying Share Price	Volatility Factor	Risk Free Rate	
\$			No.	No.	No.	No.	No.	No.	\$000	\$	%	%	
\$0.30	31-Dec-08	28-Apr-06	500,000	-	-	-	500,000	500,000	-	-	-	-	
\$0.40	31-Dec-10	Upon granting	750,000	-	(750,000)	-	-	-	-	-	-	-	
\$0.50	31-Dec-10	Upon granting	250,000	-	(250,000)	-	-	-	-	-	-	-	
\$0.30	30-Jun-07	Upon granting	500,000	-	(500,000)	-	-	-	-	-	-	-	
\$0.40	31-Dec-08	Upon granting	250,000	-	(50,000)	-	200,000	200,000	-	-	-	-	
\$0.50	31-Dec-08	50% 16-Jun-06, 50% 16-Dec-06	250,000	-	-	-	250,000	250,000	-	-	-	-	
\$0.30	31-Dec-07	On 6-Jun-06	150,000	-	-	-	150,000	150,000	-	-	-	-	
\$0.30	31-Dec-08	On 6-Jun-07	50,000	-	-	-	50,000	50,000	-	-	-	-	
\$0.69	31-Dec-09	1-Aug-06 one third, 1-Feb-07 one third, remainder on 1-Aug-07	100,000	-	-	(100,000)	-	-	-	-	-	-	
\$0.71	1-Feb-10	On 1-Dec-06	75,000	-	-	(75,000)	-	-	-	-	-	-	
\$0.77	30-Apr-11	30-Apr-06 one third, 30-Apr-07 one third, remainder 1-May-07	325,000	-	-	-	325,000	216,667	-	-	-	-	
\$0.80	30-Apr-10	350,000 on 30-Apr-08, 400,000 on achievement of profit hurdle by 30-Jun-07	750,000	-	-	(400,000)	350,000	-	-	-	-	-	
\$0.01	30-Jun-07	By 30-Jun-07	-	50,000	(50,000)	-	-	-	34	\$0.67	50%	5.87%	
\$0.76	31-Dec-11	12-Dec-06 one third, 12-Dec-07, one third, remainder 12-Dec-08	-	50,000	-	-	50,000	16,667	18	\$0.74	50%	5.87%	
\$0.85	31-Dec-11	12-Dec-06 one third, 12-Dec-07, one third, remainder 12-Dec-08	-	150,000	-	-	150,000	50,000	51	\$0.74	50%	5.87%	
\$0.90	30-Apr-10	12-Dec-06 one third, 12-Dec-07, one third, remainder 12-Dec-08	-	100,000	-	-	100,000	33,333	33	\$0.74	50%	5.87%	
\$0.64	30-Apr-12	30-Apr-07 one third, 30-Apr-08, one third, remainder 30-Apr-09	-	50,000	-	-	50,000	16,667	15	\$0.61	50%	5.87%	
\$0.81	30-Sep-13	60% 12-Dec-07, 20% 12-Dec-08, remainder 12-Dec-09	-	1,450,000	-	-	1,450,000	-	565	\$0.83	50%	5.87%	
\$0.90	30-Sep-13	60% 12-Dec-07, 20% 12-Dec-08, remainder 12-Dec-09	-	1,900,000	-	-	1,900,000	-	665	\$0.83	50%	5.87%	
			3,950,000	3,750,000	(1,600,000)	(575,000)	5,525,000	1,483,334	1,381				

Notes To The Financial Statements

For The Year Ended 30 June 2007 — *Continued*

Note 26: Share-based Payments — *Continued*

2006 Exercise Price	Expiry Date	Vesting Terms	Economic and Parent Entity										Risk Free Rate	
			Beginning of Year	Granted	Exercised	Cancelled	Outstanding at Year-End	Exercisable at Year-End	Value of Options Granted	Underlying Share Price	Volatility Factor			
\$			No.	No.	No.	No.	No.	No.	No.	No.	\$	%	%	
\$0.30	31-Dec-08	28-Apr-06	500,000	-	-	-	500,000	500,000	-	-	-	-	-	-
\$0.40	31-Dec-10	Upon granting	750,000	-	-	-	750,000	750,000	-	-	-	-	-	-
\$0.50	31-Dec-10	Upon granting	250,000	-	-	-	250,000	250,000	-	-	-	-	-	-
\$0.30	30-Jun-07	Upon granting	-	650,000	(150,000)	-	500,000	500,000	175	-	\$0.55	5.20%	50%	5.20%
\$0.40	31-Dec-08	Upon granting	-	250,000	-	-	250,000	250,000	55	-	\$0.55	5.18%	50%	5.18%
\$0.50	31-Dec-08	50% 16-Jun-06, 50% 16-Dec-06	-	250,000	-	-	250,000	125,000	46	-	\$0.55	5.18%	50%	5.18%
\$0.30	31-Dec-07	On 6-Jun-06	-	150,000	-	-	150,000	150,000	42	-	\$0.55	5.19%	50%	5.19%
\$0.30	31-Dec-08	On 6-Jun-07	-	50,000	-	-	50,000	-	16	-	\$0.55	5.18%	50%	5.18%
\$0.69	31-Dec-09	1-Aug-06 one third, 1-Feb-07 one third, remainder on 1-Aug-07	-	100,000	-	-	100,000	-	31	-	\$0.70	5.23%	50%	5.23%
\$0.71	1-Feb-10	On 1-Dec-06	-	75,000	-	-	75,000	-	25	-	\$0.70	5.23%	50%	5.23%
\$0.77	30-Apr-11	30-Apr-06 one third, 30-Apr-07 one third, remainder 1-May-07	-	325,000	-	-	325,000	108,333	111	-	\$0.70	5.23%	50%	5.23%
\$0.80	30-Apr-10	350,000 on 30-Apr-08, 400,000 on achievement of profit hurdle by 30-Jun-07	-	750,000	-	-	750,000	-	292	-	\$0.85	5.23%	50%	5.23%
			1,500,000	2,600,000	(150,000)	-	3,950,000	2,633,333	793					

The value of options granted price was calculated by using a Black-Scholes or Binomial option pricing model applying the inputs shown in the table. Historical volatility has been the basis for determining expected share price volatility as it assumed that this is indicative of future tender, which may not eventuate

Note 27: Related Party Transactions

	Economic Entity		Parent Entity	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.				
Transactions with related parties:				
(a) Ultimate Parent Company				
Intra-group corporate charges	-	-	907	859
(b) Director Related Entities				
Rent of workshop premises used by Novacoat (WA) Pty Ltd was paid to Emmerick Pty Ltd, a company in which Mr Robert Franco has an indirect beneficial interest	163	163	-	-
Rent of office premises used by Paladio Group Limited and McFee Pty Ltd was paid to LMR Partnership, an entity in which Mr Robert Franco has a beneficial interest	80	54	24	14
Service fees paid to Longbow Holdings Pty Ltd, a company in which Mr Richard Wright has a controlling interest	267	167	267	120
Service fees paid to Symdean Pty Ltd, a company in which Mr Geoff Gander has a controlling interest	-	36	-	36

Notes To The Financial Statements

For The Year Ended 30 June 2007 — *Continued*

Note 28: Financial Instruments

(a) Financial Risk Management

The group's financial instruments consist mainly of cash deposits with banks, accounts receivable and payable, loans to and from subsidiaries, and leases.

The main purpose of non-derivative financial instruments is to raise finance for group operations.

No financial derivatives are used by the group and the group does not speculate in the trading of derivative instruments.

(b) Interest Rate Risk

The economic entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

	Fixed Interest Rate Maturing						
	Weighted Average Effective Interest Rate	Floating Interest Rate	Within Year	1 to 5 Years	Over 5 Years	Non-interest Bearing	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
	2007	2007	2007	2007	2007	2007	2007
Financial Assets							
Cash	5.7%	35,781	-	-	-	-	35,781
Receivables	-	-	-	-	-	8,959	8,959
Total Financial Assets		35,781	-	-	-	8,959	44,740
Financial Liabilities:							
Trade and sundry creditors	-	-	-	-	-	8,393	8,393
Lease liabilities	8.0%	-	530	1,201	-	-	1,731
Premium funding liabilities	6.5%	-	121	-	-	-	121
Total Financial Liabilities		-	651	1,201	-	8,393	10,245
	Fixed Interest Rate Maturing						
	Weighted Average Effective Interest Rate	Floating Interest Rate	Within Year	1 to 5 Years	Over 5 Years	Non-interest Bearing	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
	2006	2006	2006	2006	2006	2006	2006
Financial Assets							
Cash	5.5%	6,038	-	-	-	-	6,038
Receivables	-	-	-	-	-	10,106	10,106
Total Financial Assets		6,038	-	-	-	10,106	16,144
Financial Liabilities:							
Trade and sundry creditors	-	-	-	-	-	4,751	4,751
Lease liabilities	8.0%	-	79	180	-	-	259
Total Financial Liabilities		-	79	180	-	4,751	5,010

Note 28: Financial Instruments — *Continued*

(c) Credit Risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for doubtful debts of those assets, as disclosed in the statement of financial position and notes to the financial statements.

The economic entity does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the economic entity.

(d) Net Fair Values

For all financial assets and liabilities, the net fair values approximate their carrying value.

Note 29: Contingent Liabilities

There were no material contingent liabilities for the economic entity and parent entity at balance date.

Note 30: Subsequent Events

On 6 July 2007 the economic entity acquired 100% of the issued shares of Decmil Australia Pty Ltd, a large civil design and construction company servicing the resources sector predominantly in Western Australia. The major terms of the acquisition are:

- \$45 million payable on settlement (6 July 2007), \$28,125,000 payable in cash and \$16,875,000 payable via the issue of 22,500,000 ordinary shares in the company at an issue price of \$0.75 each;
- The granting on settlement of 2,500,000 options to acquire ordinary shares at \$0.75 each to members of the Decmil Australia Pty Ltd management team with vesting terms identical to the company's employee share option plan;
- The granting on settlement of 2,500,000 options to acquire ordinary shares at \$1.00 each to the Decmil Australia Pty Ltd vendors with vesting criteria being tied to the financial performance of the Decmil business over the next two financial years;
- Deferred retention consideration of \$5 million in cash and shares payable over the next two financial years subject to the retention of key executives and achievement of financial performance criteria; and
- Deferred performance payment of \$4 million in cash subject to the Decmil business achieving \$12 million EBIT in the 2007/08 financial year.

Other than the above, no matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the economic entity, the results of those operations, or the state of affairs of the economic entity in future financial years.

Notes To The Financial Statements

For The Year Ended 30 June 2007 — *Continued*

Note 31: Company Details

The registered office of the company is:

Paladio Group Limited

59 Belmont Avenue, Belmont, Western Australia

The principal places of business are:

Novacoat (WA) Pty Ltd and Novacoat Workforce Pty Ltd

— Industrial coating division

60 Office Road, Kwinana, Western Australia

McFee Pty Ltd, McFee Engineering, Fabcon Construction Pty Ltd, CASE Services Pty Ltd, Eastman Fort Pty Ltd, and McFee Maintenance Pty Ltd

— Industrial services division

59 Belmont Avenue, Belmont, Western Australia

Westec Engineering Services Pty Ltd

— Maintenance and workshop services

1A Churchill Street, Williamstown, Victoria

Directors' Declaration

The directors of the company declare that:

1. The financial statements and notes, as set out on page 15 to 50, are in accordance with the Corporations Act 2001 and:
 - (a) comply with Accounting Standards and the Corporations Regulations 2001; and
 - (b) give a true and fair view of the financial position as at 30 June 2007 and of the performance for the year ended on that date of the company and economic entity;
2. The Chief Executive Officer and Chief Finance Officer have each declared that:
 - (a) the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
 - (b) the financial statements and notes for the financial year comply with the Accounting Standards; and
 - (c) the financial statements and notes for the financial year give a true and fair view.
3. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The company and its wholly-owned subsidiaries, Novacoat (WA) Pty Ltd, Novacoat Workforce Pty Ltd, McFee Pty Ltd, McFee Engineering Pty Ltd, CASE Services Pty Ltd and McFee Maintenance Pty Ltd, have entered into a deed of cross guarantee under which the company and its subsidiary guarantee the debts of each other.

At the date of this declaration, there are reasonable grounds to believe that the companies which are party to this deed of cross guarantee will be able to meet any obligations or liabilities to which they are, or may become subject to, by virtue of the deed.

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



R Wright

Director

Dated this 30th day of August 2007

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PALADIO GROUP LIMITED

We have audited the accompanying financial report of Paladio Group Limited ("the company"), which comprises the balance sheet as at 30 June 2007 and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. 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 judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company'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

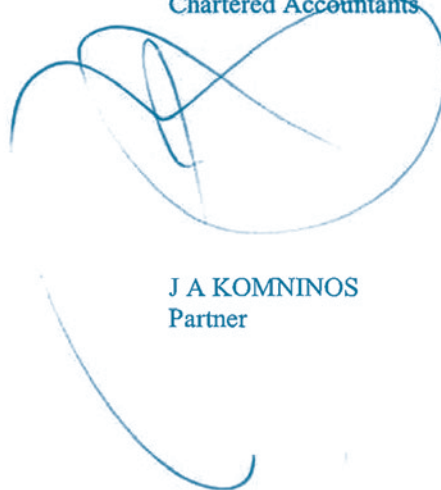
In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's Opinion

In our opinion:

- (a) the financial report of Paladio Group Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

RSM Bird Cameron Partners
RSM BIRD CAMERON PARTNERS
Chartered Accountants



J A KOMNINOS
Partner

Perth, WA
Dated: *30 August 2007*

Additional Information for Listed Public Companies

Additional information required by Australian Stock Exchange Limited and not shown elsewhere in this report is as follows.

This information is made up as at 30 August 2007.

1. Substantial shareholders

The names of substantial shareholders listed on the company's register are:

Shareholder	Shares	%
Broadway Pty Ltd	18,000,000	15.63
Hunter Hall Investment Management Limited	13,212,597	11.48
Paradice Investment Management Pty Ltd	7,960,000	6.91
Lehman Brothers Prime Broker Nominees	7,981,715	6.93
L, M & R Franco – LMR Franco Unit A/C, Delauney Pty Ltd – The Franco Family A/C, MR & RM & LM Franco, MF & I Franco	7,600,000	6.60

2. Distribution of shareholdings

Range of Holding	No. of Shareholders	No. of Ordinary Shares	%
1 – 1,000	914	405,484	0.35
1,001 – 5,000	242	608,730	0.53
5,001 – 10,000	129	1,064,447	0.92
10,001 – 100,000	353	13,794,163	11.98
100,001 and over	63	99,310,697	86.22
Total	1,701	115,183,521	100.00

The number of shareholders with less than a marketable parcel is 661 holding in total 180,608 shares.

3. Voting rights

All ordinary shares issued by Paladio Group Limited carry one vote per share without restriction.

4. Twenty largest shareholders

The names of the twenty largest shareholders of ordinary shares in the company are:

Name	No. of Ordinary Fully Paid Shares Held	%
Citicorp Nominees Pty Ltd	22,848,447	19.84
Broadway Pty Ltd - The Decmil Australia A/C	18,000,000	15.63
National Nominees Limited	8,360,000	7.26
ANZ Nominees Ltd - Cash Income A/C	6,712,093	5.83
Equity Trustees Limited - SGH PI Smaller Co's Fund Premium Client	5,014,953	4.35
Anjet Projects Pty Ltd – The Dique Family A/C	4,500,000	3.91
L, M & R Franco - LMR Franco Unit A/C	4,250,000	3.69
Queensland Investment Corporation	4,000,000	3.47
Remtech Inc	2,650,000	2.30
Delauney Pty Ltd - The Franco Family A/C	2,300,000	2.00
Fairview Pty Ltd - Ernest Franco Family A/C	2,300,000	2.00
Argo Investments Limited	1,333,334	1.16
Invia Custodian Pty Ltd - R&A Wright Family Super Fund A/C	1,190,300	1.03
Bell Potter Nominees Ltd - BB Nominees A/C	1,086,666	0.94
HSBC Custody Nominees (Australia) Limited	1,051,000	0.91
Mr James Nikoloudis	947,510	0.82
Larchmont Services Ltd	894,100	0.78
Arredo Pty Ltd	750,000	0.65
RA Black & Dr AC Black - RA Black Super Fund A/C	700,000	0.61
BeauMcFee Holdings Pty Ltd	629,777	0.55
Total	89,518,180	77.73

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