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Paladio Group Limited ABN 35 111 210 390

28 October 2008

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

By ASX Online

No. of pages: 57

2008 ANNUAL REPORT

Attached is the Paladio Group Limited's 2008 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



Michael J Buckmaster
Company Secretary

Paladio Group Limited

Annual Report 2008

year ended 30 June 2008

Corporate Directory of Paladio Group Limited

Directors

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

Company Secretary

Mr Michael Buckmaster

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

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

Fabcon Construction Pty Ltd
27 Fairbrother Street
BELMONT WA 6104
Telephone: (08) 9356 3911
Facsimile: (08) 9356 3933

Decmil Australia Pty Ltd
Level 2, 76 Hasler Road
OSBORNE PARK WA 6017
Telephone: (08) 9368 8877
Facsimile: (08) 9368 8878

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: 1300 557 010
Facsimile: (08) 9323 2033

Lawyers

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

Matrix Engineers Pty Ltd
Level 1, 159 Adelaide Terrace
PERTH WA 6000
Telephone: (08) 6211 3800
Facsimile: (08) 6211 3850

McFee Pty Ltd – Eastern Region
Suite 4, 19 Land Parade
AUCHENFLOWER QLD 4066
Telephone: (07) 3377 0500
Facsimile: (07) 3371 1331

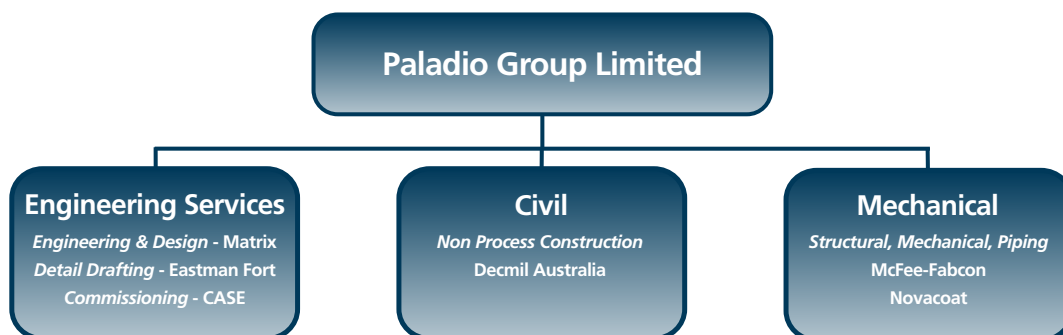
Eastman Fort Pty Ltd
59 Belmont Avenue
BELMONT WA 6104
Telephone: (08) 9262 9977
Facsimile: (08) 9262 9950

Review Of Operations

The 2007/08 financial year was a year of continued investment in growth. Highlights included:

- Growth in revenue by 236% from \$38 million to \$128 million;
- Completion of the major acquisition of Decmil Australia, 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
- Completion of the acquisition of Matrix Engineers
- Both acquisitions made profitable contributions under Paladio's ownership
- Sale of the Westec business; and
- Delivery of the maiden profit after income tax of \$55,000 which is disappointing but does give a base for continued improvement.

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



Civil and Mechanical Construction Division

The Construction Division comprises the operations of McFee, Novacoat, Fabcon and Decmil Australia. Decmil was acquired in July 2007. Revenue generated by the Construction Division was \$113,555,000 (2007: \$31,690,000).

In the financial year, the division completed works on a range of projects including the Newman Hub for BHP Billiton, Rail Workshop for FMG, Jabiru for ERA, Queensland, and Alcan's G3 Expansion Project in Gove, Northern Territory.

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 the operations of CASE Services, Eastman Fort, and Matrix Engineers. The latter was acquired in November 2007. Revenue generated by the Engineering Division was \$10,882,000 (2007: \$4,962,000).

In the financial year, the division completed works on a range of projects including the BHPB's Rapid Growth Project 4, Arccon, Kagara Zinc, commissioning of Argyle Diamond Underground Project, Cape Lambert Upgrade, Boddington Gold, Ranger Uranium 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.

Mechanical Maintenance Division

The Maintenance Division comprised the operations of McFee Maintenance and Westec Engineering Services. Revenue generated by this Division was \$2,888,000 (2007:\$1,460,000).

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

Westec was sold in April 2008 and this division is now dormant.

Financial Position

The net assets of the economic entity have increased by \$20.7 million during the financial year ended 30 June 2008 to \$67.7 million. This increase has largely resulted from the Decmil acquisition. 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 2008 was \$9.9 million.

In summary, the Paladio Group of companies made a consolidated profit before tax of \$235,000.

Quality Assurance, Occupational Health & Safety and Human Resources

During the year McFee Construction achieved accreditation for the Brisbane office. Decmil maintained their AS 9001:2000 accreditation for their Osborne Park office and achieved separate accreditation for their Brisbane office in March 2008. Decmil also achieved AS 4801:2001 'Occupational Health and Safety Management System' and AS 14001:2004 'Environmental Management System' accreditations for their Osborne Park office in January 2008.

No serious reportable OHSE incidents occurred during 2007-2008 for any of the entities. The 'Zero Harm' and 'Safety First' messages are continually reinforced with our people, particularly those on site. Safety remains our key value with OHSE continuous improvement remaining our core strategy for the coming year.

Each entity has complied with human resources and industrial legislation of the States and Territories in which they operate. In addition none of the entities experienced any adverse industrial relations incidents during 2007-2008.

Capital Structure and Corporate Developments

At balance date the company had approximately 116.0 million shares on issue (2007: 92.7 million).

Outlook

The company is now starting to see the benefits in re-organising the group and growing its capabilities with the record level order book as of October 2008 of \$310 m (of which approximately \$110m will flow into FY2010) already exceeding last's year revenue. The organisation and financial structures are now in place to manage growth with the key risk for the business being project delay. Whilst the results for 2008 were below expectations, the company remains well positioned for growth, has established a quality order book with high quality customers and will now focus on generating cashflow and earnings to internally fund growth and reward shareholders. The 2008/2009 financial year should continue to build on the foundations of the previous year. Bearing in mind the current world financial crisis, the company will continuously monitor the global financial situation in an effort to minimise any impact on the company in coming months. There is little doubt that some projects will be delayed or sidelined and Paladio's executives will actively seek to reduce exposure in volatile market sectors where applicable, reduce costs, improve efficiencies where necessary and take advantage of prevailing market conditions.

In line with Paladio's revised strategic direction Mr. Victor Kuss replaced Mr. Richard Wright as Chief Executive Officer on 30th June, 2008.

The Board thanks Mr. Wright for his work.

Mr. Kuss brings to the company diversified corporate experience in the mining and resources industry. His broad experience in finance, project risk evaluation and management, technology development, mergers and acquisitions and capital raisings means that the Board is confident that Mr. Kuss will lead the company through these turbulent financial times and position the company for further growth.



Dennis O'Neill
Chairman

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 2008.

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 five directors, three of which are not considered to be independent although none of these three directors hold executive roles. The board has determined that the services, skills and experience of the three non-independent 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.
4.2, 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 that the functions normally performed by an audit committee can adequately be performed by the full board. However, the board is 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;
- the director must not have held an executive role within the company during the past two financial years;
- 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 chief executive officer and other senior executives, was reviewed by a remuneration sub-committee which consisted of two independent directors. Professional advice from independent consultants is sought and considered when deemed appropriate. 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 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 2008.

Directors

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

Mr Denis Criddle	(appointed 31 August 2007)
Mr Robert Franco	
Mr Dennis O'Neill	
Mr Peter Wallace	
Mr Richard Wright	

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. Mr Troncone resigned effective on 1 August 2008.

Principal Activities

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

- site based structural, mechanical and piping construction and maintenance services;
- site based civil design, 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 acquired the business of a civil design services company servicing the resources and oil and gas industries for projects based in Australia and overseas;

- the economic entity acquired all the issued share capital of a large and long established civil design and construction company servicing the resources and oil and gas industries, predominantly in Western Australia; and
- the economic entity sold its small site and workshop based maintenance service provider based in Melbourne, Victoria.

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 profit of the economic entity after providing for income tax benefit amounted to \$55,000.

Dividends Paid or Recommended

No dividends were paid, declared or recommended for payment.

Review of Operations

Overview

The consolidated operating profit before tax was \$235,000 which included the following significant items:

- Provision raised against potentially non-recoverable contractual costs of \$1,675,000;
- Provision raised against fixed price contract of \$600,000;
- Loss on sale of a subsidiary entity of \$297,000; and
- Equity based payments of \$802,000.

The results were affected by a provision of \$1,675,000 for costs which may not be fully recoverable under a cost reimbursable contract (approximately half related to previous financial years). The contract value was in excess of \$28 million over a three year period and remains profitable. In addition, \$600,000 was provided against a fixed price contract for which discussions on recovery remain ongoing.

Excluding the above significant items, the consolidated operating profit before tax was \$3,609,000 compared with the previous financial year's loss before tax of \$4,382,000. The result was also affected by delays in starting new projects and costs associated with restructuring the company and growing the business.

Divisional Review

Revenue from operating activities totalled \$127,376,000 analysed as follows:

Divisional Sales Revenue	2008 \$000	2007 \$000
Civil and Mechanical Construction	113,555	31,690
Engineering Services	10,882	4,962
Mechanical Maintenance	2,888	1,450
Other	51	-
Total Revenue	127,376	38,102

The Civil and Mechanical Construction Division comprises of the operations of McFee Pty Ltd, Fabcon Construction Pty Ltd, Novacoat (WA) Pty Ltd and Decmil Australia Pty Ltd. The growth in revenue is attributable to the acquisition of Decmil Australia in July 2007.

This Division is enjoying historically high tendering levels, particularly for civil construction projects, and at balance date had uncompleted work in hand in excess of \$120 million. The outlook for this Division remains strong for the foreseeable future.

The Engineering Services Division comprises the operations of Matrix Engineers Pty Ltd and Eastman Fort Pty Ltd. Matrix Engineers was acquired in November 2007.

This Division provides engineering, drafting and shop detailing services and has continued to enjoy strong demand for its services, particularly drafting and shop detailing. The outlook for this Division remains strong but growth is limited due to a scarcity of experienced resources.

The Mechanical Maintenance Division comprises the operations of McFee Maintenance Pty Ltd and Westec Engineering Services Australia Pty Ltd. Westec was sold in April 2008 and this Division is now dormant.

Financial Position

The net assets of the economic entity have increased by \$20.7 million during the financial year ended 30 June 2008 to \$67.7 million. This increase has largely resulted from the issue of shares to partly fund entities acquired during the reporting period.

The economic entity remains virtually debt free and has established banking facilities which the directors believe place the economic entity in a relatively strong financial position to expand and grow its current operations.

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 6 July 2007 the company issued 22,500,000 ordinary shares at \$0.75 each to partly fund the acquisition of Decmil Australia Pty Ltd, a large and long established Western Australian based civil design and construction company servicing the resources and oil and gas sectors.
- (ii) On 2 November 2007 the company issued 640,000 ordinary shares at \$0.75 each to acquire the business assets of Matrix Engineers Pty Ltd, a Western Australian based provider of civil design services to the resources sector.
- (iii) On 11 and 28 February 2008 the company issued 2,659,970 ordinary shares at \$0.60 each to partly fund the deferred consideration payable for the acquisition in January 2007 of Eastman Fort Pty Ltd, a provider of drafting and shop detailing services to the resources sector.

Changes in controlled entities and divisions:

- (i) The economic entity sold 100% of Westec Engineering Services Australia Pty Ltd, a small but long established maintenance and workshop business servicing the chemical and petrochemical sectors in Victoria.

After Balance Date Events

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 focusing on extracting value from existing operating divisions. The directors may also consider acquisition opportunities to complement current business activities focused in the resources and oil and gas sectors. Any acquisitions sought would broaden the company's asset 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 and oil and gas sectors.

Directors' Report - *Continued*

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)(Hons) 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	1,000,000 ordinary shares in Paladio Group Limited 1,000,000 options to acquire ordinary shares in Paladio Group Limited

Richard (Dick) Wright	Non-Executive Director (former Managing Director)
Qualifications	BSc. (Mech. Tech.), University of NSW Postgraduate course in business from the Hass Business School, Berkley Campus, University of California
Experience	Appointed as a director and executive chairman on 7 December 2004 until 23 November 2006 when he was appointed managing director, a position he held until 30 June 2008. 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 Fluor Daniel Australia, a wholly owned subsidiary of an international engineering, construction and maintenance group.
Interest in Shares and Options	1,839,090 ordinary shares in Paladio Group Limited 1,800,000 options to acquire ordinary shares in Paladio Group Limited
Robert Franco	Non-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, a position he held until 31 December 2007. 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 holds 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	7,900,000 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, FAICD, AFAIM
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	100,000 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.

Denis Criddle	Non-Executive Director
Qualifications	CP Eng, MIE, FAICD
Experience	Appointed as a non-executive director on 31 August 2007. Mr Criddle was the founder of Decmil Australia Pty Ltd which was acquired by Paladio Group Limited in July 2007. Mr Criddle is a civil engineer with over 30 years experience working in the civil construction and maintenance industry in Northwest of Western Australia and in Queensland. Mr Criddle has been involved in rural investments and local government. He was elected Shire President of the Roebourne Shire Council during the development years of oil and gas expansion in the Karratha region.
Interest in Shares	20,510,078 ordinary shares in Paladio Group 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. Professional advice from independent external consultants as approved by the board is sought when required.
- 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

Directors' Report - Continued

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 economic entity and respective industry standards.

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

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.

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. The board is of the opinion that the increase in revenue, given the economic entity's relative start-up phase, illustrates the momentum in rapid growth of operations and can be attributed in part to the previously described remuneration policy.

	2008	2007
Revenue	\$127,644,000	\$38,419,000

Details of remuneration for year ended 30 June 2008

The remuneration for each director and of the executive officers 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 ¹	320,000	-	-	207,404	527,404
Robert Franco ²	116,482	9,565	-	67,682	193,729
Dennis O'Neill	-	90,000	-	170,140	260,140
Peter Wallace	45,870	4,130	-	76,563	126,563
Denis Criddle ³	-	41,667	-	-	41,667
	482,352	145,362	-	521,789	1,149,503

Notes: 1. Mr Dick Wright ceased executive duties on 30 June 2008.
2. Robert Franco ceased executive duties on 31 December 2007.
3. Mr Denis Criddle was appointed a director on 31 August 2007.

Specified Executives	Salary and Fees	Superannuation Contribution	Non-cash Benefits	Options	Bonus	Total
	\$	\$	\$	\$	\$	\$
Yenon Ofri – General Manager, Engineering Division	275,535	-	-	37,630	110,618	423,783
Len Troncone – Chief Financial Officer and Company Secretary	216,000	24,000	-	131,890	-	371,890
Scott Criddle – Managing Director, Civil Construction Division	226,000	20,160	22,353	-	-	268,513
Andries Dique – General Manager, Civil Construction Division	208,310	18,568	12,294	-	-	239,172
Robert Sharp ¹ – General Manager, SMP Construction Division (Western Region)	34,564	5,037	-	-	-	39,601
	960,409	67,765	34,647	169,520	110,618	1,342,959

Notes: 1. Mr Robert Sharp commenced employment on 10 May 2008.

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 2008

Options were issued to certain executives as part of their remuneration. The options were not issued based on performance criteria, but were issued to executives of Paladio Group Limited and its subsidiaries to increase goal congruence between executives and shareholders.

Specified Executives	Granted	Options Granted as Part of Remuneration	Total Remuneration Represented by Options	Total
	No.	\$	%	\$
Yenon Ofri	50,000	37,630	9%	37,630
Len Troncone	250,000	131,890	35%	131,890
	300,000	169,520	21%	169,520

These options were granted on 12 December 2007. They have an exercise price of \$0.78 each and mature on 30 June 2012. The vesting terms are one third on 12 December 2007, one third on 12 December 2008 and the balance on 12 December 2009.

No options were granted to directors as part of their remuneration during the financial year.

Employment contracts of directors and senior executives

The employment conditions of the former executive directors, namely Dick Wright and Robert Franco, and the specified executives, are formalised in contracts of employment. Executives are employees of Paladio Group Limited or wholly owned subsidiaries 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, 14 meetings of directors were held. Attendances by each director during the year were:

DIRECTORS' MEETINGS		
	Number eligible to attend	Number attended
Robert Franco	14	14
Dennis O'Neill	14	14
Peter Wallace	14	13
Richard Wright	14	13
Denis Criddle	12	12

Directors' Report - Continued

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 \$15,540.

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 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
6 July 2007	30 June 2012	\$0.75	2,500,000
6 July 2007	30 June 2012	\$1.00	2,500,000
12 December 2007	30 June 2012	\$0.78	325,000
12 December 2007	1 January 2012	\$0.90	250,000
			<u>10,950,000</u>

During the year ended 30 June 2008, 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
16 December 2005	\$0.30	150,000

During the year ended 30 June 2008, no 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.

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 2008 has been received and can be found on page 50.

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.



Peter Wallace

Director

Dated this 31st day of July 2008

Income Statement

For Year Ended 30 June 2008

	Note	Economic Entity		Parent Entity	
		2008 \$000	2007 \$000	2008 \$000	2007 \$000
Revenue	3	127,644	38,419	4,722	1,150
Cost of sales		(107,084)	(31,049)	-	-
Administration expenses		(17,189)	(7,815)	(3,433)	(1,732)
Borrowing expenses	4	(253)	(82)	-	(2)
Depreciation and amortisation expense	4	(1,784)	(812)	(89)	(33)
Equity based payments		(802)	(630)	(802)	(630)
Diminution in value of inter-company loans		-	-	(1,229)	(1,969)
Loss on sale of subsidiary		(297)	-	-	-
Loss on termination of environmental rehabilitation joint venture		-	(2,190)	-	(2,451)
Loss on foreign exchange cash holding		-	(223)	-	(223)
Profit/(loss) before income tax expense		235	(4,382)	(831)	(5,890)
Income tax (expense)/benefit	5	(180)	308	(146)	207
Net profit/(loss) attributable to members of the parent entity		55	(4,074)	(977)	(5,683)
Basic earnings per share (cents per share)	8	0.05	(8.49)		
Diluted earnings per share (cents per share)	8	0.05	(8.49)		

The accompanying notes form part of these financial statements.

Balance Sheet

As At 30 June 2008

	Note	Economic Entity		Parent Entity	
		2008 \$000	2007 \$000	2008 \$000	2007 \$000
CURRENT ASSETS					
Cash and cash equivalents	9	9,906	35,781	70	33,666
Trade and other receivables	10	21,376	8,959	-	-
Inventories	11	1,676	1,454	-	-
Other current assets	16	2,431	492	313	92
TOTAL CURRENT ASSETS		35,389	46,686	383	33,758
NON-CURRENT ASSETS					
Trade and other receivables	10	-	-	13,008	8,434
Other financial assets	12	-	-	55,717	5,619
Property, plant and equipment	14	7,121	4,317	239	90
Deferred tax assets	19	1,493	1,659	1,004	1,136
Intangible assets	15	56,867	5,145	-	-
TOTAL NON-CURRENT ASSETS		65,481	11,121	69,968	15,279
TOTAL ASSETS		100,870	57,807	70,351	49,037
CURRENT LIABILITIES					
Trade and other payables	17	28,360	8,393	3,527	2,092
Short-term borrowings	18	1,514	651	138	-
Short-term provisions	20	1,992	643	65	26
TOTAL CURRENT LIABILITIES		31,866	9,687	3,730	2,118
NON-CURRENT LIABILITIES					
Long-term borrowings	18	1,351	1,201	-	-
TOTAL NON-CURRENT LIABILITIES		1,351	1,201	-	-
TOTAL LIABILITIES		33,217	10,888	3,730	2,118
NET ASSETS		67,653	46,919	66,621	46,919
EQUITY					
Issued capital	21	73,749	53,070	73,749	53,070
Retained earnings		(6,096)	(6,151)	(7,128)	(6,151)
TOTAL EQUITY		67,653	46,919	66,621	46,919

The accompanying notes form part of these financial statements.

Statement Of Changes In Equity

For Year Ended 30 June 2008

	Note	Issued Capital \$000	Foreign Currency Translation Reserve \$000	Retained Earnings \$000
Economic Entity				
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)
Balance at 1 July 2007		53,070	-	(6,151)
Shares issued during the year		19,908	-	-
Transaction costs net of tax benefit		(31)	-	-
Equity based payments		802	-	-
Profit/(loss) attributable to members of parent entity		-	-	55
Balance at 30 June 2008		73,749	-	(6,096)
Parent Entity				
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)
Balance at 1 July 2007		53,070	-	(6,151)
Shares issued during the year		19,908	-	-
Transaction costs net of tax benefit		(31)	-	-
Equity based payments		802	-	-
Profit/(loss) attributable to members of parent entity		-	-	(977)
Balance at 30 June 2008		73,749	-	(7,128)

The accompanying notes form part of these financial statements.

Cash Flow Statement

For Year Ended 30 June 2008

	Note	Economic Entity		Parent Entity	
		2008 \$000	2007 \$000	2008 \$000	2007 \$000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		126,777	42,841	-	-
Payments to suppliers and employees		(118,299)	(42,769)	(238)	(772)
Interest received		270	315	1,438	242
Finance costs		(228)	(86)	(22)	(2)
Net cash provided by (used in) operating activities	24a	8,520	301	1,178	(532)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment		(2,059)	(2,307)	(238)	(75)
Purchase of investments		(31,511)	(1,154)	(28,779)	(1,476)
Proceeds from sale of non-current assets		382	-	-	-
Borrowings with related companies		-	-	(5,802)	(1,027)
Net cash provided by (used in) investing activities		(33,188)	(3,461)	(34,819)	(2,578)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		-	33,000	-	33,000
Proceeds from borrowings		-	1,573	-	-
Repayment of borrowings		(1,252)	(297)	-	-
Conversion of options		45	595	45	595
Costs of issuing shares		-	(1,968)	-	(1,968)
Net cash provided by (used in) financing activities		(1,207)	32,903	45	31,627
Net increase (decrease) in cash held		(25,875)	29,743	(33,596)	28,517
Cash at beginning of financial year		35,781	6,038	33,666	5,149
Cash at end of financial year	9	9,906	35,781	70	33,666

The accompanying notes form part of these financial statements.

Notes To The Financial Statements

For Year Ended 30 June 2008

Note 1: Statement of Significant Accounting Policies

This financial report includes the consolidated financial statements and notes of Paladio Group Ltd and controlled entities ('Economic Entity'), and the separate financial statements and notes of Paladio Group Ltd as an individual parent entity ('Parent Entity').

The financial report was authorised for issue on 31 July 2008.

Basis of Preparation

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

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

The financial report has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

(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.

Business Combinations

Business combinations occur where control over another business is obtained and results in the consolidation of its assets and liabilities. All business combinations, including those involving entities under common control, are accounted for by applying the purchase method.

The purchase method requires an acquirer of the business to be identified and for the cost of the acquisition and fair values of identifiable assets, liabilities and contingent liabilities to be determined as at acquisition date, being the date that control is obtained. Cost is determined as the aggregate of fair values of assets given, equity issued and liabilities assumed in exchange for control together with costs directly attributable to the business combination. Any deferred consideration payable is discounted to present value using the entity's incremental borrowing rate.

Goodwill is recognised initially at the excess of cost over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If the fair value of the acquirer's interest is greater than cost, the surplus is immediately recognised in profit or loss.

(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

Notes To The Financial Statements

For Year Ended 30 June 2008 - *Continued*

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 tax consolidated 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 or diminishing value 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 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) 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.

(j) 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.

(k) Cash and Cash Equivalents

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

(l) 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).

(m) 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.

(n) Goods and Services Tax (GST)

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

Notes To The Financial Statements

For Year Ended 30 June 2008 - *Continued*

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.

(o) 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.

(p) 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

The economic entity assesses whether goodwill and intangibles with indefinite useful lives are impaired 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.

Revenue Recognition

The economic entity uses the percentage-of-completion method in accounting for its fixed-price contracts to deliver design and construction services. Use of the percentage-of-completion method requires the economic entity to estimate the services performed to date as a proportion of the total services to be performed. The financial effect of management estimates in regards to revenue recognition cannot be reliably estimated due to the size and complexity of projects performed by the economic entity.

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

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2008 reporting periods. The economic entity's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 8 *Operating Segments* and AASB 2007-3 *Amendments to Australian Accounting Standards arising from AASB 8*

AASB 8 and AASB 2007-3 are effective for annual reporting periods commencing on or after 1 January 2009. AASB 8 will result in a significant change in the approach to segment reporting, as it requires adoption of a 'management approach' to reporting on financial performance. The information being reported will be based on what the key decision makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. The economic entity has not yet decided when to adopt AASB 8. Application of AASB 8 may result in different segments, segment results and different types of information being reported in the segment note of the financial report. However, at this stage, it is not expected to affect any of the amounts recognised in the financial statements.

(ii) Revised AASB 101 *Presentation of Financial Statements* and AASB 2007-8 *Amendments to Australian Accounting Standards arising from AASB 101*

A revised AASB 101 was issued in September 2007 and is applicable for annual reporting periods beginning on or after 1 January 2009. It requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity, but will not affect any of the amounts recognised in the financial statements. If an entity has made a prior period adjustment or has reclassified items in the financial statements, it will need to disclose a third balance sheet (statement of financial position), this one being as at the beginning of the comparative period. The economic entity intends to apply the revised standard from 1 July 2009.

Note 3: Revenue

	Note	Economic Entity		Parent Entity	
		2008 \$000	2007 \$000	2008 \$000	2007 \$000
Operating activities					
- sale of goods and services		127,376	38,102	-	-
- interest received	3(a)	268	317	2	243
		127,644	38,419	2	243
Non-operating activities:					
- intra-group corporate charges		-	-	4,720	907
		-	-	4,720	907
Total revenue		127,644	38,419	4,722	1,150
(a) Other income					
Interest revenue from:					
- other persons		268	317	2	243
Total interest revenue		268	317	2	243

Note 4: Profit for the year

Expenses:					
Employee benefits costs		54,635	27,789	2,069	709
Borrowing costs:					
- external		253	82	-	2
Total borrowing costs		253	82	-	2
Depreciation of non-current assets:					
- plant and equipment owned		1,001	745	89	33
- plant and equipment leased		783	67	-	-
Total depreciation		1,784	812	89	33
Rental expense on operating leases		1,124	298	125	24

Notes To The Financial Statements

For Year Ended 30 June 2008 - *Continued*

Note 5: Income Tax Expense

	Note	Economic Entity		Parent Entity	
		2008 \$000	2007 \$000	2008 \$000	2007 \$000
(a) The components of tax expense comprise:					
Current tax		-	-	-	-
Deferred tax	19	(180)	308	(146)	207
		(180)	308	(146)	207
(b) The prima facie tax (expense)/benefit on profit/(loss) before income tax is reconciled to the income tax (expense)/benefit as follows:					
Prima facie future tax (expense)/benefit on profit/(loss) before income tax at 30% (2007: 30%)		(70)	1,315	250	1,767
Adjusted by the tax effect of:					
- shares and options expensed during year		(241)	(189)	(241)	(189)
- impairment of goodwill		-	(86)	-	-
- diminution in value of inter-company loans		-	-	(369)	(591)
- loss on termination of joint venture		-	(657)	-	(735)
- loss on sale of subsidiary		(89)	-	-	-
- difference between depreciation for tax and accounting purposes		(67)	(74)	(3)	(1)
- movements in provisions and accruals		(54)	(1)	(6)	(44)
- deductible capital raising costs		180	-	180	-
- overprovision for tax in prior year		161	-	43	-
Income tax (expense)/benefit attributable to loss before income tax		(180)	308	(146)	207

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
 Denis Criddle (appointed on 31 August 2007)

Specified Executives

Yenon Ofri General Manager, Engineering Services Division
 Scott Criddle Managing Director, Civil Construction Division (appointed 2 July 2007)
 Andries Dique General Manager, Civil Construction Division (appointed 2 July 2007)
 Robert Sharp General Manager, SMP Construction Division (Western Region) (appointed 10 May 2008)
 Len Troncone Chief Financial Officer and Company Secretary

Note 6: Key Management Personnel - Continued

(b) Options and Rights Holdings

Number of Options Held by Directors and Specified Executives

	Balance 1.7.07	Granted as Remuner- ation	Granted other than as Remunera- tion	Options Exercised	Balance 30.6.08	Total Vested & Exercisable 30.6.08	Total Unexerc- isable 30.6.08
Parent Entity Directors:							
Dick Wright	1,800,000	-	-	-	1,800,000	1,200,000	600,000
Robert Franco	450,000	-	-	-	450,000	180,000	270,000
Peter Wallace	450,000	-	-	-	450,000	270,000	180,000
Dennis O'Neill	1,000,000	-	-	-	1,000,000	600,000	400,000
Denis Criddle (appointed 31 August 2007)	-	-	-	-	-	-	-
Specified Executives:							
Yenon Ofri	100,000	50,000	-	-	150,000	116,650	33,350
Len Tronccone	900,000	250,000	-	150,000	1,000,000	563,250	436,750
Scott Criddle ¹	-	-	1,250,000	-	1,250,000	-	1,250,000
Andries Dique ¹	-	-	1,250,000	-	1,250,000	-	1,250,000
Robert Sharp ²	-	-	-	-	-	-	-
Total	4,700,000	300,000	2,500,000	150,000	7,350,000	2,929,900	4,420,100

- Notes:
1. Mr Scott Criddle and Mr Andries Dique were each issued 1,250,000 options exercisable at \$1.00 each as part of the consideration payable by the company for the acquisition of Decmil Australia Pty Ltd on 2 July 2007.
 2. Mr Robert Sharp commenced employment with the company on 10 May 2008 and pursuant to his contract of employment he will be entitled to receive 600,000 options exercisable at various prices on 1 January 2009.

(c) Shareholdings

Parent Entity Directors and Specified Executive Interests in Shares

	Balance 1.7.07	Received as Remuneration	Options Exercised	Net Change Other ¹	Balance 30.6.08
Parent Entity Directors:					
Dick Wright	1,240,300	-	-	598,790	1,839,090
Robert Franco	7,600,000	-	-	300,000	7,900,000
Peter Wallace	40,000	-	-	60,000	100,000
Dennis O'Neill	100,000	-	-	900,000	1,000,000
Denis Criddle ² (appointed 31 August 2007)	-	-	-	20,510,078	20,510,078
Specified Executives:					
Yenon Ofri	-	-	-	-	-
Len Tronccone	100,000	-	150,000	-	250,000
Scott Criddle	-	-	-	-	-
Andries Dique ³	-	-	-	4,500,000	4,500,000
Robert Sharp	-	-	-	-	-
Total	9,080,300	-	150,000	26,868,868	36,099,168

- Notes:
1. Net change other refers to shares purchased or sold in the financial year.
 2. In the case of Mr Denis Criddle, an entity associated with Mr Criddle received 18,000,000 shares as part consideration of the company's acquisition of Decmil Australia Pty Ltd on 2 July 2007.
 3. In the case of Mr Andries Dique, an entity associated with Mr Dique received 4,500,000 shares as part consideration of the company's acquisition of Decmil Australia Pty Ltd on 2 July 2007.

Notes To The Financial Statements

For Year Ended 30 June 2008 - *Continued*

Note 7: Auditors' Remuneration

Remuneration of the auditor of the parent entity for:

- auditing or reviewing the financial report
- other services

Economic Entity		Parent Entity	
2008 \$000	2007 \$000	2008 \$000	2007 \$000
87	51	87	51
-	-	-	-
87	51	87	51

Note 8: Earnings/(Loss) per Share

- (a) Reconciliation of Earnings to Profit or Loss
- Profit/(loss)
- (Profit)/loss attributable to minority equity interest
- Earnings used to calculate basic and dilutive EPS

Economic Entity	
2008 \$000	2007 \$000
55	(4,074)
-	-
55	(4,074)

- (b) Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS
- Weighted average number of dilutive options outstanding
- Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS

No.	No.
113,730,833	48,008,042
-	-
113,730,833	48,008,042

Note 9: Cash Assets

- Cash at bank
- 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

Economic Entity		Parent Entity	
2008 \$000	2007 \$000	2008 \$000	2007 \$000
9,906	35,781	70	33,666
9,906	35,781	70	33,666

Note 10: Receivables

	Economic Entity		Parent Entity	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
CURRENT				
Trade receivables	21,378	8,961	-	-
Provision for impairment of receivables	(2)	(2)	-	-
	21,376	8,959	-	-
NON-CURRENT				
Amounts receivable from:				
- wholly-owned subsidiaries	-	-	16,206	10,403
- provision for impairment of receivables	-	-	(3,198)	(1,969)
	-	-	13,008	8,434
PROVISION FOR IMPAIRMENT OF RECEIVABLES				
Current				
Trade receivables:				
- opening balance	2	2	-	-
- charge for the year	-	-	-	-
	2	2	-	-
Non-Current				
Receivables from wholly-owned subsidiaries:				
- opening balance	-	-	1,969	-
- charge for the year	-	-	1,229	1,969
	-	-	3,198	1,969

Note 11: Inventories

	2008 \$000	2007 \$000	2008 \$000	2007 \$000
CURRENT				
At cost:				
Raw materials and stores	285	93	-	-
Work in progress	1,391	1,361	-	-
	1,676	1,454	-	-

Notes To The Financial Statements

For Year Ended 30 June 2008 - *Continued*

Note 12: Other Financial Assets

	Economic Entity		Parent Entity	
	2008 \$000	2007 \$000	2008 \$000	2007 \$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				
Matrix Engineers Pty Ltd (formerly CASE Services Pty Ltd)	-	-	152	152
Principal activity is provision of completion, commissioning support and engineering services				
Decmil Australia Pty Ltd	-	-	50,189	-
Principal activity is provision of civil design, construction & maintenance services				
Fabcon Construction Pty Ltd	-	-	1,928	2,019
Principal activity is provision of construction services				
Investment at cost	-	-	55,717	5,619

Note 13: Controlled Entities

(a) Controlled Entities Consolidated

	Country of Incorporation	Percentage Owned (%)	
		2008	2007
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%
Matrix Engineers Pty Ltd (formerly CASE Services Pty Ltd)	Australia	100%	100%
Remtech Environmental Solutions Pty Ltd	Australia	100%	51%
McFee Maintenance Pty Ltd	Australia	100%	100%
Fabcon Construction Pty Ltd	Australia	100%	100%
Decmil Australia Pty Ltd	Australia	100%	0%
Subsidiary of Matrix Engineers Pty Ltd:			
Eastman Fort Pty Ltd	Australia	100%	100%
Subsidiary of McFee Maintenance Pty Ltd:			
Westec Engineering Services Australia Pty Ltd	Australia	0%	100%

(b) Acquisition of Controlled Entities

On 2 July 2007, the parent entity acquired 100% of Decmil Australia Pty Ltd, with Paladio Group Limited entitled to all profits earned from the date of acquisition for a purchase consideration of \$50,189,000.

On 2 November 2007, a wholly owned subsidiary of the parent entity acquired 100% of Matrix Engineers Pty Ltd, with the economic entity entitled to all profits earned from the date of acquisition for a purchase consideration of \$3,367,000.

(c) Sale of Controlled Entities

On 28 April 2008, a wholly owned subsidiary of the parent entity sold 100% of Westec Engineering Services Australia Pty Ltd for a total consideration of \$145,000. Details of this transaction are:

	Economic Entity		Parent Entity	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Sale consideration	145	-	-	-
Assets and liabilities sold:				
Plant, equipment and prepayments	(90)	-	-	-
Goodwill	(428)	-	-	-
Employee entitlements provision	76	-	-	-
Loss on sale	(297)	-	-	-
Contribution to net profit	(273)	-	-	-

Notes To The Financial Statements

For Year Ended 30 June 2008 - *Continued*

Note 13: Controlled Entities - *Continued*

(d) Closed Group

A deed of cross guarantee between Paladio Group Limited and all of its wholly owned subsidiaries Novacoat (WA) Pty Ltd, Novacoat Workforce Pty Ltd, McFee Pty Ltd, McFee Engineering Pty Ltd, Matrix Engineers Pty Ltd, McFee Maintenance Pty Ltd, Fabcon Construction Pty Ltd, Decmil Australia Pty Ltd and Westec Engineering Services Australia Pty Ltd (until that entity was sold) 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 2008 \$000	Closed Group 2007 \$000
Financial information in relation to:		
(i) Income Statement:		
Profit/(loss) before income tax	235	(5,143)
Income tax (expense)/benefit	(180)	580
Profit/(loss) after income tax	<u>55</u>	<u>(4,563)</u>
Profit/(loss) attributable to members of the parent entity	<u>55</u>	<u>(4,563)</u>
(ii) Retained Earnings:		
Retained profits/(losses) at the beginning of the year	(6,151)	(1,987)
Profit/(loss) after income tax	55	(4,563)
Retained earnings at the end of the year	<u>(6,096)</u>	<u>(6,550)</u>

Note 13: Controlled Entities - *Continued*

(iii) Balance Sheet:

CURRENT ASSETS

Cash and cash equivalents	9,906	34,614
Trade and other receivables	21,376	7,600
Inventories	1,676	1,392
Other current assets	2,431	448

TOTAL CURRENT ASSETS

35,389 44,054

NON-CURRENT ASSETS

Trade and other receivables	-	2,656
Other financial assets	-	2,019
Property, plant and equipment	7,121	2,119
Deferred tax assets	1,493	2,000
Intangible assets	56,867	1,529

TOTAL NON-CURRENT ASSETS

65,481 10,323

TOTAL ASSETS

100,870 54,377

CURRENT LIABILITIES

Trade and other payables	28,360	7,018
Short-term borrowings	1,514	200
Short-term provisions	1,992	450

TOTAL CURRENT LIABILITIES

31,866 7,668

NON-CURRENT LIABILITIES

Long-term borrowings	1,351	189
----------------------	-------	-----

TOTAL NON-CURRENT LIABILITIES

1,351 189

TOTAL LIABILITIES

33,217 7,857

NET ASSETS

67,653 46,520

EQUITY

Issued capital	73,749	53,070
Retained earnings	(6,096)	(6,550)
	67,653	46,520

Notes To The Financial Statements

For Year Ended 30 June 2008 - *Continued*

Note 14: Property, Plant and Equipment

	Economic Entity		Parent Entity	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
PLANT AND EQUIPMENT				
Plant and Equipment:				
At cost	6,216	3,761	378	141
Accumulated depreciation	(2,287)	(1,231)	(139)	(51)
	3,929	2,530	239	90
Leased plant and equipment	4,587	2,065	-	-
Accumulated depreciation	(1,395)	(278)	-	-
	3,192	1,787	-	-
Total Property, Plant and Equipment	7,121	4,317	239	90

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	2,530	1,787	4,317
Additions	2,638	2,412	5,050
Disposals	(238)	(224)	(462)
Depreciation expense	(1,001)	(783)	(1,784)
Carrying amount at the end of year	3,929	3,192	7,121
Parent Entity:			
Balance at the beginning of year	90	-	90
Additions	240	-	240
Disposals	(2)	-	(2)
Depreciation expense	(89)	-	(89)
Carrying amount at the end of year	239	-	239

Note 15: Intangible Assets

	Economic Entity		Parent Entity	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Goodwill at cost	56,867	5,145	-	-

Movements in Carrying Amounts

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

	2008 \$000	2007 \$000
Goodwill:		
Balance at the beginning of year	5,145	1,816
Additions	52,151	3,615
Disposals	(429)	-
Impairment write-off	-	(286)
Balance at the end of year	56,867	5,145

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 which recognises the risk factor applicable to the industry in which the company and its subsidiaries operate.

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 periods which are consistent with inflation rates applicable to the locations in which the cash generating units operate. Discount rates are after tax and are adjusted to incorporate risks associated with a particular industry.

The value-in-use calculations have assumed a growth rate of 25% and a discount rate of 10.0%.

Note 16: Other Assets

	Economic Entity		Parent Entity	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
CURRENT				
Prepayments	550	161	238	24
Other	1,881	331	75	68
	2,431	492	313	92

Notes To The Financial Statements

For Year Ended 30 June 2008 - *Continued*

Note 17: Payables

	Economic Entity		Parent Entity	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
CURRENT				
Unsecured liabilities:				
Trade payables	12,965	2,442	259	181
Sundry payables and accrued expenses	15,395	5,951	3,268	1,911
	28,360	8,393	3,527	2,092

Note 18: Borrowings

	Note	Economic Entity		Parent Entity	
		2008 \$000	2007 \$000	2008 \$000	2007 \$000
CURRENT					
Secured liabilities:					
Lease liability	22	1,297	530	-	-
Premium funding liability	22	217	121	138	-
		1,514	651	138	-
NON-CURRENT					
Secured liabilities:					
Lease liability	22	1,351	1,201	-	-
		1,351	1,201	-	-

Note 19: Tax

	Note	Economic Entity		Parent Entity	
		2008 \$000	2007 \$000	2008 \$000	2007 \$000
(a) Assets					
Deferred tax assets comprise:					
Deferred tax losses		597	737	329	474
Transaction costs on equity issue		896	882	896	882
Other		-	40	(221)	(220)
		1,493	1,659	1,004	1,136
(b) Reconciliations					
(i) Gross Movements					
The overall movement in the deferred tax benefit account is as follows:					
Opening balance		1,659	749	1,136	327
(Charge) / credit to income statement	5	(180)	308	(146)	207
(Charge) / credit to equity		14	602	14	602
Closing balance		1,493	1,659	1,004	1,136
(ii) Deferred Tax Assets					
The movement in deferred tax assets for each temporary difference during the year is as follows:					
Deferred tax losses					
At 1 July 2007		737	477	474	47
(Charge) / credit to income statement		(140)	260	(145)	427
At 30 June 2008		597	737	329	474
Transaction costs on equity issue					
At 1 July 2007		882	298	882	280
Credit directly to equity		14	584	14	602
At 30 June 2008		896	882	896	882
Other					
At 1 July 2007		40	(8)	(220)	-
(Charge) / credit to income statement		(40)	48	(1)	(220)
At 30 June 2008		-	40	(221)	(220)

Notes To The Financial Statements

For Year Ended 30 June 2008 - *Continued*

Note 20: Provisions

	Economic Entity		Parent Entity	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
CURRENT				
Employee entitlements	1,992	643	65	26
Reconciliation of Provisions				
Opening balance at 1 July 2007	643	480	26	18
Additional provisioning	2,961	493	112	26
Amounts used	(1,612)	(330)	(73)	(18)
Balance at 30 June 2008	1,992	643	65	26

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	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
115,983,491 (2007: 92,683,521) fully paid ordinary shares	73,749	53,070	73,749	53,070

(a) Ordinary Shares

At the beginning of reporting period

Shares issued during the year

- 13 September 2006

- 29 September 2006

- 13 October 2006

- 18 October 2006

- 21 November 2006

- 23 April 2007

- 29 June 2007

- 6 July 2007

- 2 November 2007

- 4 December 2007

- 11 February 2008

- 28 February 2008

Shares cancelled during the year

- 29 August 2007

At reporting date

	No.	No.	No.	No.
At the beginning of reporting period	92,683,521	46,483,521	92,683,521	46,483,521
Shares issued during the year				
- 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
- 6 July 2007	22,500,000	-	22,500,000	-
- 2 November 2007	640,000	-	640,000	-
- 4 December 2007	150,000	-	150,000	-
- 11 February 2008	1,250,000	-	1,250,000	-
- 28 February 2008	1,409,970	-	1,409,970	-
Shares cancelled during the year				
- 29 August 2007	(2,650,000)	-	(2,650,000)	-
At reporting date	115,983,491	92,683,521	115,983,491	92,683,521

Note 21: Issued Capital - Continued

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 25.

(ii) For information relating to share options issued to executive directors during the financial year, refer to Note 25.

(c) Capital Management

Management controls the capital of the economic entity in order to maintain a good debt to equity ratio, provide the shareholders with adequate returns and ensure that the economic entity can fund its operations and continue as a going concern.

The economic entity's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets.

There are no externally imposed capital requirements.

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

There have been no changes in the strategy adopted by management to control the capital of the economic entity since the prior year. The strategy is to ensure that the economic entity has a positive net cash position. The gearing ratios for the years ended 30 June 2008 and 30 June 2007 are as follows:

	Note	Economic Entity		Parent Entity	
		2008 \$000	2007 \$000	2008 \$000	2007 \$000
Total borrowings	18	2,865	1,852	138	-
Less cash and cash equivalents	9	(9,906)	(35,781)	(70)	(33,666)
Net debt/(cash)		(7,041)	(33,929)	68	(33,666)
Total equity		67,653	46,919	66,621	46,919
Total capital		60,612	12,990	66,689	13,253
Gearing ratio		-	-	0.1%	-

Notes To The Financial Statements

For Year Ended 30 June 2008 - *Continued*

Note 22: Capital and Leasing Commitments

	Note	2008 \$000	2007 \$000	2008 \$000	2007 \$000
(a) Finance Lease Commitments					
Payable - minimum lease payments					
- not later than 1 year		1,548	604	-	-
- between 1 and 5 years		1,351	1,362	-	-
Minimum lease payments		2,899	1,966	-	-
Less future finance charges		(251)	(235)	-	-
Present value of minimum lease payments	18	2,648	1,731	-	-
(b) Premium Funding Commitments					
Payable - minimum lease payments					
- not later than 1 year		220	125	140	-
Minimum lease payments		220	125	140	-
Less future finance charges		(3)	(4)	(2)	-
Present value of minimum lease payments	18	217	121	138	-
(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		2,418	249	234	-
- between 1 and 5 years		7,427	1,328	654	-
- greater than 5 years		327	425	-	-
		10,172	2,002	888	-

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 ten year term for an additional term of five years with a further five year term after the initial option period.

The property lease for the Belmont office premises is a non-cancellable lease with a seven 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. An option exists to renew the lease at the end of the seven year term for an additional term of seven years.

The property for the East Perth lease office premises is a non-cancellable lease with a three 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. An option exists to renew the lease at the end of the three year term for an additional term of three years.

The property for the Auchenflower (Brisbane) office premises is a non-cancellable lease with a four 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. An option exists to renew the lease at the end of the four year term for an additional term of four years.

The property for the Osborne Park office premises is a non-cancellable lease with a five 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. An option exists to renew the lease at the end of the five year term for an additional term of five years.

Note 23: 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 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 24: Cash Flow Information

	Economic Entity		Parent Entity	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
(a) Reconciliation of Cash Flow from Operations with Profit after Income Tax				
Profit/(loss) after income tax	55	(4,074)	(977)	(5,683)
Non-cash flows in profit from ordinary activities				
Depreciation	1,784	812	89	33
Equity based payments	802	630	802	630
Loss on exit of environmental rehabilitation joint venture	-	2,190	-	2,451
Loss on sale of subsidiary	297	-	-	-
Loss on sale of non-current assets	113	-	-	-
Diminution in value of inter-company loans	-	-	1,229	1,969
Insurance expense funded by external premium funding	1,658	196	1,380	-
Insurance premium funding instalments paid	(1,562)	(75)	(1,242)	-
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries				
Trade receivables	(12,775)	1,146	-	-
Prepayments	(389)	(90)	(214)	-
Other assets	(1,541)	(108)	(9)	7
Inventories	(222)	(1,375)	-	-
Trade payables and accruals	19,090	1,259	(64)	260
Deferred tax assets	180	(308)	146	(207)
Provisions	1,030	98	38	8
Cash flow from operations	8,520	301	1,178	(532)

Notes To The Financial Statements

For Year Ended 30 June 2008 - *Continued*

Note 24: Cash Flow Information - *Continued*

	Economic Entity		Parent Entity	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
(b) Acquisition of Entities				
On 2 July 2007, 100% of the controlled entity Decmil Australia Pty Ltd was acquired. Details of this transaction are:				
Purchase consideration	50,189	-	50,189	-
Cash consideration	29,903	-	29,903	-
Deferred cash consideration	1,000	-	1,000	-
Issue of shares	17,786	-	17,786	-
Deferred issue of shares	1,500	-	1,500	-
Total purchase consideration	50,189	-	50,189	-
Assets and liabilities held at acquisition date:				
Cash assets	(3,400)	-	(3,400)	-
Receivables	(600)	-	(600)	-
Other current assets	(24)	-	(24)	-
Plant and equipment	(1,995)	-	(1,995)	-
Payables	2,830	-	2,830	-
Provisions	397	-	397	-
Borrowings	1,195	-	1,195	-
Goodwill on consolidation	48,592	-	48,592	-
Contribution to consolidated net profit after income tax	2,899	-	2,899	-
On 2 November 2007, 100% of the controlled entity Matrix Engineers Pty Ltd was acquired. Details of this transaction are:				
Purchase consideration	3,367	-	3,367	-
Cash consideration	887	-	887	-
Deferred cash consideration	1,500	-	1,500	-
Issue of shares	480	-	480	-
Deferred issue of shares	500	-	500	-
Total purchase consideration	3,367	-	3,367	-
Assets and liabilities held at acquisition date:				
No material assets or liabilities were acquired	-	-	-	-
Goodwill on consolidation	3,367	-	3,367	-
Contribution to consolidated net loss after income tax	(130)	-	(130)	-

There is no disclosure of the effect on the consolidated income statement if the acquired entities were assumed to be made on 1 July 2007 as reliable information is not available.

Note 24: Cash Flow Information - *Continued*

	Economic Entity		Parent Entity	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
(c) Non-cash Financing and Investing Activities				
(i) Share issues:				
- 22,500,000 fully paid ordinary shares at \$0.75 each issued in part consideration for the acquisition of Decmil Australia Pty Ltd	16,875	-	16,875	-
- 2,500,000 options exercisable at \$1.00 each and 2,500,000 options exercisable at \$0.75 each to acquire ordinary shares as part consideration for the acquisition of Decmil Australia Pty Ltd	912	-	912	-
- 640,000 fully paid ordinary shares at \$0.75 each issued in part consideration for the acquisition of Matrix Engineers Pty Ltd	480	-	480	-
- 2,659,970 fully paid ordinary shares at \$0.60 each issued as deferred part consideration for the acquisition of Eastman Fort Pty Ltd	1,596	-	1,596	-
- 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
(ii) Finance leases:				
- Finance leases to acquire plant and equipment	976	197	-	-
(d) Credit Standby Facilities with Banks				
Credit facilities	16,000	2,000	-	-
Amount utilised	(2,648)	(1,731)	-	-
	13,352	269	-	-
The credit facilities are summarised as follows:				
Bank overdraft	1,000	-	-	-
Equipment finance	4,000	2,000	-	-
Limited recourse receivables finance	11,000	-	-	-
	16,000	2,000	-	-

The credit facilities are provided by National Australia Bank Limited and are subject to annual review. Interest rates are variable and subject to adjustment with the exception of equipment whereby the interest rate is fixed for the duration of each discreet finance contract. The facilities are secured via a registered first mortgage with fixed and floating charges over the assets of the economic entity.

Notes To The Financial Statements

For Year Ended 30 June 2008 - *Continued*

Note 25: Share-based Payments

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 or were negotiated by mutual consent during contract negotiations. 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 25: Share-based Payments - Continued

2008	Economic and Parent Entity												
	Exercise Price \$	Expiry Date	Vesting Terms	Beginning of Year No.	Granted No.	Exercised No.	Cancelled No.	Outstanding at Year-End No.	Exercisable at Year-End No.	Options Granted \$000	Underlying Share Price \$	Volatility Factor %	Risk Free Rate %
\$0.30	31-Dec-08	28-Apr-06		500,000	-	-	-	500,000	500,000	-	-	-	-
\$0.40	31-Dec-08	Upon granting		200,000	-	-	-	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)	-	-	-	-	-	-	-
\$0.30	31-Dec-08	On 6-Jun-07		50,000	-	-	-	50,000	50,000	-	-	-	-
\$0.77	30-Apr-11	30-Apr-06 one third, 30-Apr-07 one third, remainder 1-May-08		325,000	-	-	-	325,000	275,000	-	-	-	-
\$0.80	30-Apr-10	350,000 on 30-Apr-08		350,000	-	-	-	350,000	350,000	-	-	-	-
\$0.76	31-Dec-11	12-Dec-06 one third, 12-Dec-07, one third, remainder 12-Dec-08		50,000	-	-	-	50,000	33,300	-	-	-	-
\$0.85	31-Dec-11	12-Dec-06 one third, 12-Dec-07, one third, remainder 12-Dec-08		150,000	-	-	-	150,000	-	-	-	-	-
\$0.90	30-Apr-10	All by 1-May-08		100,000	-	-	-	100,000	100,000	-	-	-	-
\$0.64	30-Apr-12	30-Apr-07 one third, 30-Apr-08, one third, remainder 30-Apr-09		50,000	-	-	-	50,000	33,300	-	-	-	-
\$0.81	30-Sep-13	60% 12-Dec-07, 20% 12-Dec-08, remainder 12-Dec-09		1,450,000	-	-	-	1,450,000	870,000	-	-	-	-
\$0.90	30-Sep-13	40% 12-Dec-07, 30% 12-Dec-08, remainder 12-Dec-09		1,900,000	-	-	-	1,900,000	760,000	-	-	-	-
\$1.00	30-Jun-12	EBIT > \$12m over 2 years		-	2,500,000	-	-	2,500,000	-	410	\$0.61	50%	5.98%
\$0.75	30-Jun-12	2-Jul-08 one third, 2-Jul-09 one third, 2-Jul-10 one third		-	2,500,000	-	-	2,500,000	-	513	\$0.61	50%	5.98%
\$0.90	1-Jan-12	50% 1-Jan-08, 50% 1-Jan-09		-	250,000	-	-	250,000	125,000	82	\$0.90	50%	6.10%
\$0.78	30-Jun-12	12-Dec-07 one third, 12-Dec-08 one third, 12-Dec-09 one third		-	325,000	-	-	325,000	108,225	133	\$0.78	50%	6.60%
				5,525,000	5,575,000	(150,000)	-	10,950,000	3,654,825	1,138			

The values 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

Notes To The Financial Statements

For Year Ended 30 June 2008 - *Continued*

Note 26: Related Party Transactions

	Economic Entity		Parent Entity	
	2008 \$000	2007 \$000	2008 \$000	2007 \$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	-	-	4,710	907
(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	372	163	-	-
Rent of office premises used by Paladio Group Limited and several of its subsidiaries was paid to LMR Partnership, an entity in which Mr Robert Franco has a beneficial interest	191	80	58	24
Service fees paid to Longbow Holdings Pty Ltd, a company in which Mr Richard Wright has a controlling interest	320	267	320	267

Note 27: Financial Instruments

Financial Risk Management Policies

The economic entity's financial instruments consist mainly of 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 economic entity operations.

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

i. Treasury Risk Management

The chief financial officer and other senior finance executives regularly analyse financial risk exposure and evaluate treasury management strategies in the context of the most recent economic conditions and forecasts.

The overall risk management strategy seeks to assist the economic entity in meeting its financial targets, whilst minimising potential adverse effects on financial performance.

Treasury functions are performed in accordance with policies approved by the board of directors. Risk management policies are approved and reviewed by the board on a regular basis. These include credit risk policies and future cash flow requirements.

ii. Financial Risk Exposures and Management

The main risks the economic entity is exposed to through its financial instruments are interest rate risk, liquidity risk, credit risk and price risk.

Interest rate risk

Interest rate risk is managed with a mixture of fixed and floating rate debt. At 30 June 2008, virtually all of the economic entity debt consisting of finance leases which have fixed interest rates.

Liquidity risk

The economic entity manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained.

Note 27: Financial Instruments - Continued

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 impairment of those assets, as disclosed in the balance sheet and notes to the financial statements.

There are no material amounts of collateral held as security at 30 June 2008.

In respect of the parent entity, credit risk also incorporates the exposure of Paladio Group Limited to the liabilities of all members of the closed group under the deed of cross-guarantee. Refer to Note 13 for further information.

Credit risk is managed on a group basis and reviewed regularly by finance executives and the board. It arises from exposures to customers as well as through deposits with financial institutions.

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

Price risk

The economic entity is exposed to price risks associated with labour costs and to a lesser extent, fuel and steel prices. Wherever possible the economic entity contracts out of such exposures, or allows for rise and fall for changes in prices or provides sufficient contingencies to cover for such price risks.

iii. Financial Instrument Composition And Maturity Analysis

The tables below reflect the undiscounted contractual settlement terms for financial instruments of a fixed period of maturity, as well as management's expectations of the settlement period for all other financial instruments. As such, the amounts may not reconcile to the balance sheet.

	Fixed Interest Rate Maturing			
	Weighted Average Effective Interest Rate		Floating Interest Rate	
	2008 %	2007 %	2008 \$000	2007 \$000
Consolidated Group				
Financial Assets:				
Cash and cash equivalents	6.5	5.7	6.5	5.7
Financial Liabilities:				
Trade and sundry payables	-	-	-	-
Premium funding liabilities	1.8	6.5	1.8	6.5
Lease liabilities	6.9	8.0	6.9	8.0
	Within 1 Year		1 to 5 years	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Financial Assets:				
Cash and cash equivalents	9,906	35,781	-	-
Receivables	21,376	8,959	-	-
Total Financial Assets	31,282	44,740	-	-
Financial Liabilities:				
Trade and sundry payables	28,360	8,393	-	-
Premium funding liabilities	217	121	-	-
Lease liabilities	1,297	530	1,351	1,201
Total Financial Liabilities	29,874	9,044	1,351	1,201

Notes To The Financial Statements

For Year Ended 30 June 2008 - *Continued*

Note 27: Financial Instruments - *Continued*

	Total	
	2008 \$000	2007 \$000
Financial Assets:		
Cash and cash equivalents	9,906	35,781
Receivables	21,376	8,959
Total Financial Assets	31,282	44,740
Financial Liabilities:		
Trade and sundry payables	28,360	8,393
Premium funding lease liabilities	217	121
Lease liabilities	2,648	1,731
Total Financial Liabilities	31,225	10,245

	Fixed Interest Rate Maturing			
	Weighted Average Effective Interest Rate		Floating Interest Rate	
	2008 %	2007 %	2008 \$000	2007 \$000
Parent Entity				
Financial Assets:				
Cash and cash equivalents	6.5	5.7	6.5	5.7
Financial Liabilities:				
Trade and sundry payables	-	-	-	-
Premium funding liabilities	1.8	-	1.8	-

	Within 1 Year		1 to 5 years	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Financial Assets:				
Cash and cash equivalents	70	33,666	-	-
Total Financial Assets	70	33,666	-	-
Financial Liabilities:				
Trade and sundry payables	3,527	2,092	-	-
Premium funding liabilities	138	-	-	-
Total Financial Liabilities	3,665	2,092	-	-

Note 27: Financial Instruments - *Continued*

	Total	
	2008 \$000	2007 \$000
Financial Assets:		
Cash and cash equivalents	70	33,666
Total Financial Assets	70	33,666
Financial Liabilities:		
Trade and sundry payables	3,527	2,092
Premium funding liabilities	138	-
Total Financial Liabilities	3,665	2,092

Trade and sundry payables are expected to be paid as followed:

	Consolidated Group		Parent Entity	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Less than 6 months	28,360	8,393	3,527	2,092
6 months to 1 year	-	-	-	-
1 - 5 years	-	-	-	-
Over 5 years	-	-	-	-
	28,360	8,393	3,527	2,092

iv. Net Fair Values

The net fair values of:

- Other loans and amounts due are determined by discounting the cash flows, at market interest rates of similar borrowings, to their present value.
- Other assets and other liabilities approximate their carrying value.

No financial assets and financial liabilities are readily traded on organised markets in standardised form.

Financial assets where the carrying amount exceeds net fair values have not been written down as the economic entity intends to hold these assets to maturity.

Aggregate net fair values equal to the respective carrying amounts of financial assets and financial liabilities at balance date.

v. Sensitivity Analysis

Interest Rate Risk and Price Risk

The economic entity has performed sensitivity analysis relating to its exposure to interest rate risk, and price risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

Interest Rate Sensitivity Analysis

At 30 June 2008, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant would be negligible as the economic entity's borrowings consist predominantly of fixed rate leasing contracts.

Price Risk Sensitivity Analysis

At 30 June 2008, the effect on profit and equity as a result of changes in the price risk, with all other variables remaining constant would be as follows:

Notes To The Financial Statements

For Year Ended 30 June 2008 - *Continued*

Note 27: Financial Instruments - *Continued*

	Consolidated Group		Parent Entity	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Change in profit				
- Increase in labour costs by 5% (CPI assumption)	(2,730)	(1,390)	(103)	(36)
Change in Equity				
- Increase in labour costs by 5% (CPI assumption)	(2,730)	(1,390)	(103)	(36)

In the opinion of the economic entity's executives, the majority of the above increase in labour costs, had they been incurred, would have been negated by an increase in the price of services offered by the economic entity.

The above interest rate and price risk sensitivity analysis has been performed on the assumption that all other variables remain unchanged.

Note 28: Contingent Liabilities

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

Note 29: Subsequent Events

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.

Note 30: 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, Eastman Fort Pty Ltd and McFee Maintenance Pty Ltd

- Industrial services division
59 Belmont Avenue, Belmont, Western Australia
Suite 4, 19 Lang Parade, Auchenflower, Queensland

Matrix Engineers Pty Ltd

- Engineering services division
Level 1, 159 Adelaide Terrace, East Perth, Western Australia

Decmil Australia Pty Ltd

- Civil construction division
Level 2, 76 Hasler Road, Osborne Park, Western Australia

Directors Declaration

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 13 to 46, 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 2008 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, Matrix Engineers Pty Ltd, McFee Maintenance Pty Ltd, Fabcon Construction Pty Ltd, Decmil Australia Pty Ltd and Westec Engineering Services Australia Pty Ltd (until that entity was sold) 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.



Peter Wallace

Director

Dated this 31st day of July 2008

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF

PALADIO GROUP LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Paladio Group Limited ("the company"), which comprises the balance sheet as at 30 June 2008 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 entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

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 2008 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.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 6 to 9 of the directors' report for the financial year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Paladio Group Limited for the financial year ended 30 June 2008 complies with section 300A of the *Corporations Act 2001*.

Perth, WA

Dated: 1 August 2008


RSM BIRD CAMERON PARTNERS
Chartered Accountants


J A KOMNINOS
Partner

RSM Bird Cameron Partners

Chartered Accountants

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AUDITOR INDEPENDENCE DECLARATION

I declare that, to the best of my knowledge and belief, in relation to the audit of the financial statements of Paladio Group Limited for the financial year ended 30 June 2008 there have been no contraventions of:

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

Perth, WA

Dated: 1 August 2008

RSM Bird Cameron Partners
RSM BIRD CAMERON PARTNERS
Chartered Accountants

J A KOMNINOS
Partner

Liability limited by a scheme approved under Professional Standards Legislation

Major Offices in:
Perth, Sydney, Melbourne,
Adelaide and Canberra
ABN 36 965 185 036

RSM Bird Cameron Partners is an independent member firm of RSM International, an affiliation of independent accounting and consulting firms.



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 31 July 2008.

1. Substantial shareholders

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

Shareholder	Shares	%
Broadway Pty Ltd	18,000,000	15.52
Hunter Hall Investment Management Limited	17,661,085	15.23
Lehman Brothers Prime Broker Nominees	7,981,715	6.88
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	6.55

2. Distribution of shareholdings

Range of Holding	No. of Shareholders	No. of Ordinary Shares	%
1 – 1,000	878	385,201	0.33
1,001 – 5,000	228	579,128	0.50
5,001 – 10,000	117	982,504	0.85
10,001 – 100,000	366	14,027,941	12.09
100,001 and over	91	100,008,717	86.23
Total	1,680	115,983,491	100.00

The number of shareholders with less than a marketable parcel is 1,009 holding in total 602,262 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	%
Cogent Nominees Pty Ltd	18,996,313	16.38
Broadway Pty Ltd - The Decmil Australia A/C	18,000,000	15.52
ANZ Nominees Ltd - Cash Income A/C	11,612,127	10.01
L, M & R Franco - LMR Franco Unit A/C	4,550,000	3.92
Anjet Projects Pty Ltd – The Dique Family A/C	4,500,000	3.88
Queensland Investment Corporation	4,194,538	3.62
Equity Trustees Limited - SGH PI Smaller Co's Fund Premium Client	3,536,985	3.05
Mrs Nola Isabel Criddle – Criddle Investment Fund	2,510,078	2.16
Delauney Pty Ltd - The Franco Family A/C	2,300,000	1.98
Fairview Pty Ltd - Ernest Franco Family A/C	2,300,000	1.98
Invia Custodian Pty Ltd - R&A Wright Family Super Fund A/C	1,789,090	1.54
Bell Potter Nominees Ltd - BB Nominees A/C	1,573,333	1.36
Mr IC & Mrs T McMiles – McMiles Super Fund	1,329,985	1.15
Navco Holdings Pty Ltd – Leyshon Super Fund	1,329,985	1.15
David Argyle c/- JDV	1,194,100	1.03
O'Neill Administration Pty Ltd – O'Neill Super Fund	1,000,000	0.86
Mr James Nikoloudis	977,510	0.84
Arredo Pty Ltd	750,000	0.65
Mr BC & Mrs CN Hutchinson – Hutchinson Family Super Fund	700,000	0.60
Damich Pty Ltd	640,000	0.55
Total	83,784,044	72.23

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