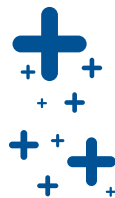
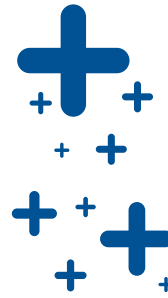


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creating opportunities



delivering efficiencies

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+7.00 am  
**+7.15**  
am

### Safety

With over 3,200 staff performing different roles across Alesco's businesses, safety is at the top of the Company's agenda. Our focus on safety has seen improvements in a number of areas, but the goal remains zero harm.

+10.15  
am

+10.00 am



## Successful companies need to create their own opportunities.

For the past five years Alesco has been expanding and fine-tuning its portfolio of industrial brands. Our current platform presents us with great opportunities to enhance shareholder value. We are constantly identifying and capitalising on the opportunities we have:

- to leverage off our strong **trade distribution networks**;
- to continue to actively manage and enhance our portfolio of **branded industrial products** available to our customers;
- to drive **efficiencies** through consolidation and rationalisation;
- to increase our presence in **growth sectors** such as environment, infrastructure and water and in the growth states of Queensland and Western Australia; and
- to deliver organic growth through strong **customer service, technical knowledge** and **innovation**.

At the same time, we are creating opportunities for our employees through their career development and their training. We continue to focus on the safety and wellbeing of our employees and contractors.

+1050 am



### Leveraging our trade distribution networks

We know we have great distribution networks and we have a great opportunity to use these networks to meet more of our customers' needs.

Of course, these distribution networks haven't been created by accident.

For instance, our Parchem Construction Supplies business has evolved from the base of the Parchem business to include Concrete Technologies, Flextool, Corkjoint and a number of other smaller acquisitions. Now this integrated business is providing trade customers with a compelling and broad offering through its national network of distribution outlets. A one-stop shop for the concrete trade, whether they are creating a residential driveway or a major arterial road or tunnel.

Our network of independent B&D dealers across Australia is unique in its scale and coverage. Likewise, our Functional & Decorative Products, Water Products & Services and Scientific & Medical divisions are each busy using their own carefully created distribution networks to pursue similar opportunities and to expand our product offerings to better meet our customers' needs.

### Branded industrial products

We continually strive to enhance our portfolio of branded products available to our customers. This is achieved both through working in partnership with our existing suppliers to bring new products to our markets and by sourcing new and innovative products both from home and abroad.

Our Lincoln Group product teams search the globe for new products to bring to our customers and during the year we introduced the Italian designed FEG wardrobe systems offering a new concept in walk-in wardrobes. Closer to home we have acquired the exclusive distribution rights to the vertical wire and glass balustrading systems of Balustrades Australia.

During the year we also relaunched the Wilsonart range of high pressure laminates in Australia which, for the first time, included 63 new colours specifically designed for the Australian market.



+12.20 pm

**delivering efficiencies** Our portfolio of businesses is already performing well, but we know it can perform better.

+2.45<sub>pm</sub>



#### **Driving efficiencies**

We have always taken the view that our acquired businesses need to be seamlessly integrated into our existing ones in a way that enhances the value of both the old and the new. We have been working hard to simplify reporting structures, remove duplication and rationalise our sites where appropriate. At the same time, we are careful to retain the competitive advantages and cultural differences that attracted us to the businesses in the first place.

When we made the Total Eden McCracken's acquisition last year, they themselves had recently acquired eight new businesses. The integration effort in our Water Products & Services division has been focussed and structured. The positive side of this hard work is that our many customers around Australia will share longer term in the benefits of dealing with one of Australia's leading water management businesses.

+ 3.15 pm



### Growth sectors

Since 2003, Alesco has been building its exposure to the growing environmental sector. This began with the acquisition of the Biolab business, and has been followed by bolt-on acquisitions including Sensor Technologies, App-Tek, EnviroEquip, NuTech Australia and Datalogger. Our products include all kinds of environmental monitoring and measuring equipment as well as rental equipment and technical services.

Today, more than 100 employees are involved in this part of the Scientific & Medical division, including a growing team of skilled sales, service, application support, R&D and manufacturing professionals.

The outlook for Australia's infrastructure sector remains solid and this is good news for our Parchem Construction Supplies business, as well as our Water Products & Services division. For example, our concrete repair and protection products are being used on major infrastructure and commercial projects around the country, including major sewerage repair projects, road and bridge projects, marine structures, oil rigs and water treatment plants.

+ 3.55 pm

**creating opportunities** Alesco's strong **platform** of businesses provides the Company with broad opportunities for organic growth through product innovation and customer service.

For operators only



#### Innovation

Alesco's strong platform of businesses provides the Company with broad opportunities for organic growth through innovation and the development of new offerings in the growth sectors we operate in.

For example, our Marathon Tyres business has launched its locally manufactured innovative tyre product – Marathon Rubber Liners (RLs) – a reusable rubber insert designed to prevent flat tyres, reduce downtime, lower operating costs and improve safety. RLs are increasingly being relied upon by underground mining sites, smelters, steel mills, transfer stations and similar industrial operations.

It's a growth market, and we are offering the market an innovative and attractive product.



#### Customer service and technical knowledge

Our customer service teams know that Alesco revolves around its customers and satisfying their needs. We mainly service trade customers, who return to us again and again. We are always listening to what they want, and if we don't have products ourselves, we are looking for ways to source them in a cost effective way.

Increasingly, we are offering them as many relevant products as possible through the same location – saving them time and effort.

+ 4.45 pm

+ 500pm

## HIGHLIGHTS OF FY08 RESULTS AND ACTIVITIES

- Record earnings per share (before amortisation of intangibles and significant items) of 83.8 cents per share (cps), up 12.8% (2007: 74.3<sup>1</sup> cps)
- Net profit after tax before amortisation of intangibles and significant items was a record \$72.3 million, up 36.9% on the previous year
- Revenue up 45% to \$1.1 billion, driven by organic growth and recent acquisitions, including the Water Products & Services division
- Improved safety performance and focus across each division
- Improved operational effectiveness through ongoing restructuring and rationalisation initiatives

1 Rights adjusted.

### Group Financial Summary<sup>1</sup>

YEAR ENDED 31 MAY	2008	2007	2006	2005	2004
Revenue (\$ million)	1,071.1	738.2	601.5	573.0 <sup>3</sup>	481.5
NPAT (\$ million)	58.0	44.0	42.8	49.3	19.9
EBITA <sup>2</sup> (\$ million)	123.5	88.0	75.7	66.6	40.2
EBITA <sup>2</sup> /Sales	11.5%	11.9%	12.6%	10.5%	8.4%
Return on net operating assets <sup>2</sup>	14.9%	15.7%	16.8%	15.2%	18.1%
Return on equity <sup>2</sup>	13.6%	15.8%	14.5%	13.3%	15.5%
Earnings per share <sup>2</sup> (cents)	83.8	74.3 <sup>4</sup>	66.2 <sup>4</sup>	60.3	54.2
Dividend per share (cents)	67.0	63.5	56.0	45.0	33.0
Market capitalisation (\$ million)	710.1	1,067.3	686.5	486.2	372.5

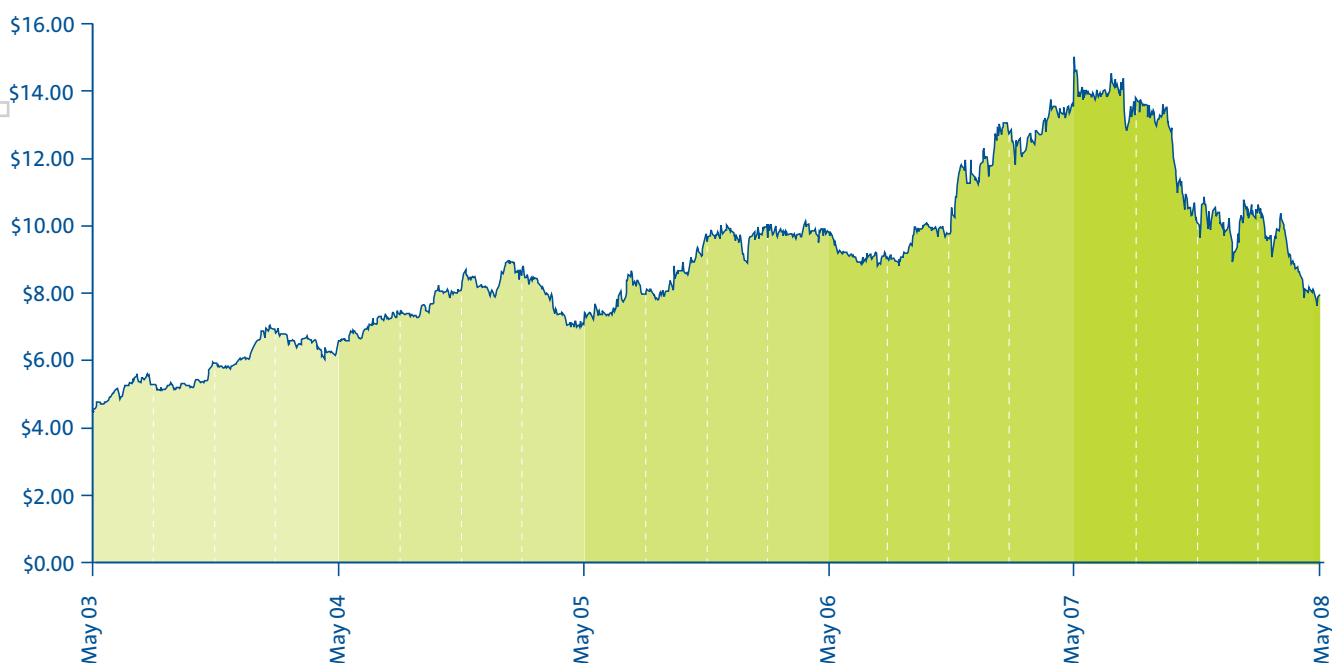
1 The 2005-2008 results are prepared under AIFRS and the 2004 results are prepared under AGAAP.

2 Before amortisation of intangibles and significant items.

3 Excludes revenue from discontinued automotive business.

4 Rights adjusted.

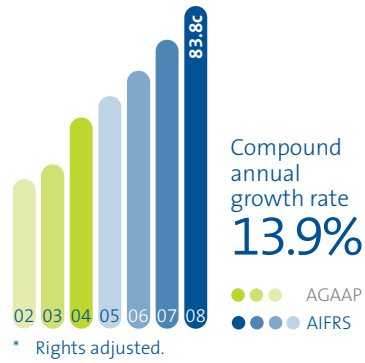
### Alesco Share Price



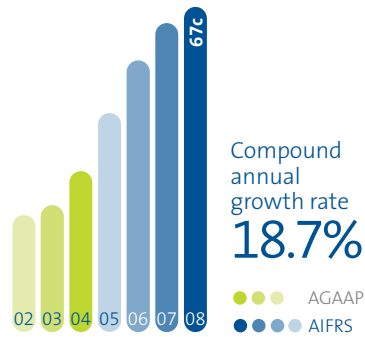
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## KEY FINANCIAL INDICATORS

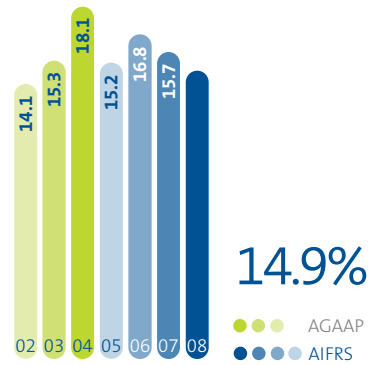
### Earnings per share<sup>1</sup>



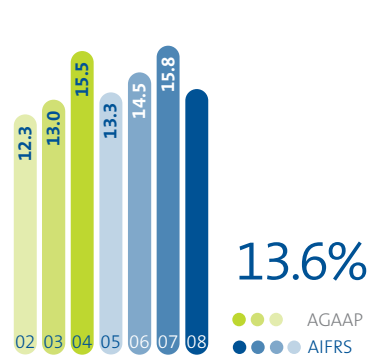
### Dividends per share



### Return on net operating assets<sup>1</sup>



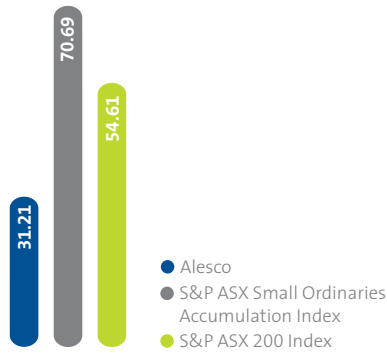
### Return on equity<sup>1</sup>



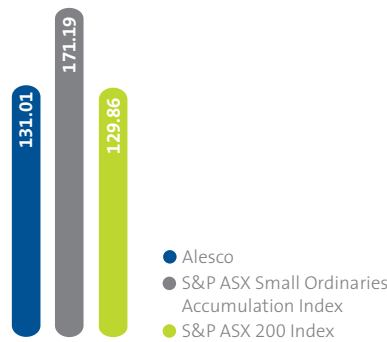
<sup>1</sup> Before amortisation of intangibles and significant items.

## TOTAL SHAREHOLDER RETURNS SHARE PRICE AND DIVIDENDS TO 31 MAY 2008

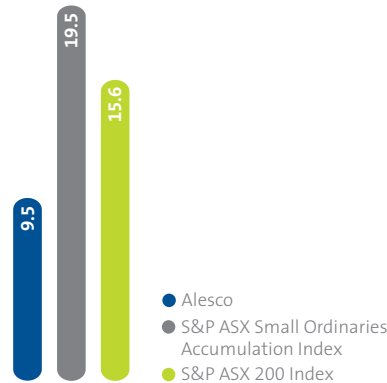
### Total returns – 3 year % return



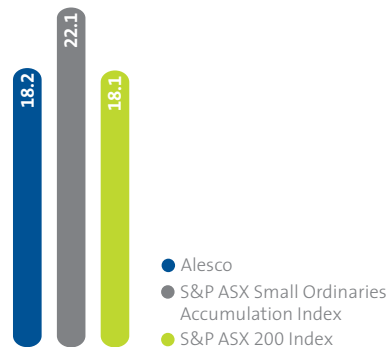
### Total returns – 5 year % return



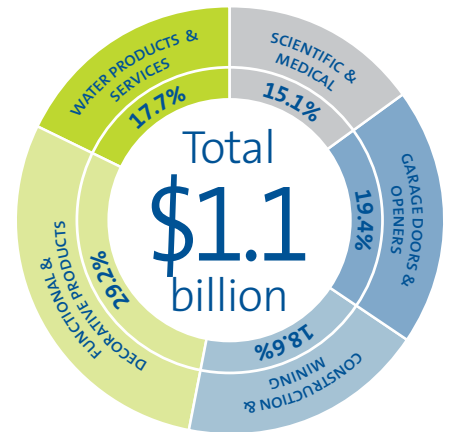
### Compound Annual Growth Rate – 3 year % return



### Compound Annual Growth Rate – 5 year % return



## Revenue



## EBITA (before significant items)



**Our work** over the past five years has focussed on building a portfolio of industrial brands and we now have five attractive and well-positioned divisions servicing a large and diverse range of trade customers in a variety of market sectors across Australia and New Zealand.



I am pleased to report to you a seventh consecutive year of record underlying earnings for Alesco.

The past 12 months has seen a marked change in the profile of Alesco with sales revenue exceeding \$1 billion for the first time and the acquisition of Total Eden McCracken's in August 2007 forming Alesco's fifth operating division. In addition, we started to experience tougher trading and economic conditions and our businesses have faced a number of challenges in this new environment. Despite this, our businesses have performed well and we have achieved our FY08 forecast performance.

#### Financial performance

Earnings per share (before amortisation of intangibles and significant items) for the 2008 financial year increased by 12.8% to 83.8 cents per share (2007: 74.3<sup>1</sup> cents per share). Sales revenues were up 45% at \$1,071 million compared to \$738.2 million in 2007. Net profit after tax (before amortisation of intangibles and significant items) increased to \$72.3 million, up 36.9% from the previous year (\$52.8 million).

The Group's net debt at the end of the financial year was \$319.8 million with gearing (net debt/capitalisation) at 35.0%, prudently below our target range of 40% to 45% and EBITDA interest cover at a strong 5.4 times.

At all times, Alesco has comfortably operated within its borrowing covenants and we have no debt facilities maturing in the FY09 financial year.

1 Rights adjusted.

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### Dividends

Alesco will pay a final dividend of 36 cents per share (fully franked) on 1 September 2008 to those shareholders holding Alesco shares as at 5.00 pm on 18 August 2008. Together with the interim dividend of 31 cents per share (fully franked) paid in March 2008, shareholders will receive total dividends for the year of 67 cents per share (fully franked), an increase of 5.5% (compared with 63.5 cents per share last year). The Board has revised its dividend policy from a stated payout ratio (dependent upon earnings per share) to an annually progressive dividend policy.

### Occupational health and safety

Alesco now employs over 3,200 employees across Australia, New Zealand and Hong Kong. Our safety performance is improving but we recognise there is still a long way to go. We are now at the stage where we have established a strong platform of systems and processes to help achieve our target of zero harm. With the consolidation of our businesses under divisional banners and strong leadership, we believe that our safety culture is developing and will continue to do so.

### Alesco Board

Since my last report, two additions have been made to the composition of the Alesco Board with the appointment of two non-executive Directors. Mark Luby's appointment took effect from 18 December 2007 and Bob McKinnon was appointed on 1 July 2008.

Both Mark and Bob are experienced company executives and directors. Mark spent 29 years in various senior management positions with Brambles, including being a member of the Brambles Executive Leadership Team, Senior Vice President – Business Development and President of Brambles CHEP Europe, Asia-Pacific and Africa operations, where he led the European business's restructure from 2002.

Bob has more than 36 years' business experience in finance, information technology and general management in both the property and financial services industries, including as Joint Managing Director of Brookfield Multiplex Group, Chief Financial Officer of Lend Lease Corporation and MLC

Group, Chief General Manager of MLC Group, Group Executive, Technology and Chief Information Officer of Commonwealth Bank of Australia. Further details on the experience of Mark, Bob and our other Board members are included in this Annual Report or can be found on the Alesco website at [www.alesco.com.au](http://www.alesco.com.au).

In July, we announced that Barry Jackson will be retiring from the Alesco Board at the Annual General Meeting to be held in September 2008 and will not be seeking re-election. Barry joined the Board in November 2001 and has played a significant role in Alesco's growth and development during his seven-year tenure. He has provided valuable insight and guidance during this time and, on behalf of the Board and shareholders, I thank him for his outstanding contribution.

As a result of these appointments, it was decided to refresh the membership of the Board committees to more evenly allocate the workloads. Details of the new committee membership are set out in the Directors' Report on page 23.

It has been an exciting and challenging 12 months but we are confident that we are well positioned to weather the tougher market conditions forecast ahead.

I thank you for your support as shareholders of Alesco during the past 12 months.

I also take the opportunity to thank my fellow Directors for their efforts and valuable input during the past 12 months. I would also like to thank Justin Ryan, the executive management team and all our Alesco group-wide employees for their hard work this year.



**SP Wareing**  
Chairman

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**I am pleased** to report a seventh consecutive year of record earnings per share (before amortisation of intangibles and significant items).



Our revenues exceeded \$1 billion for the first time which was, in large part, driven by the impact of recent acquisitions. Combined with significant organic growth in parts of the business portfolio and our ongoing restructuring initiatives and improved operational effectiveness, we have generated a record net profit of \$72.3 million before amortisation of intangibles and significant items, up 36.9% on the previous year. EBITA/Sales has been maintained above the target level of 10% for the fourth consecutive year.

The scale and composition of the Alesco portfolio of businesses have changed dramatically over the past five years, with annual revenue of less than \$400 million and EBITA of \$27 million in FY03 increasing to more than \$1 billion and \$123 million respectively in FY08.

Our objective over this period has been to build a portfolio of branded industrial distribution businesses. We now have five attractive and well-positioned divisions servicing a large and diverse range of trade customers across Australia and New Zealand.

After the sale of the Automotive division in late 2004, the remaining divisions have been enhanced through our program of value adding bolt-on acquisitions – more than 25 since January 2005. The Functional & Decorative Products division was created with the acquisition of Lincoln Sentry in early 2007 and its integration with our Parbury and Robinhood businesses. In August 2007, we acquired the Total Eden McCracken's business to form our fifth division – Water Products & Services.

## ALESCO'S DIVISIONAL PLATFORM

	Functional & Decorative Products	Construction & Mining	Garage Doors & Openers	Scientific & Medical	Water Products & Services
<b>Geography</b>	Australia and New Zealand	Australia and New Zealand	Australia and New Zealand	Australia and New Zealand	Australia
<b>Active trading accounts &amp; customers</b>	<b>&gt; 11,000</b> <ul style="list-style-type: none"> <li>• Cabinetmakers</li> <li>• Builders</li> <li>• Window &amp; door fabricators</li> <li>• Glaziers</li> <li>• Specifiers &amp; architects</li> </ul>	<b>&gt; 7,000</b> <ul style="list-style-type: none"> <li>• Mining companies &amp; contractors</li> <li>• Defence force</li> <li>• Concreters</li> <li>• Civil contractors</li> </ul>	<b>&gt; 1,800</b> <ul style="list-style-type: none"> <li>• Garage door installers</li> <li>• Builders</li> <li>• Shed manufacturers</li> <li>• Renovators</li> </ul>	<b>&gt; 20,000</b> <ul style="list-style-type: none"> <li>• Aged care facilities</li> <li>• Educational facilities</li> <li>• Medical facilities</li> <li>• Food &amp; pharma industry</li> <li>• Mining sector</li> </ul>	<b>&gt; 15,000</b> <ul style="list-style-type: none"> <li>• Irrigators &amp; graziers</li> <li>• Plumbers</li> <li>• Councils</li> <li>• Domestic households</li> <li>• Drilling contractors</li> </ul>
<b>Demand Drivers</b>	<ul style="list-style-type: none"> <li>• Renovation activity</li> <li>• New housing</li> <li>• Commercial building</li> </ul>	<ul style="list-style-type: none"> <li>• Infrastructure spending</li> <li>• Renovation activity</li> <li>• New housing</li> <li>• Commercial building</li> <li>• Mining</li> </ul>	<ul style="list-style-type: none"> <li>• New housing</li> <li>• Renovation activity</li> <li>• Commercial building</li> </ul>	<ul style="list-style-type: none"> <li>• GDP growth</li> <li>• Health spending</li> <li>• Ageing population</li> <li>• Environment</li> </ul>	<ul style="list-style-type: none"> <li>• Water availability</li> <li>• Cost of water</li> <li>• Environment</li> </ul>
<b>Employees</b>	~ 860	~ 550	~ 720	~ 410	~ 550

We believe the diversity in our portfolio is one of the great strengths of Alesco – particularly as we head into a period of some economic uncertainty. The continuing strength in the mining and infrastructure markets in Australia, the robust demand for medical and environmental equipment, water-related products and services and a strong presence in the domestic renovations markets will help to mitigate against the softness in the Australian and New Zealand new housing markets. Our growing exposure to the resource states of Queensland and Western Australia also cushions us against a decline in overall economic growth.

### A flexible business model that allows us to keep creating opportunities

Our investment and operational strategies have been directed towards building and enhancing our five divisions, and developing flexible distribution platforms and supply chains. This, in turn, allows us to adapt to changing circumstances and to take advantage of opportunities:

- to leverage off our strong trade distribution networks;
- to continue to actively manage and enhance our portfolio of branded industrial products available to our customers;
- to drive efficiencies through consolidation and rationalisation;
- to increase our presence in growth sectors such as environment, infrastructure and water and in the growth states of Queensland and Western Australia; and
- to deliver organic growth through strong customer service, technical knowledge and innovation.

In addition, we are creating opportunities for our employees through their career development and their training. We continue to focus on the safety and wellbeing of our employees and contractors.

### Leveraging trade distribution networks

Each of our five divisions has, at its core, a strong physical trade distribution network which, together with the respective customer service centres, provides the interface to our customers and the platform whereby our customers access our portfolio of branded products and services.

Our major trade distribution networks include the Lincoln Group (38 branches across Australia and New Zealand), Parchem Construction Supplies (40 sites across Australia and New Zealand), B&D (480 accredited and other dealers across Australia and New Zealand), the six Biolab metropolitan distribution centres and the Total Eden and McCracken's network (57 branches across Australia).

We have been extracting value from these distribution channels in two ways. Firstly, by fine-tuning the network of outlets and, secondly, through developing the product offering. If we don't have a product our customers need within our existing business, we will look to source it in a cost effective way. Furthermore, because we have trade distribution infrastructure in place, we are able to leverage off that infrastructure and supply chain into servicing related trades and cross-selling product between trades. Our sales technicians are incentivised to open new accounts and find new customers across the nation as opportunities emerge.



### Enhancing brand portfolio

The Alesco Group distributes leading brands in the markets in which it operates. These industrial brands range from company owned brands – such as B&D, Flextool and Robinhood – and third party brands such as Blum, Michelin and Wilsonart.

Each of our divisions seeks to grow through the addition of new branded products which satisfy our customers' needs. In the past year we added a number of leading brands, including FEG wardrobe systems from Italy and our own ATA Tri-Tran range of garage door openers.

Our sales teams specialise in selling technical industrial products and are constantly working with customers to identify their needs. With this knowledge they can source relevant products and new products and ideas through trade shows around the world or in related trades. We see ourselves as business partners of our customers, working with each of them to grow their businesses. When we identify a product category that our customers need or an innovative product that will allow our customers to differentiate themselves, our mindset is to source the best available product or brand globally. Whilst we do manufacture some products that cannot be cost efficiently imported, our aim is to ensure our skilled sales force can source world's best trade brands for our customers through their highly developed distribution networks.

### Efficiencies through consolidation

At a divisional level we have been actively managing our businesses – simplifying our reporting structures, rationalising our site numbers, driving improvement in working capital management and eliminating duplication. This process is well underway and has provided benefits during the year in review and will continue to provide benefits into the future.

The Functional & Decorative Products division is now under a common management team and has delivered further efficiencies with a flatter management structure and a rationalisation in the number of sites across the network. The acquisition of Joinery Products has also seen the expansion of product lines across both our existing sites and the newly acquired Joinery Products sites, enhancing combined revenues.

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Our Construction & Mining division has restructured its construction products and equipment businesses under the banner of Parchem Construction Supplies and the combination of key metropolitan sites is well underway.

In New Zealand we have reduced the number of operating sites in our Garage Doors & Openers business from five to two and, in Australia, the Sydney sites have been consolidated into the Revesby manufacturing site.

After months of planning, our Biolab business in Melbourne has recently relocated to a new site, reducing the number of sites from five to one. Planning for further site consolidation is also well advanced for Perth.

Our Water Products & Services division has also been actively reviewing its network of sites across Australia and some rationalisation has already taken place. In addition to this work, the introduction of new products and services into the newly acquired businesses is progressing.

### **Increased presence in growth sectors and growth states**

The diversity of our portfolio continues to protect our overall performance from the downturn in the housing cycle. Our presence in the currently robust infrastructure, environmental, medical and water sectors means we have the opportunity to pursue growth and benefit from the positive outlook.

Our Water Products & Services division, Construction Products businesses and Functional & Decorative Products divisions are all active in the infrastructure sector. Likewise, our Scientific & Medical, Functional & Decorative Products and Water Products & Services divisions are active in the environmental sector.

The recent major acquisitions of Lincoln Sentry and Total Eden McCracken's derive a significant part of their revenues in the growth states of Queensland and Western Australia, which account for nearly 60% of their combined revenues.

### **Organic growth**

Our strategy has been to drive organic growth through superior customer service and technical support and product innovation.

Our technical sales staff provide us with a competitive advantage through their specialised product and sales training. Product knowledge is a key requirement for our customers and we will continue to invest in training to provide our customers with a technically superior sales force.

Our growth through acquisition has not only provided us with new products and brands, it has provided us with great new people and ideas. In addition to the many new products we have been sourcing from outside the Group we have been developing our own new products, tailored specifically to what our customers want.

The Marathon Tyres business has been busy developing its innovative new RL product (Rubber Liners), which is detailed elsewhere in this report.

Our Construction Products Supplies business successfully launched a number of newly designed and sourced products this year including the Portapump water pump by Flextool, the Profinish range of handtools and a range of specialised grouts for the mining industry.

At B&D we have developed a new generation of Control-A-Door (Tri-Tran) openers featuring multi-frequency operation which overcomes problems with interference from other products like baby monitors, wireless entertainment systems and door bells.

The Functional & Decorative Products division continues to grow its revenue base through the introduction of new and innovative products into the Australian market, including Panther Protect security doors, a new range of vertical balustrades and industrial tapes.

In addition, the Parbury decorative surfaces business successfully introduced its new high pressure laminates range which, for the first time, included colours developed for the Australian market by Parbury in conjunction with Wilsonart.

The Scientific & Medical division has a range of opportunities for organic growth and continues to promote its own branded products – most noticeably the Labserv and Pro-med brands – and to drive both sales and margin growth through both the expansion of its own product ranges and the sourcing of new agencies. Organic growth has been achieved through the continuing expansion of the division's analytical, environmental and medical businesses in Australia, with a significant increase in the sale of capital items.

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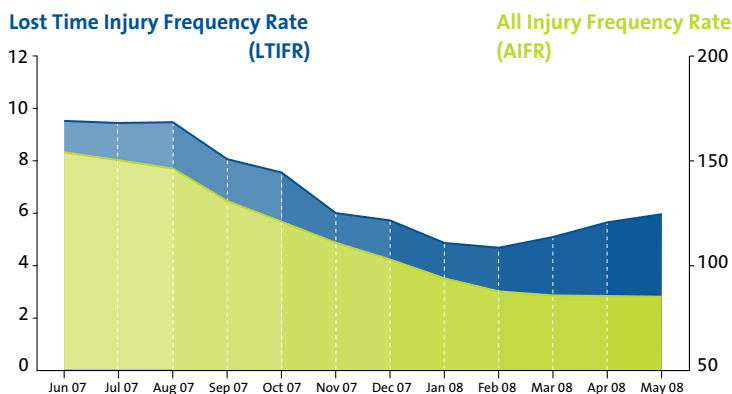
**Safety**

Safety is a core value at Alesco and our continued focus on safety has seen improvements in a number of areas. We have reduced our Lost Time Injury Frequency Rate in the past year, but the goal remains zero harm. We know that safety is good business and there is no good business without safety.

In 2006, we established the Alesco Safety Network. Its members represent the occupational health and safety views of all parts of the business and together they set the framework for the safety plans and safety systems being developed across our businesses. One of the first things the Network did was develop the Alesco Safety Management Standards which are now in place across the Group.

Our focus on safety has seen improvements in a number of areas, including staff training, improved machine guarding and upgrading of our hazard identification program.

Everyone at Alesco took part in the Company's second annual Safety Day in February 2008. The day is designed to ensure employees get dedicated time to reflect on safety and how it can be improved throughout the year. We know that the safety journey is not a quick one – it's a continuous improvement process in which we are all participating.



**People**

We have made a number of executive appointments at Alesco during the year. In June, Jim Wedge, the former owner of the McCracken's business, was appointed Executive Chairman of the Water Products & Services division and Wayne Powell, the former Group General Manager of the Scientific & Medical division, was appointed Group General Manager of the Water Products & Services division.

Alan Fonseca, Alesco's Group Financial Controller, was appointed to the position of General Manager Finance – Water Products & Services division. In the lead-up to this appointment, Alan had been working closely with the management team of the Water Products & Services division, assisting with the integration of the businesses.

Graham Ward was appointed Alesco's Group Financial Controller in May 2008 to replace Alan Fonseca. Graham was formerly Group Financial Controller at Aristocrat Leisure.

It has been particularly pleasing that we have been able to recruit from within our existing experienced executive team, and provide new opportunities for them.

**The future**

We have now experienced seven consecutive years of double digit earnings per share growth at Alesco and dramatically increased the organisation's scale and breadth. We have evolved into a portfolio of five distinct trade distribution businesses offering flexibility to adapt to a changing environment and resilience as different sectors of our economy and different regions change their growth profile.

The outlook for FY09 is uncertain. During the current challenging environment we will continue to improve operating efficiencies in our businesses not only to ensure that we can successfully navigate the challenges ahead but also to ensure that we are ready to take advantage of medium term growth opportunities when they arise.

Finally, I would like to thank all of our management and employees for their great efforts and focussed commitment this year.

**Justin Ryan**

Chief Executive Officer

\$ million	Operating revenue		EBITA <sup>1</sup>		Return on average net operating assets (%) <sup>1</sup>	
	2008	2007	2008	2007	2008	2007
Functional & Decorative Products	312.7	193.0	36.4	23.3	21.5	23.7
Construction & Mining	198.9	190.5	27.9	25.2	24.5	24.5
Garage Doors & Openers	207.7	205.3	26.5	30.2	9.5	10.7
Scientific & Medical	161.9	149.4	20.3	17.6	21.2	21.9
Water Products & Services <sup>2</sup>	189.7	–	20.2	–	10.1	–
Corporate/Unallocated	0.2	0.1	(7.8)	(8.3)	–	–
Total	1,071.1	738.2	123.5	88.0	14.9	15.7

1 Before significant items.

2 10 months trading to 31 May 2008.

### Functional & Decorative Products

Following amalgamation the Lincoln Sentry, Parbury and Robinhood businesses, we renamed the division Functional & Decorative Products to more accurately reflect the products and service offer and customer mix.

This division is now the largest division within Alesco and accounts for approximately 30% of our revenue. This strong result includes a full 12 months' contribution from Lincoln Sentry as well as 10 months' contribution from Joinery Products which was acquired in August 2007 and forms part of the Window, Door & Glazing business. Lincoln Sentry's exposure to the growing renovation and commercial sectors and the growing Queensland and West Australian markets has resulted in the trading result exceeding expectations for the year.

Robinhood experienced difficult trading conditions due to its exposure to New Zealand's domestic market. The business developed a number of new and innovative products in both its rangehood and laundry tub ranges during the year, many of which have been launched in the New Zealand and Australian markets.

### Construction & Mining

The Construction & Mining division achieved a record performance for the year with revenue up 4.4% and EBITA up 10.8%. This performance was due to significant organic growth in the Parchem business and the full year impact of a number of bolt-on acquisitions in the Construction Products Supplies business.

The rationalisation of distribution sites across the Construction Products Supplies business in Australia has continued during the year and the branch network has been branded "Parchem Construction Supplies". The network is well positioned for growth and will continue to promote company owned and manufactured brands such as Flextool and Cobblestone as well as sourced third party branded products to meet customers' needs.

In addition, the benefits of restructuring activity carried out during the year began to flow through with a number of facilities closed and relocated to other facilities. Additional benefits will be achieved from this restructuring during FY09.

The Marathon business experienced a decline in profit during the year after a record year in FY07. The decline was due to reduced demand for earthmoving tyres as a result of inclement weather in the Hunter Valley in New South Wales and the Bowen Basin in Queensland, and infrastructure bottlenecks, particularly at the port of Newcastle.

The reduced demand for earthmoving tyres and services has, to some extent, been offset by an expanding range of products introduced during the year including the rubber liner "Marathon RL".

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**Garage Doors & Openers**

FY08 was a year of restructure and consolidation for the Garage Doors & Openers division with revenue flat and EBITA down 12.3%. Despite this decline, the second-half result not only exceeded the prior corresponding period but was also above the first-half result as the restructuring initiatives over the past two years have started to take effect.

The B&D business experienced difficult trading conditions in Australia, especially in New South Wales where new housing starts continue to be at record low levels. However, the recent restructuring initiatives have provided a solid base for the future with improved IT systems, additional investment in manufacturing facilities and a strengthened management team improving overall customer service and operational performance. The business is now well positioned to benefit from any recovery in the new housing market. In an environment of increasing input prices, including higher distribution costs, B&D Australia will seek to maintain margins through further operating efficiencies from restructuring and higher price yields. Both door volumes and revenues in Australia were slightly higher than the previous year.

B&D New Zealand, which accounts for approximately 15% of the division's revenue, experienced difficult trading conditions, particularly in the second half of the year. The decline in the New Zealand new housing market is forecast to continue throughout FY09 before an expected recovery in FY10.

After exiting the specialty door business and completing other restructuring initiatives in May 2008, further restructuring within the New Zealand business is likely to occur in FY09 to further reduce costs and improve operational performance.

FY08 has been a landmark year for the garage door opener business – ATA. During the year the division began sourcing its entire garage door opener range internally. In a successful execution of substituting third party product, the ATA business launched a number of new and functionally improved products into the market including the Tri-Tran opener range and increased throughput at its Hong Kong facility by approximately 30%. This increase in volumes is also improving manufacturing efficiency.

A pre-tax significant item of \$8.0 million was incurred in FY08 relating to restructuring in both the Australian and New Zealand businesses.





### Scientific & Medical

The Scientific & Medical division enjoyed significant organic growth in the second half of FY08 after a flat first half, resulting in another record overall performance. Sales were up 8.4% and EBITA up 15.3%.

The first full year of ownership of App-Tek and EnviroEquip contributed to the growth in the Australian environmental business.

In Australia, the division is in the process of consolidating its Melbourne metropolitan distribution sites from five to one site, with the relocation having commenced in July 2008. Further site consolidations in other major centres are planned for FY09 and FY10.

In New Zealand, growth was less evident with no acquisition activity during the year and a more subdued market overall. To improve efficiency, a new advanced warehouse management system is in the process of being rolled out at the main Auckland site. The system will be introduced into Australia during the course of FY09.

The Scientific & Medical division will continue to provide growth opportunities through an ongoing strategy of strategic bolt-on acquisitions in growth corridors, particularly in its emerging environmental and medical businesses.

### Water Products & Services

The Water Products & Services division did not meet our expectations for the year. Revenue for the 10 months to 31 May 2008 was \$189.7 million, returning an EBITA of \$20.2 million. On an annualised basis revenues were approximately \$228 million down 2% against the prior 12-month period.

Consistent with the comments at the half year, the Total Eden business in Western Australia continued to perform well with revenue up 17% in the year to May 2008 due to strong growth across its retail and commercial contracting businesses.

As foreshadowed at the half year, the McCracken's businesses on the east coast of Australia suffered during the second half due to flooding in parts of regional Queensland in the first few months of 2008. While trading has since reverted to more normal levels in the outlets affected by the floods, there was a short-term dip in performance as contract work slowed due to the conditions. Weaker economic conditions, including increasing interest rates in the second half of the year, have also dampened domestic demand for water tanks and grey water systems across the east coast retail network.

The integration of the east coast businesses is continuing with the majority of recently acquired business having been rebranded as McCracken's outlets. The new IT system has been successfully implemented in the wholesale business and planning is well underway for the roll-out of the Total Eden IT system across the McCracken's business. This roll-out should be substantially completed during the current year.



SUMMARY  
**BOARD OF  
DIRECTORS**

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**1 Sean P Wareing**

F CPA, ACIS, FAICD

Chairman and Non-Executive Director  
Age 68

Chairman of the Human Resources  
Committee

Sean joined the Board in September 2000 and was appointed Chairman in October 2000. He is also Chairman of Commonwealth Managed Investments and Kiwi Property Trust and Vice President of The Royal Institute for Deaf and Blind Children. Sean has particular experience in the building and construction and finance industries and is a former finance director of Lend Lease Corporation Limited and a former Chairman of St Hilliers Holding Pty Ltd and non-executive director of Allianz Australia Limited.

**2 Justin J Ryan**

BEc LLb (Sydney) MBA (Wharton) F Fin  
Managing Director Age 42

Justin joined Alesco in 2004 and was appointed Managing Director and CEO of Alesco on 1 June 2006. Prior to this, Justin spent seven years in private equity where he developed his skills in acquiring, improving and growing a diverse portfolio of businesses including Pacific Brands, Taverner Hotel Group, Just Group and Wridgways. Justin retired as Chairman of the Australian Venture Capital Association in 2003 and is a Director of The Benevolent Society.

**3 Neil A Thompson**

BEc SA Fin

Finance Director Age 50

Neil was appointed Finance Director on 31 January 2007 after joining Alesco as Chief Financial Officer in January 2006. Prior to joining Alesco, Neil was a director and Chief Financial Officer of the Amatek Group, a building products company backed by the private equity firm CVC Capital Partners. During his time with the Amatek Group, Neil was involved in the management of a diverse portfolio of industrial businesses, including the Laminex Group, Stramit and Rocla Pipeline Products. Neil has spent the past 25 years working in various financial and strategic roles for public companies including TNT Limited and Fosters Group Limited.

**4 Robert (Rob) M Aitken**

BE (Chem) (Hons), MBA

Non-Executive Director Age 57

Member of the Human Resources  
Committee and Safety, Health &  
Environment Committee

Rob joined the Board in March 2003. He is also Chairman and non-executive director of Rubicor Group Limited, API Securities Holdings Pty Ltd and Formit Services Pty Ltd and a non-executive director of Nuplex Industries Limited. He was previously a director of YMCA Sydney and B&D Limited when it was owned by Catalyst Investment Managers and was formerly an executive general manager with Southcorp Limited and President, Formica Corporation. Rob has over 25 years' experience in senior international management roles with manufacturing, industrial marketing and distribution businesses for Southcorp Limited, BTR Plc and CSR Limited.

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**5 James (Jim) W Hall**

BCom (Acc), FCPA, MAICD  
 Non-Executive Director Age 57  
 Chairman of the Audit and Compliance Committee  
 Jim joined the Board in July 2005. He is also a non-executive director of Paperlinx Limited, ConnectEast Group, Centro Properties Limited, Centro Retail Limited and a member of the JPMorgan Advisory Council. Until February 2008, he was also a non-executive director of Symbion Health Limited. Jim was Executive Director Finance at Orica from January 2002 until April 2005. Prior to joining Orica, he was Vice President, Group Accounting and Controller at BHP Billiton Limited. In 32 years with BHP, Jim held a range of senior financial management roles.

**6 Barry J Jackson**

BCom (Hons), MAICD  
 Non-Executive Director Age 63  
 Member of the Audit and Compliance Committee  
 Barry joined the Board in November 2001. He also holds non-executive director positions with Equity Trustees Ltd and Paperlinx Limited. He was formerly a non-executive director of CSR Limited and Managing Director of Pacifica Group Limited (1995-2001). Barry has over 30 years' experience in manufacturing and industrial marketing, including senior management roles in the building products and automotive components industries.

**7 Ernest (Ern) J J Pope**

BSc  
 Non-Executive Director Age 61  
 Chairman of the Safety, Health & Environment Committee  
 Member of the Human Resources Committee  
 Ern joined the Board of Alesco in December 2004. He is also Chairman of Foodbank NSW Limited, Deputy Chairman of Golden Circle Limited and a non-executive director of Amcor Limited. In 2005 Ern retired from the Nestlé Group after 38 years in the food industry. His most recent role at Nestlé was President and Chief Executive Officer of Nestlé Purina for the Asia-Pacific, Africa and Middle East region. Previous roles include over six years as Managing Director of Nestlé Australia Ltd plus other senior international executive positions based in Switzerland, New Zealand, the USA and the Philippines. He is a past director of the Grocery Manufacturers of Australia and a founder and past director of the Australian Food and Grocery Council.

**8 Mark B Luby**

Dip Bus Studies  
 Non-Executive Director Age 56  
 Member of the Audit and Compliance Committee and the Safety, Health & Environment Committee  
 Mark was appointed to the Board of Alesco in December 2007. He is currently a non-executive Chairman of BIS Limited (a privately held Australian industrial services business owned by KKR) and a non-executive director of Wattyl Limited and Jeminex Limited (a privately held Australian industrial group backed by AMP Capital Investors' Private Equity Fund III). Prior to his role with BIS Limited, Mark was Chairman of BIS Cleanaway Limited. Mark spent 29 years in various senior management positions with Brambles including being a member of the Brambles Executive Leadership Team, Senior Vice President – Business Development and President of Brambles CHEP Europe, Asia-Pacific and Africa operations, where he led the European business's restructure from 2002.

**9 Robert (Bob) V McKinnon**

BCom ACA MAICD Age 55  
 Non-Executive Director  
 Member of the Audit and Compliance Committee  
 Bob joined the Board of Alesco on 1 July 2008. He was also recently appointed Group Executive, Technology of Westpac Banking Corporation. Over a 36 year career, Bob has held a variety of senior executive and board roles in finance, technology and general management across the financial services and property industries. Until March 2008 he was Joint Managing Director and Chief Financial Officer of Brookfield Multiplex Group. Previously he was Group Executive, Technology and Chief Information Officer of Commonwealth Bank of Australia, Chief Executive of State Street Australia, Chief Financial Officer and Chief General Manager of MLC Group and Chief Financial Officer of Lend Lease Corporation.

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# EXECUTIVE TEAM

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- 1 **Peter Boyd** BE (Mech) MBA  
Group General Manager Garage Doors & Openers
- 2 **Jim Brennan**  
Group General Manager Functional & Decorative Products
- 3 **Stephen Cox** BBus AMP (Harvard)  
Group General Manager Construction & Mining
- 4 **Alan Fonseca** BEc, CA  
General Manager Finance Water Products & Services (formerly Alesco Group Financial Controller)
- 5 **Brian O'Connor**  
Group Chief Information Officer
- 6 **Wayne Powell**  
Group General Manager Scientific & Medical (appointed Group General Manager Water Products & Services effective 1 July 2008)
- 7 **Luci Rafferty** BA Lib (Hons), ACIS  
Group General Manager Legal and Corporate Affairs
- 8 **Tony Sullivan** BE (Civil), MBA  
Group General Manager Strategy and Business Development
- 9 **Jim Wedge**  
Executive Chairman Water Products & Services (formerly Group General Manager Water Products & Services)



## DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MAY 2008

The directors present their report together with the financial report of Alesco Corporation Limited (the "Company") and of the Group, being the Company, its subsidiaries and the Group's interest in jointly controlled entities, for the year ended 31 May 2008 and the auditor's report thereon.

### Directors

The directors of the Company at any time during or since the end of the financial year are:

- Sean Patrick Wareing – Chairman and non-executive director since 2000;
- Justin James Ryan – executive director from 2005 and Managing Director from 1 June 2006;
- Neil Alexander Thompson – executive director appointed on 31 January 2007;
- Robert Murray Aitken – non-executive director since 2003;
- James William Hall – non-executive director since 2005;
- Barry James Jackson – non-executive director since 2001;
- Mark Bernard Luby – non-executive director appointed on 18 December 2007;
- Robert Victor McKinnon – non-executive director appointed on 1 July 2008; and
- Ernest John Pope – non-executive director since 2004.

Table 1

DIRECTOR	BOARD		AUDIT & COMPLIANCE COMMITTEE		HUMAN RESOURCES COMMITTEE		SAFETY, HEALTH & ENVIRONMENT COMMITTEE	
	NO. OF MEETINGS ATTENDED	NO. OF MEETINGS ELIGIBLE TO ATTEND	NO. OF MEETINGS ATTENDED	NO. OF MEETINGS ELIGIBLE TO ATTEND	NO. OF MEETINGS ATTENDED	NO. OF MEETINGS ELIGIBLE TO ATTEND	NO. OF MEETINGS ATTENDED	NO. OF MEETINGS ELIGIBLE TO ATTEND
SP Wareing	7	7	–	–	3	3	1	1
JJ Ryan	7	7	–	–	–	–	–	–
NA Thompson	7	7	–	–	–	–	–	–
RM Aitken	7	7	4	4	2	2	2	2
JW Hall	7	7	5	5	–	–	–	–
BJ Jackson	7	7	1	1	1	2	1	1
MB Luby	4	4	1	1	–	–	2	2
RV McKinnon <sup>1</sup>	–	–	–	–	–	–	–	–
EJ Pope	7	7	4	4	3	3	3	3

The Board reviewed the committee membership and changed the membership effective 1 February 2008.

<sup>1</sup> Mr McKinnon joined the Board on 1 July 2008 and was appointed to the Audit & Compliance Committee on 28 July 2008.

Details about current directors' qualifications, age, experience and special responsibilities appear on pages 18 and 19 in the Annual Report.

### Company Secretaries

The secretaries of the Company at the end of the financial year were:

- Luci Rafferty, BA LLB (Hons) ACIS, has been with Alesco since 2003 and has over 15 years' legal experience, primarily in the corporate and commercial areas; and
- Alan Joseph Fonseca, BEc CA, has been with Alesco since 2000 and has over 16 years' experience in finance and accounting roles. Prior to Alesco, Mr Fonseca worked in the audit division of Ernst & Young. Alan resigned as company secretary on 1 July 2008 to take up a divisional role within Alesco.

### Directors' Meetings

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the financial year are set out in Table 1.

## DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### Corporate Governance Statement

The Board of directors of Alesco is responsible for the corporate governance of the Company and its controlled entities (the **Alesco Group**) and to ensure that the Alesco Group is directed and managed appropriately. In this regard, the Board is committed to ensuring accountability and that control systems are commensurate with the risks involved to enable Alesco to create value and optimise its performance.

The Board has chosen to early adopt the revised Corporate Governance Principles and Recommendations published by the ASX Corporate Governance Council. This statement summarises the corporate governance practices and policies in place at Alesco during the financial year ended 31 May 2008 in relation to the revised eight ASX Principles. For ease of reference, this statement has been prepared and presented in a format consistent with the ASX publication.

The Board recognises that in a changing world these practices and policies should be reviewed from time to time to ensure they continue to reflect local and international developments and to assist Alesco in optimising its corporate performance and accountability.

In summary, there have been no substantial changes to Alesco's corporate governance practices and policies during the reporting period. Alesco departs from the ASX Principles in one key area in that it has not established a separate Nominations Committee, opting for more flexible arrangements and in preference for a Safety, Health & Environment Committee, the membership of which is discussed below. Following the appointment of Mark Luby as a non-executive director in December 2007, the Board took the opportunity to restructure the Board Committees to help distribute the workload and to refresh the Committees generally. Details on the Committees membership are set out in Table 2 on page 23.

Key summaries of the corporate governance practices and policies and other key documents can be found on Alesco's website at [www.alesco.com.au](http://www.alesco.com.au).

### ASX Principle 1 – Lay solid foundations for management and oversight

#### Role of the Board

The Board has formalised its role and its relationship with management into a Board charter. The primary role of the Board is the protection and enhancement of long-term shareholder value. Its responsibilities include the overall strategic direction of Alesco, establishing goals for management and monitoring the achievement of these goals. The functions and responsibilities of the Board and management are consistent with ASX Principle 1. A summary of the matters reserved for the Board can be found in the corporate governance section of the Alesco website.

The Board has delegated certain responsibilities to senior executives including the day-to-day operation and administration of the Company.

The Company has in place an induction program for its directors and senior executives to assist them to understand the Company's financial position, strategies, operations and policies and their respective rights, duties and responsibilities. A performance evaluation process for senior executives took place during the year assessing the key executives against corporate, divisional and individual goals.

### ASX Principle 2 – Structure the Board to add value

#### Board structure

The Board presently has nine directors but through the reporting period had eight directors, six non-executive directors, including the Chairman and two executive directors, the Managing Director and Finance Director. Two new non-executive directors were appointed since the last report: Mark Luby who was appointed on 18 December 2007 and Robert McKinnon who was appointed more recently on 1 July 2008. Barry Jackson, who has been on the Board for the past seven years, will retire at the 2008 Annual General Meeting in September and is not seeking re-election.

Each director brings a diverse range of skills and background to the Board. The skills, experience and expertise of the directors are set out in more detail at pages 18 and 19 in the Annual Report. Other relevant details of the directors are set out in Table 2 on page 23.

## DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### Corporate Governance Statement (continued)

#### ASX Principle 2 – Structure the Board to add value (continued)

##### Board structure (continued)

Table 2

NAME	DATE OF APPOINTMENT	COMMITTEE MEMBERSHIP <sup>1</sup>	TERM IN OFFICE	RETIRING AT 2008 AGM	NEXT DATE FOR RETIREMENT	INDEPENDENT
SP Wareing (Chairman)	1 Sep 2000	Human Resources	8 years	No	2009	Yes
RM Aitken	10 Mar 2003	Human Resources and Safety, Health & Environment	5 years	No	2009	Yes
JW Hall	1 Jul 2005	Audit & Compliance	3 years	No	2010	Yes
BJ Jackson	28 Nov 2001	Audit & Compliance	7 years	Yes	2008	Yes
MB Luby	18 Dec 2007	Audit & Compliance, and Safety, Health & Environment	1 year	Yes	2008	Yes
RV McKinnon <sup>2</sup>	1 July 2008	Audit & Compliance	0 years	Yes	2008	Yes
EJ Pope	1 Dec 2004	Human Resources and Safety, Health & Environment	4 years	No	2010	Yes
JJ Ryan (CEO)	1 Oct 2005	n/a	3 years	n/a	n/a	No <sup>3</sup>
NA Thompson	31 Jan 2007	n/a	2 years	No	2010	No <sup>3</sup>

<sup>1</sup> The committee membership was restructured effective from 1 February 2008.

<sup>2</sup> RV McKinnon joined the Board on 1 July 2008 and was appointed to the Audit & Compliance Committee on 28 July 2008.

<sup>3</sup> By virtue of being an executive officer.

The composition of the Board is determined using the following principles:

- there should be at least five directors, with a broad range of expertise;
- the Chairman is to be an independent non-executive director;
- there must be a majority of non-executive directors, with at least half being independent non-executive directors;
- there must be enough directors to serve on various committees without overburdening the directors or making it difficult for them to fully discharge their responsibilities;
- at a minimum, directors (other than the Managing Director) must face re-election every three years;
- the roles of Chairman and Chief Executive Officer should not be exercised by the same individual. In addition, a former Chief Executive Officer should not be appointed Chairman; and
- the size and composition should be conducive to allowing the Board to make appropriate decisions and that decision-making is not hindered.

To assist in its duties the Board has established three Committees: Audit & Compliance Committee, Human Resources Committee and the Safety Health

& Environment Committee. As noted earlier, the membership of these Committees changed in February 2008 to ensure that the workload for each director was balanced in order for the directors to fully discharge their responsibilities. Membership of these Committees is noted in Table 2.

#### Director independence

The Board supports the principle that a majority of the Board of Alesco should be independent and that each director should bring an independent judgment to bear in decision making.

In judging whether a director is independent for the purposes of serving on the Board of Alesco and any Board Committees, the Board has regard to the principle outlined in ASX Principle 2. In summary, an independent director is independent of management and free of any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgment. Alesco has adopted AASB standard 1031 *Materiality* to determine levels of materiality when assessing independence.

The directors considered by the Board to be independent are identified in Table 2.

## DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### Corporate Governance Statement (continued)

#### ASX Principle 2 – Structure the Board to add value (continued)

##### Conflicts of interest

To enable the Board to assess the independence of each director, each director is required to provide all relevant information to Alesco on a regular basis.

Details of director related entity transactions with the consolidated entity are set out in Note 32 of the Annual Report. There are no director related party transactions in place in relation to Alesco and its directors at the present time.

Each director is required to act in the interests of Alesco as a whole and, at no time, allow any of the director's own interests to prevail over those of the members generally. If a conflict does arise, the director must declare his interest and consider whether to simply refrain from participating in the matter, absent himself from the meeting or resign from the Board.

##### Nomination and appointment of new directors

The Board has elected not to establish a formal Nominations Committee to oversee the appointment and induction process for directors in preference for more flexible arrangements as deemed appropriate in the circumstances. When the need arises to seek nominees or make changes to the Board composition, an ad-hoc committee is formed, comprising the Chairman, together with other Board members as deemed appropriate, to manage this process.

From time to time, the Board assesses the skill, knowledge, diversity and experience currently represented on the Board and will determine areas, if any, not adequately represented. Potential candidates identified are put forward to the Board for consideration. It is the Board's normal practice to involve external consultants to assist in the nomination process. The Board is responsible for the appointment of a suitable candidate as recommended by the Committee.

This year two new non-executive directors were appointed to the Board. Mark Luby was appointed on 18 December 2007 and Robert McKinnon on 1 July 2008 through an externally facilitated process.

The appointments were made having regard to the existing competencies and skills of existing Board members. Newly appointed directors or directors standing for re-election are expected to acknowledge to the Board that they have sufficient time to meet the Company's expectations of them. Both new directors face election at this year's annual general meeting in accordance with the Company's Constitution having been appointed by the Board since the last annual general meeting and both have confirmed that they are able to meet the Company's expectations and workload associated with being a non-executive director.

##### Meetings of directors

The Board meets on a regular scheduled basis and on other occasions as required. Meetings are held at a number of locations to allow visits to the various operational sites and for other purposes. Meetings may be held in absence of senior management as deemed necessary and appropriate and, for these purposes, non-executive directors will meet prior to the Board meeting without the presence of executive directors and other senior management.

To assist it in its decision making, the Board or individual directors may seek independent professional advice at the expense of Alesco, subject to prior consultation with the Chairman.

##### Retirement and election of directors

The Constitution requires each director (other than the Managing Director) to retire at the third annual general meeting after their appointment or after three years, whichever is longer. Retiring directors are eligible for re-election (subject to their term of service). In addition, any new director appointed by the Board faces re-election. As noted earlier, Mr Luby and Mr McKinnon both face election at the 2008 annual general meeting having been appointed by the Board since the last annual general meeting. Mr Jackson who has served on the Board since 2001 will retire at the 2008 annual general meeting and has indicated that he will not be seeking re-election.

## DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### Corporate Governance Statement (continued)

#### ASX Principle 2 – Structure the Board to add value (continued)

##### Retirement and election of directors (continued)

In order to ensure a periodical refreshing of membership and to avoid the potential for loss of objectivity over time, non-executive directors are expected to serve approximately three terms, which would ordinarily amount to a period of nine years. Thereafter, non-executive directors would be expected to retire at the next appropriate general meeting and to not seek re-election unless requested by the Board to do so.

Induction procedures including site visits and meetings with management are in place to allow Board appointees to participate fully and actively in Board decision making at the earliest opportunity. Mr Luby participated in an extensive induction program in his first three months as a director which involved a number of site visits as well as meeting with the divisional management teams and Alesco's management team. Mr McKinnon will participate in a similar induction program over the coming months.

All directors have access to the resources of the company secretary. The Board is consulted regarding the appointment and removal of the company secretary.

#### ASX Principle 3 - Promote ethical and responsible decision-making

In line with ASX Principle 3, the Board has established, among others, a Code of Conduct, Share Trading Policy and Whistleblowing Policy.

##### Code of Conduct

The purpose of the Code of Conduct is to guide all employees and directors as to:

- the practices necessary to maintain confidence in Alesco's honesty and integrity; and
- the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

The overriding principle is that all business affairs of Alesco must be conducted legally, ethically and with strict observance of the highest standards of propriety and business ethics. If there are any doubts as to how to respond to a particular circumstance, directors and employees are encouraged to consult with the Chairman or Company Secretary and, if necessary, seek external professional advice. A copy of the Code of Conduct is posted on the Alesco website.

The Company has also established a whistleblowing program for all of its employees. This program enables employees to report in good faith a breach or suspected breach of the law or Company policy, including the Code of Conduct or a work-related event which involves questionable, dishonest or fraudulent activity.

##### Share trading policy

A share trading policy has been adopted and is binding on all directors, officers and employees of Alesco. This policy imposes trading restrictions on all directors, officers and employees of Alesco in possession of 'inside information'. Additional trading restrictions are imposed on designated officers, including directors, senior executives in each division and employees based in corporate head office for the period from 90 days prior to the release of Alesco's full-year and half-year results until two days after the results have been released to the market. In addition, in order to trade, directors and other designated officers must seek the approval from the Chairman of the Board or the Chief Executive Officer prior to any dealing and must confirm in writing that they do not hold any inside information. Any approvals to trade are for a period of up to 10 business days and will lapse immediately if the designated officer comes in possession of inside information. Designated officers are prohibited from entering into transactions which may operate to limit the economic risks of invested entitlements under any of the Company's long-term incentive plans. A copy of the Share Trading Policy is posted on the Alesco website.

Directors are required to comply with the requirements of the ASX Listing Rules and their letter of appointment and promptly advise Alesco of any dealing in Alesco shares to allow Alesco to make the necessary disclosures to the ASX.

## DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### Corporate Governance Statement (continued)

#### ASX Principle 4 - Safeguard integrity in financial reporting

ASX Principle 4 requires Alesco to "have a structure to independently verify and safeguard the integrity of the Company's financial reporting". The Board believes its practices are in accordance with this principle.

Each division within Alesco reports monthly to the Board on its financial performance and other key business-related matters. Consistent with ASX Principle 4, each half-year following extensive consultation with the divisional management teams, the Chief Executive Officer and Chief Financial Officer provide written assurance to the Board as to the veracity of the financial conditions and operational results of the Alesco group and that they are in accordance with relevant accounting standards.

#### Audit and compliance committee

To assist in the execution of its responsibilities, the Board has established an Audit & Compliance Committee. The structure of the Audit & Compliance Committee and its responsibilities reflect the requirements of ASX Principle 4. A summary of the Charter setting out the Committee's responsibilities is posted on the Alesco website. Membership of this Committee was revamped in February 2008 and the new membership is noted in Table 2. Mr Hall assumed the role of Chairman of this Committee effective from 23 September 2005. The qualifications of each director who is a member of this Committee are set out on pages 18 and 19 of the Annual Report. Details of the attendance at meetings can be found in Table 1. Directors of the Board who are not members of the Committee are entitled to attend Committee meetings. Alesco's auditors (internal and external), members of the senior executive team and other third parties are invited to attend Audit & Compliance Committee meetings at the discretion and invitation of the Committee. The Committee may meet with the auditors (both internal and external) without management's presence when required or thought appropriate. The Committee also has the right of access to management to seek explanations and additional information as considered necessary to discharge its duties.

During the year the Audit & Compliance Committee met on five occasions. Two of the meetings were held to coincide with the review of the half year and full year results. The other meetings focussed, among other things, on internal audit, insurance, compliance and risk affecting the consolidated group.

#### Auditor and independence

As part of its responsibilities, the Committee recommends to the Board and shareholders the appointment of an external auditor, approves audit fees and ensures the independence of the external auditor. In performing this responsibility, the Committee regularly assesses any non-audit services being performed by the auditors to ensure that the services are not of a kind that might impair the impartial judgment of the external auditor and that circumstances do not arise of actual or perceived loss of objectivity or independence. The Board, on the recommendation of the Committee, is satisfied that Alesco's external auditor is independent.

Management is required to seek the prior consent of the Committee if it wishes to use the external auditor for material projects in non-audit areas (other than taxation compliance services and due diligence transactional services). During the year, Alesco used other service providers for these non-audit services. To ensure independence of the external auditor, it is a requirement of Alesco that the external auditor makes an independence declaration each half year and ensures that the signing partner on the audit does not perform this role for more than five full-year audits. This year is the second year the signing partner has worked on Alesco's audit.

#### ASX Principle 5 - Make timely and balanced disclosure

Consistent with ASX Principle 5, the Board aims to ensure that all investors have equal and timely access to material information concerning the Company, that there is compliance with continuous disclosure requirements and that announcements made by the Company are factual and presented in a clear and balanced way.

The Company has adopted a Market Disclosure Policy reflecting the principles set out in ASX Principle 5. This policy has been placed on the Alesco website.

## DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### Corporate Governance Statement (continued)

#### ASX Principle 6 - Respect the rights of shareholders

Alesco has adopted a number of different practices designed to promote effective communication with shareholders as recommended by ASX Principle 6. These practices include placing on the Alesco website relevant information, including ASX announcements, annual and half-year reports, copies of notices of meetings, analyst briefings and presentations given by the Chairman or Chief Executive Officer. Currently, annual and half-year reports are distributed to those shareholders who have specifically requested to receive these documents. Otherwise, these documents are placed on the Alesco website for access. Alesco also uses audio recordings to give stakeholders access to any material presentations such as general meetings and key analyst briefings and last year Alesco commenced providing webcasting facilities for its general meetings. These recordings are also made available through our website for a period of time. For those shareholders who have so elected, emails are used to update shareholders on key announcements.

A representative from the auditors of Alesco attends the annual general meeting and any other meeting as required by the Board and is available to answer shareholder questions about the conduct of the audit and preparation and content of the auditor's report. Consistent with our usual practice, the auditor attended last year's AGM and has been asked to attend this year's Annual General Meeting in September 2008.

#### ASX Principle 7 - Recognise and manage risk

ASX Principle 7 recommends that a company "establish a sound system of risk and oversight and management and internal control."

In addition to its financial reporting obligations, the Audit & Compliance Committee is responsible for reviewing the risk management framework and policies of Alesco. The structure of the Audit & Compliance Committee and its responsibilities reflect the requirements of ASX Principle 7.

In performing this function, the Committee receives periodic reports from its internal auditors, senior management and, in some instances, external consultants detailing compliance with statutory requirements and the adequacy of the risk management programs and systems in place. In addition, the Committee reviews the adequacy of the group's insurance program. In line with ASX Principle 7, Alesco has adopted the policy requiring the Chief Executive Officer and Finance Director to

confirm in writing that, to the best of their knowledge, the integrity of the financial statements is founded on a sound system of risk management and internal compliance and control which operates efficiently and effectively in all material respects. This is done in consultation with the divisional management teams as appropriate.

#### Internal audit

Alesco has an established internal audit function, which was expanded this year to two full-time personnel in order to reflect the larger size and greater complexity of the Group's business. The internal audit function has direct access to the Chairman of the Audit and Compliance Committee. This Committee oversees the scope of the internal audit function and has access to the internal auditors without the presence of management. The scope of the internal audit function includes examining and evaluating the Group's internal control systems, compliance systems, financial reporting processes and the quality of performance in carrying out assigned responsibilities.

#### ASX Principle 8 - Remunerate fairly and responsibly

Alesco has in place systems designed to fairly review and actively encourage enhanced board and management effectiveness. The Chairman has the responsibility to review continually the performance of each director and the Board as a whole. The performance of the Board is reviewed regularly against both measurable and qualitative indicators. The Chairman may hold discussions individually with directors to facilitate peer review. From time to time and, as considered appropriate, the Chairman will seek external assistance and advice to undertake these performance reviews. The Board last conducted a performance evaluation on the Board and its members in the financial year ended 31 May 2006. This review was conducted through an external consultant with the performance of the Board benchmarked against the ASX Corporate Governance Guidelines. No internal deficiencies or material issues were identified through this process although some areas that were identified for further improvement or enhancement have now been addressed. An external review is scheduled to occur during the 2009 financial year.

## DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### Corporate Governance Statement (continued)

#### ASX Principle 8 - Remunerate fairly and responsibly (continued)

The Board has in place a Human Resources Committee to assist the Board in relation to human resources issues affecting the Alesco Group.

The structure of this Committee and its responsibilities reflect the requirements of ASX Principle 8. Membership of this Committee is noted in Table 2.

All three members of the Committee are independent directors. Details of the attendance at meetings can be found in Table 1. Directors of the Board who are not members of the Committee are entitled to attend Committee meetings. In addition, the Chief Executive and other senior executives, as appropriate, are invited to the meetings at the discretion of the Committee. The Committee also has the right of access to management to seek explanations and additional information as considered necessary to discharge its duties.

The charter setting out the responsibilities of the Committee has been adopted and a summary of this charter is posted on the Alesco website.

This Committee is responsible for ensuring that the recruitment and remuneration policies and practices of Alesco are consistent with its strategic goals and human resources objectives and are designed to enhance corporate and individual performance as well as meet the appropriate recruitment and succession planning needs.

To do this the Committee, among other things, is responsible for reviewing and monitoring executive performance, remuneration and incentive policies and the manner in which they should operate, the introduction and operation of share plans, executive succession planning and development programs to ensure that they are appropriate to the Group's needs and the remuneration framework for directors (as approved by shareholders). The Committee may consult with remuneration advisers to Alesco to assist in its role.

Details of the directors' and key senior executives' remuneration are set out in the Remuneration Report at page 36 and a further discussion on the Company's remuneration framework is set out in the Remuneration Report at page 31.

### Principal Activities

The principal activities of the Group during the course of the financial year were the marketing and distribution of leading industrial brands to the building and renovations, scientific and medical, construction and mining and water management sectors.

Other than the acquisition of the Water Products & Services division, there was no significant change in the nature of the activities of the Group during the year.

### Operating and Financial Review and Likely Developments

The consolidated income statement shows a consolidated net profit attributable to members of \$57,971,000 compared with \$43,974,000 in 2007.

The Chairman's Report and the Chief Executive Officer's Report review the operations of the Group and give an indication of likely developments and the expected results of the operations.

Further information about likely developments in the operations of the Group and the expected results of those operations in future financial years have not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Group.

### Events Subsequent to Balance Date

On 2 June 2008, the consolidated entity acquired certain business assets from Datataker Pty Limited for a purchase price of \$2,369,000. This business manufactures and supplies data logging, recording and data acquisition systems and is a bolt-on acquisition for the Scientific & Medical segment.

On 2 June 2008, the consolidated entity acquired certain business assets from Brandos Industrial Supplies Pty Limited for a purchase price of \$2,500,000. This business is involved in processing and distribution of industrial tapes and is a bolt-on acquisition for the Functional & Decorative Products segment.

## DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### Dividends

Dividends paid or declared by the Company to members since the end of the previous financial year are set out in Table 3.

Table 3

	CENTS PER SHARE	TOTAL AMOUNT \$000	DATE OF PAYMENT	FRANKED/ UNFRANKED
<b>Declared and paid during the year</b>				
Final 2007 ordinary	36.0	25,268	3 September 2007	Franked
Interim 2008 ordinary	31.0	27,960	4 March 2008	Franked
Total amount		53,228		
<b>Declared after end of year</b>				
Final 2008 ordinary	36.0	32,608	1 September 2008	Franked
Total amount		85,836		

Franked dividends declared or paid during the year were franked at the tax rate of 30%.

The financial effect of the dividend declared subsequent to reporting date has not been brought to account in the financial statements for the year ended 31 May 2008 and will be recognised in subsequent financial reports.

### Directors' Interests

The relevant interest of each director in the share capital of the Company as notified by the directors to the Australian Stock Exchange in accordance with section 205G(1) of the *Corporations Act 2001* at the date of this report are set out in Table 4.

Table 4

	ORDINARY SHARES
SP Wareing	62,059
JJ Ryan	505,537
NA Thompson	89,925
RM Aitken	44,280
JW Hall	6,667
BJ Jackson	40,484
MB Luby	7,000
RV McKinnon	—
EJ Pope	14,163

### Share Options

There were no options issued during the year. At the date of this report there are no unissued ordinary shares of the Company under option.

## DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### Indemnification and Insurance of Officers and Auditors

#### Indemnification

The Company has agreed to indemnify the current and former directors and secretaries of the Company and its controlled entities as well as the members of the Executive Committee and other key executives against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as officers of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith.

The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

#### Insurance premiums

Since the end of the previous financial year the Company has paid insurance premiums in respect of directors' and officers' liability and legal expenses insurance contracts, for current and former directors and officers of the Company and its controlled entities. The directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' liability and legal expenses insurance contracts, as such disclosure is prohibited under the terms of the contract.

#### Non-audit services

During the year KPMG, the Company's auditor, has performed certain other services in addition to their statutory duties.

The Board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of those non-audit services complies with the Company's corporate governance policies and is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001*.

Details of amounts paid to the auditor, KPMG, for services other than the statutory audit are set out in Table 5.

Table 5

	CONSOLIDATED	
	2008	2007
NON-AUDIT SERVICES	\$	\$
Taxation compliance <sup>1</sup>	90,840	186,450
Taxation compliance <sup>2</sup>	209,650	51,646
Other services <sup>1</sup>	199,675	—
	500,165	238,096

<sup>1</sup> KPMG Australia.

<sup>2</sup> Overseas KPMG firms.

#### Rounding Off

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998. In accordance with that Class Order, amounts in the financial report and Directors' Report have been rounded off to the nearest one thousand dollars, unless otherwise stated.

## DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### Remuneration Report – audited

The directors present the Remuneration Report prepared in accordance with section 300A of the *Corporations Act 2001* for the Company and the consolidated entity for the year ended 31 May 2008.

This Remuneration Report discloses the remuneration for key management personnel of the consolidated entity, including the directors and the senior executives of the Company and the Group. Senior executives are key management personnel who have authority and responsibility for planning, directing and controlling the activities of the Company and the Group. The following senior executives were key management personnel of the Group during the reporting period and unless otherwise indicated were key management personnel for the entire period:

#### Non-executive directors

SP Wareing

RM Aitken

JW Hall

BJ Jackson

MB Luby (joined 18 December 2007)

RV McKinnon (joined 1 July 2008)

EJ Pope

#### Executive directors

JJ Ryan

NA Thompson

#### Executives

P Boyd, Group General Manager Doors & Openers

J Brennan, Group General Manager Functional & Decorative Products

S Cox, Group General Manager Construction & Mining

A Fonseca, Group Financial Controller (promoted to Group Finance Manager Water Products & Services Division 1 June 2008)

B O'Connor, Group Chief Information Officer

R Paul, General Manager Parbury (employment terminated on 5 October 2007)

W Powell, Group General Manager Scientific & Medical (promoted to Group General Manager Water Products & Services division 1 July 2008)

L Rafferty, Group General Manager Legal & Corporate Affairs

A Sullivan, Group General Manager Strategy & Business Development

Details of the Company's remuneration strategy for the 2008 financial year are set out in this Remuneration Report. This Remuneration Report forms part of the Directors' Report for the year ended 31 May 2008 and includes the transferable disclosure requirements of Accounting Standard AASB 124 – Related Party Disclosures. Remuneration of directors and executives is referred to as compensation as defined in AASB 124.

### Principles of compensation

The Company's remuneration strategy is designed to attract, retain and motivate appropriately qualified and experienced directors and senior executives. Key principles in developing the remuneration structure and levels include the creation of longer term shareholder value, market competitiveness and recognition of individual performance and experience and divisional and group performance.

Compensation packages include a mix of fixed and variable compensation and short-term and long-term performance-based incentives based on factors that are under the executives control and maximise the longer term performance of the Company. Most senior executives have a significant proportion of their rewards 'at risk'. In addition to cash salaries, the Group also provides non-cash benefits and contributes to a post-employment defined contribution superannuation plan on behalf of directors and senior executives.

The Board has established a Human Resources Committee which advises the Board on remuneration policies and practices and makes recommendations regarding the level and form of executive remuneration. In doing so, the Committee obtains independent external advice on the appropriateness of compensation packages for directors and senior executives of both the Company and the Group and as part of its annual review considers comparative remuneration, performance-related elements and the objectives of the Company's overall compensation strategy.

Annual incentives are heavily weighted to return on capital, working capital and cash management as well as segment earnings before interest, tax and amortisation of intangibles and significant items (EBITA) and segment net operating assets (NOA). Where more relevant, the Group's performance, including the Group's earnings per share (before significant items and amortisation of intangibles) and the Group's return on equity (before significant items and amortisation of intangibles) are used.

## DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### Remuneration Report – audited(continued)

#### Remuneration of Executive directors and senior executives

The remuneration structure for executive directors and senior executives has two main components: fixed annual remuneration or base salary (known as FAR) and performance-linked remuneration which is variable and comprises a mix of short-term and long-term incentive bonuses.

##### Fixed compensation

The FAR part of the remuneration package for all executive directors and senior executives is a fixed amount that is not performance-linked and is not at risk. FAR is generally pitched at around the 50<sup>th</sup> percentile of a selected comparator group and is calculated on a total cost basis and includes any fringe benefits tax (FBT) charges related to employee benefits, including motor vehicles, as well as employer superannuation contributions.

FAR is determined by the role, the knowledge and experience of the personnel concerned and the skills required to perform the role as well as the prevailing market conditions. A senior executive's compensation is also reviewed on promotion.

##### Performance-linked compensation

Performance-linked compensation includes both short-term and long-term incentives and is designed to reward executive directors and senior executives for performance. The short-term incentive (STI) is an "at risk" bonus measured over a 12-month period and is provided in the form of cash. The long-term incentive (LTI) is generally measured over a three-year period and is currently provided in the form of shares in the Company under the rules of the employee share plans, approved by shareholders (see Note 25 to financial statements).

#### Short-term incentive bonus

Each year the Human Resources Committee recommends to the Board the key performance indicators (KPIs) for the key management personnel. The KPIs generally include measures relating to the Group, the relevant segment and the individual, and include a mix of financial and non-financial measures. The measures are chosen as they directly align the individual's reward to the KPIs of the Group and to its strategy and performance. The financial measures include earnings ("EBITA"), return on net operating assets ("RNOA"), return on equity ("ROE") and earnings per share before significant items and amortisation of intangibles ("EPS") compared to approved budgeted amounts. The non-financial measures vary with the position and responsibility and typically cover safety outcomes, people development and training, strategic outcomes and other discretionary performance targets.

If the performance measures are achieved, executives can earn up to 80% of FAR as a short-term bonus, other than the Chief Executive who can earn up to 100% of FAR as a short-term bonus. To achieve the maximum bonus the executive must have achieved stretch performance.

At the end of the financial year, the Human Resources Committee assesses the actual performance of the Group and the relevant segment and individual performance against the KPIs set at the beginning of the financial year. A percentage of the pre-determined maximum amount is awarded depending on the performance which is generally in the range of 5% for minimum performance and 100% for stretch performance. No bonus is awarded where performance falls below the minimum. The Human Resources Committee recommends the cash incentive to be paid to the individuals for approval by the Board. This method of assessment was chosen as it provides the Committee with an objective assessment of the individual's performance. For the financial year ended 2008 the short term bonus will be paid to executive directors and senior executives in August 2008 in the amounts set out in Table 11.

## DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### Remuneration Report – audited (continued)

#### Long-term incentive

Long-term incentive awards are provided through Alesco's senior executive and management share plans under which participants receive shares in the Company. The Company currently has in place two key long-term incentive plans: the Alesco Performance Share Acquisition Plan (**APSAP**) and the Alesco Management Share Plan (**AMSP**). The shares issued under the APSAP and MSP generally have a three-year trading lock which is only released upon the achievement of certain long-term performance hurdles. The Company has in place a policy prohibiting directors and employees from using derivatives or other similar mechanisms to limit the economic risk of participating in entitlements held under any equity-based remuneration schemes.

The Company first implemented the APSAP for its most senior executives in 2006. Under this plan, loans are provided to the key senior executives to fund the acquisition of ordinary fully paid shares in the Company at the issue price at the time of allocation. Ownership in the shares vests immediately with the senior executive and while the loan is interest-free, it is fully recourse. Awards are earned by senior executives in the form of either cash bonuses (used to pay down the outstanding loan) or loan waivers and are calculated by reference to the approved performance hurdle. For the financial year ended 2008, shares granted under this plan to the senior executives are identified in Table 9. The awards are subject to a performance hurdle requiring the Company's compound annual growth rate in earnings per share (before amortisation of intangibles and significant items) over a three-year period (EPS Growth) from 1 June 2007 to be in a range between 5% and 12%. The EPS Growth achieved will determine the extent of the cash bonus or loan waiver granted to the senior executive to reduce the loan outstanding in connection with the acquisition of shares.

The MSP enables senior management in Australia, New Zealand and Hong Kong to purchase Alesco shares with pre-tax remuneration (subject to local legislation) or bonuses as well as receive incentive shares which are offered at the discretion of the Board and are subject to the satisfaction of specific performance conditions. These shares are either issued or acquired on market and may be held by a trustee on trust for the participant for up to a maximum period of 10 years. The performance condition for the incentive shares issued during this period requires earnings per share growth (before amortisation of intangibles and significant items) for Alesco to equal or exceed 5%, compounded annually over the three year from 1 June 2007 to 31 May 2010.

#### Short-term and long-term incentive structure

The Board considers that this performance-linked compensation structure is generating the desired outcome. The remuneration and incentive framework, which has been put in place, has ensured that executives are focussed on both maximising short-term operating and financial performance as well as long-term strategic growth.

This overall performance is evidenced by the growth in profits and earnings per share (before amortisation of intangibles and significant items), and the performance-linked element of the structure and appears to be appropriate in the circumstances because most but not all of the key management personnel achieve a level of performance which qualifies them for the maximum bonus and shares.

Currently, the performance-linked component of compensation comprises approximately 40% of total payments to key management personnel.

## DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### Remuneration Report – audited (continued)

#### Consequences of performance on shareholders' wealth

In the opinion of the directors the Company's remuneration policies and practices have contributed to the Company's success in creating shareholder value over the longer term as demonstrated by the Company's financial performance over the past four years as set out in Table 6.

In assessing the Group's performance, the Human Resources Committee has considered the results shown in Table 6 in respect of the Group's performance over the current year and the previous four financial years.

Table 6

	CONSOLIDATED				
	2008	2007	2006	2005	2004
Return on equity	13.6%	15.8%	14.5%	13.3%	15.5%
Basic Earnings per share	83.8cps	74.6cps	66.5cps	60.3cps	54.2cps
Dividend per share	67.0cps	63.5cps	56.0cps	45.0cps	33.0cps
(Before amortisation of intangibles and significant items)					

Basic earnings per share and return on equity are some of the financial performance targets used in setting the STI. Basic earnings per share is also the financial performance target for the LTI which takes into account the Group's net profit (before significant items and amortisation of intangibles).

#### Non-executive directors

Fees payable to non-executive directors are determined within the maximum aggregate amount approved by shareholders. The current maximum aggregate amount is \$1,000,000 per annum (excluding any superannuation contributions required by law), last approved by shareholders at the 2006 Annual General Meeting. The remuneration of the non-executive directors is not linked to the performance of the Company in order to maintain independence and impartiality.

Non-executive directors do not participate in any incentive plans.

The directors' fees are reviewed annually through the Human Resources Committee. In determining the current level of fees, external compensation advisers Godfrey Remuneration Group were consulted and available data on fees payable to directors of companies of a similar size are taken into account. Following a review in January this year, the non-executive directors' fees were increased with effect from 1 February 2008, the last increase having taken effect from 1 March 2006. Non-executive directors' fees increased from \$90,000 to \$100,000 (inclusive of superannuation). The Chairman's fees increased from \$252,000 (inclusive of superannuation and Committee fees) to \$280,000, in recognition of the greater time commitment required to perform this role. Committee fees payable to Board members are as follows:

- Audit & Compliance Committee \$12,500 with the Chairman receiving \$25,000
- Human Resources Committee \$7,000 with the Chairman receiving \$10,000; and
- Safety, Health and Environment Committee \$7,000 with the Chairman receiving \$10,000.

Directors' retirement benefits ceased to accrue at 31 May 2004.

## DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### Remuneration Report – audited (continued)

#### Service agreements

It is the Group's policy that service contracts for senior executives (other than the Chief Executive Officer) are unlimited in term but capable of termination on at least one month's notice but not exceeding six months' notice and that the Group retains the right to terminate the contract immediately by making a payment in lieu of notice.

Justin Ryan (Managing Director and Chief Executive Officer) has no fixed term contract but he may be terminated on 12 months' notice by either party.

The other key management personnel identified in this report generally have a notice period between three and six months.

The details of Mr Ryan's current remuneration compensation package are:

- a base remuneration (FAR) of \$1,000,000 per annum;
- an annual short-term incentive up to a maximum of 100% of the base remuneration. This is based on the achievement of pre-determined key performance indicators both financial and non-financial measures;
- a long-term incentive up to a maximum of 125% of the base remuneration payable in shares; and
- a retention payment of 25% of the base remuneration payable if Mr Ryan is employed by the Company in three years time.

For the financial years ended 2007, 2008 and 2009, Mr Ryan's long-term incentive package consisted of a grant of 370,000 ordinary fully paid shares under the APSAP as approved by shareholders at the 2006 annual general meeting. These shares were allocated under the APSAP and the associated interest free fully recourse loans provided to Mr Ryan as follows:

- Tranche 1 – 150,000 shares (issued in 2006 at an issue price of \$9.99 per share with the associated loan award subject to achieving the performance hurdle described below in 2009);
- Tranche 2 – 110,000 shares (issued in 2007 at an issue price of \$11.28 per share with the associated loan award subject to achieving the performance hurdle described below in 2010); and
- Tranche 3 – 110,000 shares (to be issued in September 2008 at the prevailing share price at the allocation date with the associated loan award subject to achieving the performance hurdle described below in 2011).

EPS THREE-YEAR CAGR	AWARD %
< 5%	Nil
5%	33.3%
> 5% and < 7%	Pro rata
7%	66.7%
> 7% and < 12%	Pro rata
12% or >	100%

CAGR – compounded annual growth rate

The Company may terminate Mr Ryan's appointment for cause or by giving Mr Ryan 12 months' notice in writing, or a payment in lieu. Any payment in lieu is to be calculated on the total sum of the base remuneration plus 100% of the maximum STI amount that would have been payable to Mr Ryan in respect of the financial year in which his appointment has been terminated. For the current contract a maximum payment of \$2,000,000 would be payable to Mr Ryan.

There are no other service agreements with senior executives at 31 May 2008.

**DIRECTORS' REPORT (CONTINUED)**

FOR THE YEAR ENDED 31 MAY 2008

**Remuneration Report – audited (continued)**

**Key management personnel compensation (continued)**

Table 7 Details of the nature and amount of each major element of compensation of each of the key management personnel.

DIRECTORS <sup>1</sup>	SHORT-TERM			POST-EMPLOYMENT			EQUITY			OTHER BENEFITS			TOTAL		PROPORTION OF REMUNERATION PERFORMANCE-RELATED %	VALUE OF SHARES AS PROPORTION OF REMUNERATION %	
	SALARY AND FEES \$	STI CASH BONUS <sup>2</sup> \$	NON-MONETARY BENEFITS \$	SUPER-ANNUATION BENEFITS \$	RETIREMENT BENEFITS \$	SHARE-BASED PAYMENT \$	TERMINATION \$	OTHER LONG-TERM BENEFITS \$					\$	\$			
<b>Non-executive</b>																	
SP Wareing	2008	189,074	-	-	74,447	-	-	-	-	-	-	-	-	263,521	-	-	
	2007	159,359	-	-	92,641	-	-	-	-	-	-	-	-	252,000	-	-	
RM Aitken	2008	89,246	-	-	16,440	-	-	-	-	-	-	-	-	105,686	-	-	
	2007	30,856	-	-	70,044	-	-	-	-	-	-	-	-	100,900	-	-	
JW Hall	2008	75,333	-	-	41,616	-	-	-	-	-	-	-	-	116,949	-	-	
	2007	38,648	-	-	73,152	-	-	-	-	-	-	-	-	111,800	-	-	
BJ Jackson	2008	94,460	-	-	8,568	-	-	-	-	-	-	-	-	103,028	-	-	
	2007	-	-	-	97,630	-	-	-	-	-	-	-	-	97,630	-	-	
MB Luby	2008	49,208	-	-	4,428	-	-	-	-	-	-	-	-	53,636	-	-	
	2007	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
EJ Pope	2008	86,878	-	-	24,984	-	-	-	-	-	-	-	-	111,862	-	-	
	2007	7,943	-	-	100,587	-	-	-	-	-	-	-	-	108,530	-	-	
<b>Executive</b>																	
JJ Ryan	2008	778,574	752,000	-	13,092	-	-	80,425	-	204,550	-	-	204,550	1,828,641	56.0%	4.4%	
	2007	687,359	497,000	-	12,641	-	-	177,496	-	240,833	-	-	240,833	1,615,329	55.9%	11.0%	
NA Thompson	2008	443,684	318,250	-	22,566	-	-	57,767	-	40,792	-	-	40,792	883,059	46.3%	6.5%	
	2007	325,188	207,200	-	41,062	-	-	28,522	-	45,783	-	-	45,783	647,755	42.5%	4.4%	
KF Clarke <sup>3</sup>	2007	70,121	-	-	1,540	-	-	-	-	-	-	-	-	71,661	-	-	
<b>Total</b>	<b>2008</b>	<b>1,806,457</b>	<b>1,070,250</b>	<b>-</b>	<b>206,141</b>	<b>-</b>	<b>-</b>	<b>138,192</b>	<b>-</b>	<b>245,342</b>	<b>-</b>	<b>-</b>	<b>245,342</b>	<b>3,466,382</b>			
	<b>2007</b>	<b>1,319,474</b>	<b>704,200</b>	<b>-</b>	<b>489,297</b>	<b>-</b>	<b>-</b>	<b>206,018</b>	<b>-</b>	<b>286,616</b>	<b>-</b>	<b>-</b>	<b>286,616</b>	<b>3,005,605</b>			

<sup>1</sup> RV McKinnon was appointed to the Board on 1 July 2008.

<sup>2</sup> The amount was determined on 5 June 2008 after performance reviews were completed and approved by the Human Resources Committee. The short-term incentive is a cash bonus for performance during the relevant financial year using criteria set out on page 34.

<sup>3</sup> KF Clarke retired as Managing Director and Chief Executive Officer on 31 May 2006.

**DIRECTORS' REPORT (CONTINUED)**

FOR THE YEAR ENDED 31 MAY 2008

**Remuneration Report – audited (continued)**

**Key management personnel compensation (continued)**

EXECUTIVES	SHORT-TERM			POST EMPLOYMENT		EQUITY		OTHER BENEFITS		TOTAL	PROPORTION OF REMUNERATION PERFORMANCE-RELATED %	VALUE OF SHARES AS PROPORTION OF REMUNERATION %
	SALARY AND FEES \$	STI CASH BONUS <sup>1</sup> \$	NON-MONETARY BENEFITS \$	NON-MONETARY BENEFITS \$	ANNUATION BENEFITS \$	SUPER-BENEFITS \$	SHARE-BASED PAYMENT \$	OTHER LONG-TERM BENEFITS \$	OTHER BENEFITS \$			
<b>Current</b>												
P Boyd	2008	432,209	100,000	–	43,885	120,824	7,699	704,617	31.3%	17.1%		
	2007	74,962	42,295	–	10,019	13,980	1,319	142,575	39.5%	9.8%		
J Brennan	2008	282,795	401,145	27,837	31,795	13,611	5,489	762,672	54.4%	1.8%		
	2007	56,692	42,800	13,343	8,504	–	1,000	122,339	35.0%	–		
S Cox	2008	339,633	157,068	4,577	30,953	31,502	32,868	596,601	36.1%	5.3%		
	2007	263,019	150,000	12,483	30,502	26,759	37,122	519,885	40.2%	5.1%		
A Fonseca	2008	283,574	174,000	–	13,092	23,594	27,982	522,242	42.3%	4.5%		
	2007	243,279	125,320	–	13,388	18,731	32,172	432,890	39.7%	4.3%		
B O'Connor	2008	248,412	143,350	27,989	33,092	23,821	30,880	507,544	38.0%	4.7%		
	2007	215,428	120,350	35,547	16,808	14,982	35,885	439,000	37.9%	3.4%		
W Powell	2008	276,520	219,339	25,168	33,438	30,594	32,179	617,238	44.8%	5.0%		
	2007	267,359	135,000	–	12,641	26,759	37,122	478,881	40.5%	5.6%		
L Rafferty	2008	360,241	259,667	–	13,092	31,502	32,837	697,339	45.6%	4.5%		
	2007	283,048	144,900	1,395	12,641	23,010	37,122	502,116	39.8%	4.6%		
A Sullivan	2008	147,023	103,058	33,630	113,481	23,368	29,729	450,289	33.6%	5.2%		
	2007	156,202	106,400	13,674	108,041	19,981	34,647	438,945	35.6%	4.6%		
J Wedge	2008	204,516	–	72,884	24,966	–	–	302,366	–	–		
<b>Former<sup>2</sup></b>												
N Freeland	2007	297,240	45,714	21,633	22,026	93,020	489,079	968,712	14.3%	9.6%		
C Fuller	2007	207,314	30,800	–	12,686	13,556	23,557	287,913	23.6%	4.7%		
R Paul	2008	58,752	–	11,752	3,534	–	224,794	298,832	–	–		
	2007	203,178	88,400	39,181	12,641	19,260	32,172	394,832	34.3%	4.9%		
<b>Total</b>	2008	2,633,675	1,557,627	203,837	341,328	298,816	424,457	5,459,740				
	2007	2,267,721	1,031,979	137,256	259,897	270,038	761,197	4,728,088				

1 The amount was determined on 5 June 2008 after performance reviews were completed and approved by the Human Resources Committee. The short-term incentive is a cash bonus for performance during the relevant financial year using criteria set out on page 34.

2 N Freeland retired on 15 June 2007. R Paul retired on 5 October 2007. C Fuller stepped down from the Executive Committee following the restructure of the Functional & Decorative Products division.

## DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### Remuneration Report – audited (continued)

#### Analysis of share-based payments granted as compensation under the Alesco Management Share Plan (AMSP)

Table 8 Details of vesting profile of the shares granted as remuneration under the AMSP to each key management personnel of the Group:

	SHARES GRANTED		VESTED IN YEAR	FORFEITED IN YEAR	FINANCIAL YEAR OF POTENTIAL VESTING
	NUMBER	DATE	%	%	
<b>Directors</b>					
J Ryan	11,000	October 2004	100	–	2008
	50,000	February 2005	100	–	2008
N Thompson	10,000	January 2006	–	–	2009
<b>Executives</b>					
P Boyd	20,000	March 2007	–	–	2010
S Cox	5,000	October 2004	100	–	2008
	5,000	November 2005	–	–	2009
A Fonseca	3,500	October 2004	100	–	2008
	3,500	November 2005	–	–	2009
B O'Connor	2,000	October 2004	100	–	2008
	3,500	November 2005	–	–	2009
W Powell	5,000	October 2004	100	–	2008
	5,000	November 2005	–	–	2009
L Rafferty	3,500	October 2004	100	–	2008
	5,000	November 2005	–	–	2009
A Sullivan	4,000	October 2004	100	–	2008
	3,500	November 2005	–	–	2009

The minimum value of shares yet to vest is nil as the performance criteria may not be met and consequently the shares may not vest. The maximum value of shares yet to vest is not determinable as it depends on the market price of shares at the end of the performance period.

## DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### Remuneration Report – audited (continued)

#### Analysis of share-based payments granted as compensation under the Alesco Performance Share Acquisition Plan (APSAP)

Details of loans provided to key senior executives (arising from the fresh issue of shares) during the year under the APSAP are shown in Table 9.

Table 9

	INCLUDED IN COMPENSATION	VALUE OF LOAN	SHARES ACQUIRED
DIRECTORS	\$	\$	NUMBER
J Ryan	80,425	1,240,844	110,000
N Thompson	29,245	451,216	40,000
EXECUTIVES			
J Brennan	13,611	210,000	18,616
S Cox	17,241	266,000	23,581
A Fonseca	13,611	210,000	18,616
B O'Connor	13,838	213,500	18,927
W Powell	16,333	252,000	22,340
L Rafferty	17,241	266,000	23,581
A Sullivan	13,385	206,500	18,306

#### Analysis of other benefits (long-term incentives) included in compensation under the Alesco Performance Share Acquisition Plan (APSAP)

The Company has an Alesco Performance Share Acquisition Plan (APSAP) for its most senior executives. Under the APSAP Plan, loans are provided to key senior executives to fund the acquisition of ordinary fully paid shares in the Company. Ownership in the shares vests immediately with the senior executive, the loan is interest-free and fully recourse. Awards will be earned by senior executives in the form of either cash bonuses (used to pay down the outstanding loan) or loan waivers and will be calculated by reference to the Company's compound annual growth rate in earnings per share (before amortisation of intangibles and significant items) over a three-year period (EPS Growth).

Details of loans provided to key senior executives in the prior year under the Alesco Performance Share Acquisition Plan (from shares purchased on market) are detailed in Table 10.

Table 10

	INCLUDED IN COMPENSATION	VALUE OF LOAN	SHARES ACQUIRED
DIRECTORS	\$	\$	NUMBER
J Ryan	191,435	1,498,187	150,000
N Thompson	33,094	259,000	25,931
EXECUTIVES			
P Boyd	36,944	332,500	26,426
S Cox	26,833	210,000	21,025
A Fonseca	23,256	182,000	18,222
B O'Connor	25,940	203,000	20,325
W Powell	26,833	210,000	21,025
L Rafferty	26,833	210,000	21,025
A Sullivan	25,045	196,000	19,624

## DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### Remuneration Report – audited (continued)

#### Analysis of bonuses included in compensation

Details of the vesting profile of the short-term incentive cash bonuses awarded as compensation to each key management personnel of the Group is shown in Table 11.

Table 11

	INCLUDED IN COMPENSATION	VESTED IN YEAR	FORFEITED IN YEAR
DIRECTORS	\$	%	%
J Ryan	752,000	94	6
N Thompson	318,000	96	4
EXECUTIVES			
P Boyd	100,000	21	79
J Brennan	401,145	84	16
S Cox	157,068	52	48
A Fonseca	174,000	97	3
B O'Connor	143,350	94	6
W Powell	219,339	87	13
L Rafferty	259,667	98	2
A Sullivan	103,058	87	13


Amounts included in compensation for the financial year represents the amounts which vested in the financial year based on achievement of personal goals and satisfaction of specified performance criteria.

No amounts vest in future financial years in respect of the short-term incentive bonus schemes for the 2008 financial year. The amounts forfeited are due to the performance or service criteria not being met in relation to the current financial year.

#### Lead auditor's independence declaration under S307C of the Corporations Act 2001

The lead auditor's independence declaration under S307C of the Corporations Act 2001 can be found on page 115 of the Annual Report and forms part of the Directors' Report for the financial year ended 31 May 2008.

Signed in accordance with a resolution of the directors.



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## INCOME STATEMENTS

FOR THE YEAR ENDED 31 MAY 2008

	NOTE	CONSOLIDATED		THE COMPANY	
		2008	2007	2008	2007
		\$000	\$000	\$000	\$000
Sale of goods		1,007,840	702,115	–	–
Rendering services		58,886	35,222	13,535	26,550
Other income	3	4,327	851	100,014	55,186
<b>Total revenue</b>		<b>1,071,053</b>	<b>738,188</b>	<b>113,549</b>	<b>81,736</b>
Cost of sales		(671,087)	(463,266)	–	–
Selling expenses		(100,930)	(60,352)	–	–
Marketing expenses		(19,518)	(16,155)	–	–
Customer service expenses		(22,516)	(17,191)	–	–
Purchasing and inventory management		(3,431)	(3,181)	–	–
Distribution expenses		(59,814)	(45,318)	–	–
Administration and general expenses		(77,125)	(49,556)	(18,191)	(12,566)
Restructuring expenses		(10,131)	(5,822)	–	–
<b>Results from operating activities</b>		<b>106,501</b>	<b>77,347</b>	<b>95,358</b>	<b>69,170</b>
Financial income	5	2,200	1,397	20,917	9,097
Financial expenses	5	(28,205)	(17,424)	(46)	(34)
<b>Net financing (costs)/income</b>	5	<b>(26,005)</b>	<b>(16,027)</b>	<b>20,871</b>	<b>9,063</b>
Share of associates' equity accounted net profit	29	93	173	–	–
<b>Profit before income tax</b>		<b>80,589</b>	<b>61,493</b>	<b>116,229</b>	<b>78,233</b>
Income tax expense	7	(22,618)	(17,519)	(3,398)	(7,344)
<b>Profit for the year</b>	22	<b>57,971</b>	<b>43,974</b>	<b>112,831</b>	<b>70,889</b>
Basic earnings per share	2	67.22¢	61.83¢ <sup>1</sup>		
Diluted earnings per share	2	67.06¢	61.83¢ <sup>1</sup>		

<sup>1</sup> Prior year basic and diluted earnings per share have been adjusted for 7,916,286 ordinary shares issued under the rights issue during the 2008 year.

The income statements are to be read in conjunction with the notes to the financial statements set out on pages 45 to 111.

## STATEMENTS OF RECOGNISED INCOME AND EXPENSE

FOR THE YEAR ENDED 31 MAY 2008

	NOTE	CONSOLIDATED		THE COMPANY	
		2008 \$000	2007 \$000	2008 \$000	2007 \$000
Foreign exchange translation (loss)/gain on translating foreign subsidiaries	21	(933)	676	–	–
Net unrealised gain from cash flow hedges taken to equity		1,724	21	–	–
Net realised loss from cash flow hedges transferred from equity to the income statement		883	275	–	–
<b>Income and expense recognised directly in equity</b>		<b>1,674</b>	<b>972</b>	<b>–</b>	<b>–</b>
Profit for the year	22	57,971	43,974	112,831	70,889
<b>Total recognised income and expense for the year</b>		<b>59,645</b>	<b>44,946</b>	<b>112,831</b>	<b>70,889</b>

The statements of recognised income and expense are to be read in conjunction with the notes to the financial statements set out on pages 45 to 111.

## BALANCE SHEETS

AS AT 31 MAY 2008

	NOTE	CONSOLIDATED		THE COMPANY	
		2008 \$000	2007 \$000	2008 \$000	2007 \$000
<b>Current assets</b>					
Cash and cash equivalents	34(a)	1,910	8,334	–	6,000
Receivables	8	189,175	132,811	231	38
Inventories	9	154,989	128,947	–	–
Other	10	9,777	6,584	633	758
<b>Total current assets</b>		<b>355,851</b>	<b>276,676</b>	<b>864</b>	<b>6,796</b>
<b>Non-current assets</b>					
Receivables	8	3,984	1,288	523,744	199,378
Investments in equity accounted investees	29	485	509	–	–
Other investments	11	89	89	393,726	393,522
Property, plant and equipment	12	89,855	82,413	8,341	7,304
Intangible assets	13	649,794	434,010	68	281
Deferred tax assets	14	18,729	20,192	4,142	1,213
Other	15	975	1,812	975	1,812
<b>Total non-current assets</b>		<b>763,911</b>	<b>540,313</b>	<b>930,996</b>	<b>603,510</b>
<b>Total assets</b>		<b>1,119,762</b>	<b>816,989</b>	<b>931,860</b>	<b>610,306</b>
<b>Current liabilities</b>					
Bank overdraft	34(a)	–	–	4,798	669
Payables	16	149,408	114,710	4,014	4,667
Interest-bearing loans and borrowings	17	453	20,366	–	–
Current tax liabilities	18	6,215	5,435	5,412	4,445
Provisions	19	40,155	39,493	2,833	4,390
<b>Total current liabilities</b>		<b>196,231</b>	<b>180,004</b>	<b>17,057</b>	<b>14,171</b>
<b>Non-current liabilities</b>					
Interest-bearing loans and borrowings	17	321,240	282,165	320,991	300,507
Provisions	19	8,659	10,366	153	382
<b>Total non-current liabilities</b>		<b>329,899</b>	<b>292,531</b>	<b>321,144</b>	<b>300,889</b>
<b>Total liabilities</b>		<b>526,130</b>	<b>472,535</b>	<b>338,201</b>	<b>315,060</b>
<b>Net assets</b>		<b>593,632</b>	<b>344,454</b>	<b>593,659</b>	<b>295,246</b>
<b>Equity</b>					
Issued capital	20	504,664	265,365	504,664	265,365
Reserves	21	9,772	4,276	774	903
Retained earnings	22	79,196	74,813	88,221	28,978
<b>Parent entity interest</b>		<b>593,632</b>	<b>344,454</b>	<b>593,659</b>	<b>295,246</b>

The balance sheets are to be read in conjunction with the notes to the financial statements set out on pages 45 to 111.

## STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 MAY 2008

	NOTE	CONSOLIDATED		THE COMPANY	
		2008 \$000	2007 \$000	2008 \$000	2007 \$000
<b>Cash Flows from operating activities:</b>					
Cash receipts in the course of operations		1,164,794	807,287	14,904	28
Cash payments in the course of operations		(1,063,382)	(709,815)	(21,775)	(13,551)
Income taxes paid		(17,051)	(14,112)	(13,945)	(1,004)
<b>Net cash provided by/(used in) operating activities</b>	34(b)	<b>84,361</b>	<b>83,360</b>	<b>(20,816)</b>	<b>(14,417)</b>
<b>Cash Flows from investing activities:</b>					
Proceeds from sale of property, plant and equipment		536	2,371	–	602
Payments for property, plant and equipment and capitalised development expenditure		(20,117)	(26,636)	(1,407)	(4,212)
Payments for deferred consideration on acquisitions		(8,846)	(3,414)	–	–
Payments for assets on acquisition of business	28(b)	(6,877)	(15,689)	–	–
Payments for controlled entities net of cash acquired	28(b)	(115,526)	(93,154)	(204)	(62,936)
Payments for assumed debt on acquisition of controlled entities		(87,999)	–	–	–
Loans to employees		–	(3,050)	–	(3,050)
Loans (to)/from controlled entities		–	–	(135,669)	118,069
<b>Net cash (used in)/provided by investing activities</b>		<b>(238,829)</b>	<b>(139,572)</b>	<b>(137,280)</b>	<b>48,473</b>
<b>Cash Flows from financing activities:</b>					
Proceeds from issue of shares		199,641	620	199,641	620
Transaction costs from issue of shares		(6,397)	(18)	(6,397)	(18)
Dividends paid		(45,462)	(34,889)	(45,462)	(34,889)
Purchase of own shares for employee share plans		–	(543)	–	(543)
Finance lease payments		(499)	(1,090)	–	–
Net proceeds of borrowings		26,886	103,194	–	–
Interest received		2,200	1,397	231	144
Interest paid		(28,188)	(17,424)	(46)	(34)
<b>Net cash provided by/(used in) financing activities</b>		<b>148,181</b>	<b>51,247</b>	<b>147,967</b>	<b>(34,830)</b>
<b>Net decrease in cash held</b>		<b>(6,287)</b>	<b>(4,965)</b>	<b>(10,129)</b>	<b>(774)</b>
Cash and cash equivalents at the beginning of the financial year		8,334	13,132	5,331	6,105
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		(137)	167	–	–
<b>Cash and cash equivalents at the end of the financial year</b>	34(a)	<b>1,910</b>	<b>8,334</b>	<b>(4,798)</b>	<b>5,331</b>

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 45 to 111.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2008

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies which have been adopted in the preparation of this financial report are:

### (a) Statement of compliance

Alesco Corporation Limited (the "Company") is a company domiciled in Australia. The consolidated financial statements of the Company as at and for the year ended 31 May 2008 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in jointly controlled entities.

The financial report was authorised for issue by the directors on 29 July 2008.

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards Board ("AASBs") (including Australian interpretations) adopted by the Australian Accounting Standards Board ("AASB") and the *Corporations Act 2001*. The consolidated financial report of the Group and the financial report of the Company comply with the International Financial Reporting Standards ("IFRSs") and the interpretations adopted by the International Accounting Standards Board ("IASB").

### (b) Basis of preparation

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency and the functional currency of the majority of the Group. The consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments that are stated at fair value.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and, in accordance with the Class Order, all financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected.

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements, and have been applied consistently by Group entities.

Whilst the Company's current liabilities exceed its current assets by \$16,193,000 (2007: \$7,375,000), the directors are satisfied that the Company's financial report be prepared on a going concern basis as the Company has access to cash generated by the Group via the Deed of Cross Guarantee.

### (c) Basis of consolidation

#### Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the financial report from the date that control commences until the date that control ceases.

Investments in subsidiaries are carried at their cost of acquisition in the Company's financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

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## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (c) Basis of consolidation (continued)

##### Joint ventures (equity accounted investees)

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement.

In the financial statements, investments in jointly controlled entities are accounted for using the equity method (equity accounted investees). The consolidated financial statements include the Group's share of the income and expenses of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that joint control commences until the date that joint control ceases.

##### Transactions eliminated on consolidation

Intra-group balances, any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Gains and losses are recognised as the contributed assets are consumed or sold by the equity accounted investees or, if not consumed or sold by the equity accounted investee, when the Group's interest in such entities is disposed of.

#### (d) Foreign currency

##### Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Group at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the foreign exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined.

##### Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Australian dollars at foreign exchange rates ruling at the reporting date. The income and expenses of foreign operations are translated to Australian dollars at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on re-translation are recognised directly in a separate component of equity.

##### Hedge of net investment in foreign operation

Foreign currency differences arising on the translation of a financial liability designated as a hedge of a net investment in a foreign operation are recognised directly in equity in the Foreign Currency Translation Reserve ("FCTR"), to the extent that the hedge is effective. To the extent that the hedge is ineffective, such differences are recognised in profit or loss.

#### (e) Financial instruments

##### Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity, trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (e) Financial instruments (continued)

##### Non-derivative financial instruments (continued)

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, that is, the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purposes of the statement of cash flows.

##### Available-for-sale financial assets

The Group's investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognised as a separate component of equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to the profit or loss.

##### Derivative financial instruments

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Derivatives are recognised initially at fair value and attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are accounted for as described below.

##### Cash flow hedges

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss.

##### Share capital

###### Ordinary shares

Incremental costs directly attributable to issue of ordinary shares are recognised as a deduction from equity, net of any related income tax benefit.

###### Dividends

Dividends are recognised as a liability in the period in which they are declared.

#### (f) Property, plant and equipment

##### Recognition and measurement

Items of property, plant and equipment are measured at cost or deemed cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 July 2004, the date of transition to AASBs, was determined by reference to its fair value at that date.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the cost of dismantling and removing the items and restoring the site on which they are located.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (f) Property, plant and equipment (continued)

##### Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

##### Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. Depreciation methods, useful lives and residual values are reassessed at the reporting date.

The depreciation rates for the current and comparative periods are as follows:

	RATES
	%
<b>Property, plant and equipment:</b>	
Buildings	2.5 to 13
Plant and equipment	13 to 33
Motor vehicles	15 to 25
Leasehold improvements	15 to 20
Leased plant and equipment	13 to 33

#### (g) Intangible assets

##### Goodwill

Goodwill arises on the acquisition of subsidiaries and joint ventures.

##### Acquisitions prior to 1 June 2004

As part of its transition to AASBs, the Group elected to restate only those business combinations that occurred on or after 1 June 2004. In respect of acquisitions prior to 1 June 2004, goodwill represents the amount recognised under the Group's previous accounting framework, Australian GAAP.

##### Acquisitions on or after 1 June 2004

For acquisitions on or after 1 June 2004, goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree.

##### Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

##### Brand names

Brand names represent the value of brands owned by controlled entities determined at acquisition that maintain a strong presence in the marketplace.

##### Patents and trademarks

Patents and trademarks represent the value of patents, trademarks and registered designs owned by controlled entities determined at acquisition which provide the entity with a market advantage.

##### Agency agreements

Agency agreements represent the value of agreements held by controlled entities with various agents which provide the entity with a market advantage due to the presence of these agents in the respective industry.

##### Lease premium

Lease premium represents the value of leases assigned by the vendor to a controlled entity in the acquisition of the business of Robinson Industries Limited on 30 April 2003.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (g) Intangible assets (continued)

##### Development costs

Information technology development includes systems re-engineering costs comprising development expenditure and associated implementation costs.

Expenditure on research activities, undertaken with the prospect of gaining new technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development.

The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads.

Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

##### Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

##### Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss when incurred.

##### Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, unless such lives are indefinite, from the date they are available for use.

The estimated useful lives for the current and comparative periods are as follows:

	USEFUL LIFE YEARS
<b>Intangibles:</b>	
Brands – B&D, Flextool, Concrete Technologies, Lincoln Sentry	Indefinite
Brands – others	5-20 years
Patents and trademarks	5-15 years
Lease premium	6 years
Development costs	3-7 years

#### (h) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the lease asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet.

#### (i) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition and is recorded net of rebates and discounts received. In the case of manufactured inventories and work-in-progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (j) Impairment

##### Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets recognised at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

##### Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available-for-use, the recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### (k) Employee benefits

##### Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

##### Short-term benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave represent present obligations resulting from employees services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (k) Employee benefits (continued)

##### Long-term benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods plus related on-costs. This benefit is then discounted to determine its present value and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on Commonwealth Government bonds that have maturity dates approximating the term of the Group's obligations.

##### Termination benefits

Termination benefits are recognised as an expense when the Group is committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date.

##### Share-based payment transactions

The share plan programs allow Group employees to acquire shares of the Company. The fair value of shares granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the shares. The amount recognised as an expense is adjusted to reflect the actual number of shares that vest. The value of shares that are yet to vest are recorded in a share equity reserve and transferred to share capital once vested.

#### (l) Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

##### Warranties

Provisions for warranty claims are made for claims received and claims expected to be received in relation to sales made prior to reporting date, based on historical claim rates, adjusted for specific information arising from internal quality assurance processes.

##### Restructuring

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

##### Surplus lease space

Provision is made for non-cancellable operating lease rentals payable on surplus leased premises when it is determined that no substantive future benefit will be obtained from its occupancy and sub-lease rentals do not recover the full rental cost. The estimate is calculated based on discounted net future cash flows, using the interest rate implicit in the lease or an estimate thereof.

##### Deferred earn-outs

Provisions for deferred earn-outs are made based on management's estimates of likely payments required to be made in addition to initial consideration as part of acquisitions based on underlying sale and purchase agreements. These are generally made based on management budgets for the related earn-out periods.

##### Operating lease make-good

Provision for make-good in respect of leased properties is recognised over the lease term based on the cost the Group would incur to restore premises to the required condition.

##### Operating lease straight-lining

Provision for straight-lining in respect of leased properties is calculated at reporting date based on the difference between the cost to the Group and the total rent payable under the operating lease if recognised on a straight-line basis over the lease term.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (m) Revenue

##### Goods sold and services rendered

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognised in the income statement in the period in which the services are performed. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the costs incurred or to be incurred cannot be measured reliably, there is a risk of return of goods or there is continuing management involvement with the goods.

##### Contract revenue

Revenue on longer-term contracts is recognised progressively over the period of individual contracts, wherever a reliable estimate can be made, using the percentage of completion method. Where a reliable estimate cannot be made, revenue is recognised only to the extent that costs will be recoverable. An expected loss on a contract is recognised immediately in the income statement.

##### Management fees

Management fee revenue from controlled entities is recognised in the income statement as rendering of service revenue by the Company when the service is performed.

Shared services revenue from controlled entities is recognised in the income statement as rendering of service revenue by the Company when the service is performed and is derived from the provision of financial and information technology services.

#### (n) Lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense and spread over the lease term.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

#### (o) Finance income and expenses

Finance income comprises interest income on funds invested. Interest income is recognised in the income statement as it accrues, using the effective interest method.

Finance expenses comprise interest expense on borrowings. All borrowing costs are recognised in profit or loss using the effective interest method.

#### (p) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the Australian Taxation Office (ATO) is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (g) Income tax

Income tax expense comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

#### Tax consolidation

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 June 2004 and are therefore taxed as a single entity from that date. The Company is the head entity within the tax-consolidated group.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the "separate taxpayer within group" approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity in the tax-consolidated group and are recognised as amounts payable (receivable) to (from) other entities in the tax-consolidated group in conjunction with any tax-funding arrangement amounts (refer below).

Any difference between these amounts is recognised by the Company as an equity contribution or distribution.

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

#### Nature of tax-funding arrangements and tax-sharing agreements

The head entity, in conjunction with other members of the tax-consolidated group, has entered into a tax-funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax-funding arrangements require payments to/from the head entity equal to the current tax liability (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable (payable) equal in amount to the tax liability (asset) assumed. The inter-entity receivable (payable) is at call.

Contributions to fund the current tax liabilities are payable as per the tax-funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The head entity, in conjunction with other members of the tax-consolidated group, has also entered into a tax-sharing agreement. The tax-sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax-sharing agreement is considered remote.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (r) Earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of shares outstanding during the period.

Diluted earnings per share is calculated by adjusting the profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of dilutive potential ordinary shares.

#### (s) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group's primary format for segment reporting is based on business segments.

#### (t) New standards and interpretations not yet adopted

New standards, amendments to standards and interpretations relating to future financial periods have been issued by the AASB which have not been early adopted by the Group. The effect of these amendments are not expected to have a material effect on the financial report of the Group in future financial periods, therefore, the impact of these amendments has not been disclosed.

### NOTE 2: EARNINGS PER SHARE

	CONSOLIDATED	
	2008	2007
	\$000	\$000
<b>Earnings reconciliation</b>		
Net profit	57,971	43,974
Basic and diluted earnings	57,971	43,974
Significant items (net of tax)	7,509	4,075
Amortisation of intangibles	6,803	4,761
Net profit before significant items and amortisation of intangibles	72,283	52,810
	2008	2007
	NO.	NO.
<b>Weighted average number of shares used as the denominator</b>		
Number for basic earnings per share	86,239,232	70,817,944
Estimate of shares to be issued under TEM vendor management offer	205,781	—
Number for diluted earnings per share	86,445,013	70,817,944

Incentive shares not vested under the management share plans have been classified as potential ordinary shares and included in diluted earnings per share.

An estimate of additional shares to be issued as consideration for the acquisition of the Total Eden McCracken's Group have been classified as potential ordinary shares and included in diluted earnings per share. These shares may be issued subsequent to 31 May 2008.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 3: OTHER INCOME

	NOTE	CONSOLIDATED		THE COMPANY	
		2008 \$000	2007 \$000	2008 \$000	2007 \$000
Related party debt forgiveness		–	–	100,000	55,000
Gain on disposal of property, plant and equipment		62	635	–	161
Other income		4,265	216	14	25
<b>Total other income</b>		<b>4,327</b>	<b>851</b>	<b>100,014</b>	<b>55,186</b>

### NOTE 4: OTHER EXPENSES

Depreciation and amortisation:					
Buildings	12	395	403	–	–
Motor vehicles	12	1,610	799	–	–
Plant and equipment	12	11,981	12,173	334	337
Leasehold improvements	12	735	654	36	29
Leased plant and equipment	12	110	95	–	–
Intangibles – development costs	13	853	691	213	214
		<b>15,684</b>	<b>14,815</b>	<b>583</b>	<b>580</b>
Amortisation of identifiable intangibles:					
Intangibles – brand names	13	3,116	3,057	–	–
Intangibles – patents and trademarks	13	414	412	–	–
Intangibles – lease premium	13	865	866	–	–
Intangibles – other	13	2,408	426	–	–
		<b>6,803</b>	<b>4,761</b>	<b>–</b>	<b>–</b>
<b>Total depreciation and amortisation</b>		<b>22,487</b>	<b>19,576</b>	<b>583</b>	<b>580</b>
Personnel expenses:					
Wages and salaries		155,885	108,817	6,405	5,794
Employee benefits		32,679	25,330	4,355	4,291
Equity-settled share-based payments		2,064	1,660	243	250
		<b>190,628</b>	<b>135,807</b>	<b>11,003</b>	<b>10,335</b>
Impairment loss on trade receivables		2,586	2,128	–	–
Operating lease rental expense		15,097	10,355	505	516
Gain on disposal of property, plant and equipment		62	635	–	161
(Loss) on disposal of property, plant and equipment		(2,406)	(646)	–	–
<b>Net gain/(loss) on disposal of property, plant and equipment</b>		<b>(2,344)</b>	<b>(11)</b>	<b>–</b>	<b>161</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 5: NET FINANCING (COSTS)/INCOME

	CONSOLIDATED		THE COMPANY	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Interest income:				
Cash and cash equivalents	2,200	1,310	231	144
Related parties	–	87	20,686	8,953
<b>Financial income</b>	<b>2,200</b>	<b>1,397</b>	<b>20,917</b>	<b>9,097</b>
Interest expense:				
Bank loans and overdraft	(28,202)	(17,395)	(46)	(34)
Finance charges on capitalised leases	(3)	(29)	–	–
<b>Financial expenses</b>	<b>(28,205)</b>	<b>(17,424)</b>	<b>(46)</b>	<b>(34)</b>
<b>Net financing (costs)/income</b>	<b>(26,005)</b>	<b>(16,027)</b>	<b>20,871</b>	<b>9,063</b>

### NOTE 6: SIGNIFICANT ITEMS

	CONSOLIDATED		THE COMPANY	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
<b>Business restructuring</b>				
Rationalisation of business operations	(10,131)	(5,822)	–	–
Related income tax expense	2,622	1,747	–	–
	(7,509)	(4,075)	–	–
<b>Surplus lease space</b>				
Provision for surplus lease space	–	1,251	–	–
Related income tax expense	–	(375)	–	–
		876	–	–
<b>Occupational Health and Safety (OH&amp;S)</b>				
Provision for costs associated with OH&S incidents	–	(1,144)	–	–
Related income tax expense	–	268	–	–
	–	(876)	–	–
<b>Loan forgiveness</b>				
Income received on inter-company loan forgiveness	–	–	100,000	55,000
Total significant items before income tax expense	(10,131)	(5,715)	100,000	55,000
Related income tax expense on significant items	2,622	1,640	–	–
Total significant items after income tax	(7,509)	(4,075)	100,000	55,000

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 7: INCOME TAX EXPENSE

	CONSOLIDATED		THE COMPANY	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
<b>Recognised in the income statement</b>				
Current tax expense:				
Current year	18,116	17,191	4,725	3,155
Adjustments for prior year	(176)	(641)	(229)	643
	17,940	16,550	4,496	3,798
Deferred tax expense:				
Origination and reversal of temporary differences	4,678	969	(1,098)	3,546
Total income tax expense/(income)	22,618	17,519	3,398	7,344
<b>Numerical reconciliation between tax expense and pre-tax net profit</b>				
Profit before tax	80,589	61,493	116,229	78,233
Prima facie income tax expense calculated at 30% (2007: 30%) on profit before tax				
	24,177	18,448	34,869	23,470
Increase/(decrease) in income tax expense due to:				
Amortisation of intangibles	1,797	1,183	–	–
Non-deductible expenses	152	91	11	5
Overseas tax rate differential	(88)	(254)	–	–
Research and development	(305)	(105)	–	–
Recovery of tax benefits not previously brought to account	(43)	(691)	–	–
Deemed interest deductions	–	–	(953)	(890)
Restatement of deferred tax asset	113	(483)	–	613
Non-assessable debt forgiveness	–	–	(30,000)	(16,500)
Tax cost base adjustments	(3,465)	–	(300)	–
Non-deductible capital loss	418	–	–	–
Sundry items	38	(29)	–	3
Income tax expense on operating profit	22,794	18,160	3,627	6,701
Income tax under/(over) provided in prior year	(176)	(641)	(229)	643
Significant tax items:				
Tax benefit from capital losses not previously brought to account	–	–	–	–
Gain from tax consolidation	–	–	–	–
Income tax expense/(income) attributable to pre-tax profit	22,618	17,519	3,398	7,344

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 8: RECEIVABLES

	CONSOLIDATED		THE COMPANY	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
<b>Current</b>				
Trade debtors	187,667	135,237	–	–
Trade debtor impairment losses	(6,255)	(4,414)	–	–
	181,412	130,823	–	–
Other debtors	7,763	1,988	231	38
	189,175	132,811	231	38
<b>Non-current</b>				
Other debtors	272	50	63	50
Loans to executive directors and employees	3,712	1,238	3,712	1,238
Loans to controlled entities	–	–	519,969	198,090
	3,984	1,288	523,744	199,378

The group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed at Note 31.

### NOTE 9: INVENTORIES

Finished goods at cost	141,659	115,775	–	–
Provision for obsolescence	(10,340)	(10,868)	–	–
	131,319	104,907	–	–
Raw materials at cost	21,374	22,044	–	–
Provision for obsolescence	(506)	(920)	–	–
	20,868	21,124	–	–
Work in progress at cost	2,802	2,916	–	–
	154,989	128,947	–	–

### NOTE 10: OTHER CURRENT ASSETS

Prepayments	5,185	5,801	633	758
Fair value derivatives	4,592	783	–	–
	9,777	6,584	633	758

The impact of interest rate and currency risk on the fair value of derivatives is disclosed at Note 31.

### NOTE 11: OTHER NON-CURRENT INVESTMENTS

<b>Investments in controlled entities</b>				
Unlisted shares at cost	–	–	393,721	393,517
<b>Investments in other entities</b>				
Unlisted shares and units	269	269	5	5
Impairment loss provision	(180)	(180)	–	–
	89	89	5	5
	89	89	393,726	393,522

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 12: PROPERTY, PLANT AND EQUIPMENT

	CONSOLIDATED		THE COMPANY	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Land and buildings:				
At cost	20,203	19,401	–	–
Accumulated depreciation	(3,025)	(2,640)	–	–
	17,178	16,761	–	–
Leasehold improvements:				
At cost	7,300	6,191	274	230
Accumulated amortisation	(4,010)	(3,328)	(95)	(60)
	3,290	2,863	179	170
Motor vehicles:				
At cost	15,746	8,641	–	–
Accumulated depreciation	(10,601)	(5,952)	–	–
	5,145	2,689	–	–
Plant and equipment:				
At cost	135,842	125,681	2,877	2,166
Accumulated depreciation and impairment losses	(85,913)	(82,046)	(2,186)	(1,852)
	49,929	43,635	691	314
Leased plant and equipment:				
At cost	3,305	3,902	–	–
Accumulated amortisation	(2,931)	(3,397)	–	–
	374	505	–	–
Capital works in progress at cost	13,939	15,960	7,471	6,820
Total property, plant and equipment net book value	89,855	82,413	8,341	7,304

#### Reconciliations – cost

Reconciliations of the movement in cost for each class of property, plant and equipment are set out below:

	CONSOLIDATED		THE COMPANY	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
<b>Land and buildings</b>				
Cost at beginning of year	19,401	19,972	–	568
Additions	759	–	–	–
Transfers from capital work in progress	66	–	–	–
Disposals	(23)	(571)	–	(568)
Cost at end of year	20,203	19,401	–	–
<b>Leasehold improvements</b>				
Cost at beginning of year	6,191	4,912	230	230
Additions	1,269	777	44	–
Acquisitions through entities and businesses acquired	289	560	–	–
Disposals	(272)	(127)	–	–
Transfers (to)/from capital work in progress and other asset categories	(74)	–	–	–
Translation differences	(103)	69	–	–
Cost at end of year	7,300	6,191	274	230

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 12: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

#### Reconciliations – cost (continued)

	CONSOLIDATED		THE COMPANY		
	2008	2007	2008	2007	
NOTE	\$000	\$000	\$000	\$000	
<b>Motor vehicles</b>					
Cost at beginning of year	8,641	8,719	–	–	
Additions	1,034	646	–	–	
Acquisitions through entities and businesses acquired	7,053	652	–	–	
Disposals	(1,226)	(1,115)	–	–	
Transfers (to)/from capital work in progress and other asset categories	367	(333)	–	–	
Translation differences	(123)	72	–	–	
Cost at end of year	15,746	8,641	–	–	
<b>Plant and equipment</b>					
Cost at beginning of year	125,681	100,470	2,166	1,907	
Additions	13,301	11,335	711	273	
Acquisitions through entities and businesses acquired	8,537	10,507	–	–	
Disposals	(15,193)	(5,498)	–	(14)	
Transfers (to)/from capital work in progress and other asset categories	4,676	7,454	–	–	
Intra-group transfers (to)/from other group companies	1,030	–	–	–	
Translation differences	(2,190)	1,413	–	–	
Cost at end of year	135,842	125,681	2,877	2,166	
<b>Leased plant and equipment</b>					
Cost at beginning of year	3,902	2,744	–	–	
Additions	99	–	–	–	
Acquisitions through entities and businesses acquired	–	562	–	–	
Disposals	–	(85)	–	–	
Transfers (to)/from other asset categories	(477)	566	–	–	
Translation differences	(219)	115	–	–	
Cost at end of year	3,305	3,902	–	–	
<b>Capital works in progress</b>					
Cost at beginning of year	15,960	7,116	6,820	2,882	
Additions	2,322	13,635	651	3,938	
Disposals	(658)	–	–	–	
Transfers to other asset categories	(3,612)	(4,803)	–	–	
Translation differences	(73)	12	–	–	
Cost at end of year	13,939	15,960	7,471	6,820	
<b>Reconciliations – accumulated depreciation</b>					
Reconciliations of the movement in accumulated depreciation for each class of property, plant and equipment are set out below:					
<b>Land and buildings</b>					
Accumulated depreciation at beginning of year		(2,640)	(2,372)	–	(132)
Depreciation expense	4	(395)	(403)	–	–
Disposals		10	135	–	132
Accumulated depreciation at end of year		(3,025)	(2,640)	–	–

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 12: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

#### Reconciliations – accumulated depreciation (continued)

	NOTE	CONSOLIDATED		THE COMPANY	
		2008 \$000	2007 \$000	2008 \$000	2007 \$000
<b>Leasehold improvements</b>					
Accumulated depreciation at beginning of year		(3,328)	(2,623)	(60)	(31)
Acquisitions through entities and businesses acquired		(119)	(64)	–	–
Disposals		88	60	–	–
Amortisation	4	(735)	(654)	(35)	(29)
Transfers to/(from) capital work in progress and other asset categories		3	–	–	–
Translation differences		81	(47)	–	–
Accumulated depreciation at end of year		(4,010)	(3,328)	(95)	(60)
<b>Motor vehicles</b>					
Accumulated depreciation at beginning of year		(5,952)	(5,933)	–	–
Acquisitions through entities and businesses acquired		(3,740)	(235)	–	–
Disposals		852	923	–	–
Depreciation	4	(1,610)	(799)	–	–
Transfers to/(from) capital work in progress and other asset categories		(230)	131	–	–
Translation differences		79	(39)	–	–
Accumulated depreciation at end of year		(10,601)	(5,952)	–	–
<b>Plant and equipment</b>					
Accumulated depreciation at beginning of year		(82,046)	(67,094)	(1,852)	(1,524)
Acquisitions through entities and businesses acquired		(5,447)	(4,178)	–	–
Disposals		12,324	3,907	–	9
Depreciation	4	(11,981)	(12,173)	(334)	(337)
Transfers to/(from) capital work in progress and other asset categories		(218)	(3,227)	–	–
Reversal of impairment write-down		–	1,706	–	–
Translation differences		1,455	(987)	–	–
Accumulated depreciation at end of year		(85,913)	(82,046)	(2,186)	(1,852)
<b>Leased plant and equipment</b>					
Accumulated amortisation at beginning of year		(3,397)	(2,744)	–	–
Acquisitions through entities and businesses acquired		–	(202)	–	–
Amortisation	4	(110)	(95)	–	–
Disposals		–	63	–	–
Transfers to/(from) capital work in progress and other asset categories		356	(304)	–	–
Translation differences		220	(115)	–	–
Accumulated amortisation at end of year		(2,931)	(3,397)	–	–

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 13: INTANGIBLE ASSETS

	CONSOLIDATED		THE COMPANY	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Brand names:				
At cost	109,281	91,196	–	–
Accumulated amortisation	(11,952)	(8,903)	–	–
	97,329	82,293	–	–
Patents and trademarks:				
At cost	7,923	7,469	–	–
Accumulated amortisation	(1,640)	(1,227)	–	–
	6,283	6,242	–	–
Agency agreements:				
At cost	7,288	7,288	–	–
	7,288	7,288	–	–
Other intangibles:				
At cost	15,333	1,591	–	–
Accumulated amortisation	(2,834)	(426)	–	–
	12,499	1,165	–	–
Development costs:				
At cost	9,104	7,916	689	689
Accumulated amortisation	(6,299)	(4,960)	(621)	(408)
	2,805	2,956	68	281
Lease premium:				
At cost	4,906	5,320	–	–
Accumulated amortisation	(4,156)	(3,621)	–	–
	750	1,699	–	–
Goodwill (net of impairment losses)	522,840	332,367	–	–
	649,794	434,010	68	281

#### Reconciliations – cost

Reconciliations of the movement in cost for each class of intangible asset are set out below:

	CONSOLIDATED		THE COMPANY	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
<b>Brand names</b>				
Cost at beginning of year	91,196	90,895	–	–
Acquisitions through entities and businesses acquired	1,194	–	–	–
Transfers from other asset categories	17,350	–	–	–
Translation differences	(459)	301	–	–
Cost at end of year	109,281	91,196	–	–
<b>Patents and trademarks</b>				
Cost at beginning of year	7,469	6,258	–	–
Acquisitions through entities and businesses acquired	464	1,205	–	–
Translation differences	(10)	6	–	–
Cost at end of year	7,923	7,469	–	–

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 13: INTANGIBLE ASSETS (CONTINUED)

#### Reconciliations – cost (continued)

	CONSOLIDATED		THE COMPANY	
	2008	2007	2008	2007
NOTE	\$000	\$000	\$000	\$000
<b>Agency agreements</b>				
Cost at beginning of year	7,288	–	–	–
Acquisitions through entities and businesses acquired	–	7,288	–	–
Cost at end of year	7,288	7,288	–	–
<b>Other intangibles</b>				
Cost at beginning of year	1,591	–	–	–
Additions	–	688	–	–
Acquisitions through entities and businesses acquired	1,100	837	–	–
Expenditure capitalised in current period	115	–	–	–
Transfers from other asset categories	12,527	66	–	–
Cost at end of year	15,333	1,591	–	–
<b>Development costs</b>				
Cost at beginning of year	7,916	7,673	689	689
Expenditure capitalised in current period	1,432	243	–	–
Disposals	(86)	(527)	–	–
Transfers (to)/from other asset categories	(72)	464	–	–
Translation differences	(86)	63	–	–
Cost at end of year	9,104	7,916	689	689
<b>Lease premium</b>				
Cost at beginning of year	5,320	5,048	–	–
Translation differences	(414)	272	–	–
Cost at end of year	4,906	5,320	–	–
<b>Goodwill</b>				
Cost at beginning of year	332,367	244,028	–	–
Additions	2,951	3,041	–	–
Acquisitions through entities and businesses acquired	223,805	87,880	–	–
Disposals	(1,432)	–	–	–
Reversal of deferred earn-out provisions	–	(5,628)	–	–
Transfers to other asset categories	(30,021)	–	–	–
Translation differences	(4,830)	3,046	–	–
Cost at end of year	522,840	332,367	–	–

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 13: INTANGIBLE ASSETS (CONTINUED)

#### Reconciliations – accumulated amortisation

Reconciliations of the movement in accumulated amortisation for each class of intangible asset are set out below:

	CONSOLIDATED		THE COMPANY	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
<b>Brand names</b>				
Accumulated amortisation at beginning of year	(8,903)	(5,821)	–	–
Amortisation	4 (3,116)	(3,057)	–	–
Translation differences	67	(25)	–	–
Accumulated amortisation at end of year	(11,952)	(8,903)	–	–
<b>Patents and trademarks</b>				
Accumulated amortisation at beginning of year	(1,227)	(807)	–	–
Amortisation	4 (414)	(412)	–	–
Translation differences	1	(8)	–	–
Accumulated amortisation at end of year	(1,640)	(1,227)	–	–
<b>Other intangibles</b>				
Accumulated amortisation at beginning of year	(426)	–	–	–
Amortisation	4 (2,408)	(426)	–	–
Accumulated amortisation at end of year	(2,834)	(426)	–	–
<b>Development costs</b>				
Accumulated amortisation at beginning of year	(4,960)	(4,622)	(408)	(225)
Amortisation	4 (853)	(691)	(213)	(214)
Disposals	85	372	–	–
Transfers to/(from) other asset categories	(641)	15	–	31
Translation differences	70	(34)	–	–
Accumulated amortisation at end of year	(6,299)	(4,960)	(621)	(408)
<b>Lease premium</b>				
Accumulated amortisation at beginning of year	(3,621)	(2,594)	–	–
Amortisation	4 (865)	(866)	–	–
Translation differences	330	(161)	–	–
Accumulated amortisation at end of year	(4,156)	(3,621)	–	–

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 13: INTANGIBLE ASSETS (CONTINUED)

#### Amortisation

Amortisation has been recognised in the "Administration and general expenses" line in the income statement.

#### Impairment tests for cash-generating units containing intangibles with indefinite useful lives

The carrying amounts of intangible assets with indefinite useful lives and all other intangibles with finite useful lives are allocated to cash-generating units ("CGUs") as follows:

CONSOLIDATED	INDEFINITE USEFUL LIFE			FINITE USEFUL LIFE	TOTAL INTANGIBLES
	GOODWILL \$000	BRANDS \$000	TOTAL \$000	TOTAL \$000	TOTAL \$000
Garage Door & Openers	120,407	53,500	173,907	23,013	196,920
Parchem Construction Supplies	46,492	9,500	55,992	2,505	58,497
Lincoln Group	34,929	16,175	51,104	7,684	58,788
Robinhood	9,365	–	9,365	930	10,295
Parbury – Australia	22,651	–	22,651	474	23,125
Scientific & Medical	64,459	–	64,459	12,309	76,768
Total Eden McCrackens	216,881	–	216,881	–	216,881
	515,184	79,175	594,359	46,915	641,274
Multiple units without significant goodwill	7,656	–	7,656	864	8,520
	522,840	79,175	602,015	47,779	649,794

Certain brand names have been determined as maintaining an indefinite useful life as they operate in markets where they are positioned as premium brands, command high margins and hold a strong market presence. Brands include B&D, Concrete Technologies, Flextool, and other brands under the Lincoln Group.

This year, the Garage Doors & Openers division is viewed as the appropriate level of CGU to assess impairment, due to the restructure of operations whereby the Australian and New Zealand business units are now viewed and managed as one operation.

In the financial years 2007 and 2008, the recoverable amounts of all the Group's CGUs were determined based upon a value-in-use basis.

#### Key assumptions used for value-in-use calculations

##### Value-in-use

The cash-generating unit impairment tests are based on value-in-use calculations, using discounted cash flow projections based on actual operating results, the budgets and three-year strategic plans, approved by the Board and updated where appropriate. For the financial year ending 2009, management has used the 2009 financial budget approved by the Board. For the financial years ended 2010 and 2011, the projections from the three-year strategic plan have been used. The assumptions are generally consistent with past performance or are based upon current industry views of future market activity or are based upon current industry views of future market activity.

##### Growth Rates

Cash flows have been extrapolated over periods consistent with useful lives of intangibles with finite useful lives in each cash-generating unit. Growth rates used were generally determined by factors such as industry sector, the market to which the CGU is dedicated, the size of the business, geographic location, past performance and other industry factors. The growth rates used to extrapolate cash flows beyond the current period covered by the recent financial budgets and three-year strategic plans were between 2.5% and 3.5% and do not exceed the long-term average growth rates for the markets to which the assets are dedicated.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 13: INTANGIBLE ASSETS (CONTINUED)

#### Growth Rates (continued)

	CONSOLIDATED
	GROWTH RATES
	%
Garage Doors & Openers	3.5
Parchem Construction Supplies	3.0
Lincoln Group	3.5
Robinhood	2.5
Parbury – Australia	3.0
Scientific & Medical	3.0
Total Eden McCrackens	3.5

#### Discount rate

A pre-tax discount rate determined by reference to the Group's weighted average cost of capital has been used in discounting the projected cash flows. A pre-tax discount rate of 12.3% (2007:10%) was used.

#### Impact of possible change in assumptions

With regard to the assessment of the value-in-use of the CGUs, management has conducted sensitivity analysis on the effect of a change in the respective key assumptions on the carrying value of each CGU or group of CGUs.

For all but two CGUs, the excess of the recoverable amount over the carrying amount for intangible assets with indefinite useful lives was significant and changing assumptions would not cause any impairment write-downs. The aggregate amount of that excess for the divisions other than Garage Doors & Openers and Robinhood is \$524,814,000.

Two CGUs (Garage Doors & Openers and Robinhood) would be subject to impairment on the basis of a reasonably possible change in key assumptions.

For the Garage Doors & Openers group of CGUs, the excess of the carrying amount over recoverable amount for intangible assets with indefinite useful lives was \$7,406,000 using a growth rate of 3.5% and a pre-tax discount rate of 12.3%. The amount the growth rate key assumption must change (decrease), after incorporating the consequential effects of that change on the other variables used to measure recoverable amount, in order for the group of CGU's recoverable amount to equal its carrying amount is 0.2%. The amount the discount rate key assumption must change (increase), after incorporating the consequential effects of that change on the other variables used to measure recoverable amount, in order for the group of units' recoverable amount to equal its carrying amount is 0.2%.

For the Robinhood CGU, the excess of the carrying amount over recoverable amount for intangible assets with indefinite useful lives was \$2,841,000. Management used conservative cash flows when undertaking the value-in-use calculations due to uncertainty in the New Zealand housing market and the New Zealand economy in general. The amount the base year cash flow key assumption must change (decrease), after incorporating the consequential effects of that change on the other variables used to measure recoverable amount, in order for the group of units' recoverable amount to equal its carrying amount is \$2.2 million.

Management will continue to monitor key assumptions against actual outcomes.

#### Impairment

During the year ended 31 May 2008, the Group determined that there is no impairment of any of its cash-generating units containing goodwill or intangible assets with indefinite useful lives.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 14: DEFERRED TAX ASSETS AND LIABILITIES

	CONSOLIDATED		THE COMPANY	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
RECOGNISED DEFERRED TAX ASSETS/(LIABILITIES)				
Property, plant and equipment	(1,909)	505	–	–
Provisions	2,323	6,974	30	621
Employee benefits	8,890	6,559	866	648
Receivables	1,899	1,324	–	–
Inventories	3,196	3,536	–	–
Accruals not yet deductible	2,466	2,471	624	603
Unrealised foreign exchange gains	784	(2,552)	1,071	(659)
Derivatives	(1,378)	(235)	–	–
Lease premium	772	738	–	–
Tax value of loss carry-forwards recognised	135	872	–	–
Deductible capital raising costs	1,551	–	1,551	–
Net deferred tax asset	18,729	20,192	4,142	1,213

### NOTE 15: OTHER NON-CURRENT ASSETS

	NOTE	CONSOLIDATED		THE COMPANY	
		2008 \$000	2007 \$000	2008 \$000	2007 \$000
Other prepayments - executive directors and employees	25	975	1,812	975	1,812
		975	1,812	975	1,812

### NOTE 16: PAYABLES

	CONSOLIDATED		THE COMPANY	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
<b>Current</b>				
Trade creditors	116,282	89,427	2,314	2,826
Other creditors and accruals	33,126	25,283	1,700	1,841
	149,408	114,710	4,014	4,667

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 17: INTEREST-BEARING LOANS AND BORROWINGS

	NOTE	CONSOLIDATED		THE COMPANY	
		2008 \$000	2007 \$000	2008 \$000	2007 \$000
<b>Current</b>					
Bank loans – unsecured		–	19,800	–	–
Finance lease liabilities	26	453	192	–	–
Other borrowings		–	374	–	–
		453	20,366	–	–
<b>Non-current</b>					
Bank loans – unsecured		320,549	281,112	–	–
Finance lease liabilities	26	345	221	–	–
Other borrowings		346	832	–	–
Loans from controlled entities		–	–	320,991	300,507
		321,240	282,165	320,991	300,507
<b>Financing facilities</b>					
Total facilities available:					
Bank overdrafts		3,000	3,000	–	–
Bank loans		410,000	380,000	–	–
Standby letters of credit		6,000	6,000	–	–
		419,000	389,000	–	–
Facilities utilised at reporting date:					
Bank overdrafts		1,787	635	–	–
Bank loans		320,549	300,912	–	–
Standby letters of credit		–	–	–	–
		332,336	301,547	–	–
Facilities not utilised at reporting date:					
Bank overdrafts		1,213	2,365	–	–
Bank loans		89,451	79,088	–	–
Standby letters of credit		6,000	6,000	–	–
		96,664	87,453	–	–

### Financing arrangements

#### Bank overdrafts

The bank overdrafts of the Company and its controlled entities are subject to annual review. Interest is charged at prevailing market rates. The weighted average interest rate for all overdrafts as at 31 May 2008 is 11.6% (2007: 10.1%).

#### Bank loans

Bank loans are denominated in Australian and New Zealand dollars. The weighted average interest rate for bank loans at 31 May 2008 is 7.53% (2007: 6.74%). The impact of interest rate swaps is detailed in Note 31. Bank loans are repayable between one and four years.

#### Standby letter of credit

The standby letter of credit facility is a committed facility and is subject to annual review. Interest is payable at the bank bill rate plus the Company's credit margin.

#### Non-cash financing activities

During the year the Company issued 703,409 (2007: 611,650) ordinary fully paid shares under the dividend reinvestment plan in satisfaction of dividend amounts of \$8,136,747 (2007: \$6,455,339).

#### Security

The facilities provided to the Group by its principal bankers are unsecured but subject to certain financial covenants.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 17: INTEREST-BEARING LOANS AND BORROWINGS (CONTINUED)

#### Terms and debt repayment schedule

The terms and conditions of outstanding loans were as follows:

	CONSOLIDATED CARRYING AMOUNT		CONSOLIDATED NET FAIR VALUE	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Variable interest debt <sup>1</sup>	320,549	300,912	320,549	300,912
Finance lease liabilities <sup>2</sup>	798	413	798	413
Other borrowings <sup>3</sup>	346	1,206	346	1,206

<sup>1</sup> The total variable interest debt comprises New Zealand dollar debt and Australian dollar debt with their nominal interest rates ranging from 7.6% to 9.9% (2007: 6.4% to 8.4%) and a 3 year maturity (2007: 1 – 3 years).

<sup>2</sup> Finance lease liabilities are in Australian dollars with nominal interest rates ranging from 4.2% to 12.0% (2007: 3.4% to 8.2%). Years of maturity range from 4 to 10 years (2007: 4 to 10 years).

<sup>3</sup> Other borrowings represent hire purchase liabilities, are in Australian dollars with nominal interest rates ranging from 6.7% to 7.8% (2007: 5.2% - 6.8%). Years of maturity range from 3 to 10 years (2007: 3 to 10 years).

The Company does not have any outstanding loans as at 31 May 2008 (2007: nil).

The impact of interest rate risk on the fair value of derivatives is disclosed at note 31.

### NOTE 18: CURRENT TAX LIABILITIES

The current tax liability for the Group of \$6,215,000 (2007: \$5,435,000) and for the Company of \$5,412,000 (2007: \$4,445,000) represents the amount of income tax payable in respect of current and prior periods.

In accordance with the tax consolidation legislation, the Company as the head entity in the Australian tax-consolidated group has assumed the current tax liability/asset initially recognised by the members in the tax-consolidated group.

### NOTE 19: PROVISIONS

	CONSOLIDATED		THE COMPANY	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
<b>Current</b>				
Employee benefits	26,135	20,356	2,733	2,558
Restructuring	–	4,281	–	–
Warranties	1,571	2,155	–	–
Surplus leased premises	148	2,954	–	1,084
Deferred earn-out	11,574	7,651	–	–
Other	727	2,096	100	748
	40,155	39,493	2,833	4,390
<b>Non-current</b>				
Employee benefits	4,105	3,421	153	165
Restructuring	–	–	–	–
Surplus leased premises	–	1,819	–	–
Lease make-good	2,398	2,727	–	217
Lease straight-lining	1,534	1,191	–	–
Deferred earn-out	200	758	–	–
Other	422	450	–	–
	8,659	10,366	153	382

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 19: PROVISIONS (CONTINUED)

#### Reconciliations

Reconciliations of the carrying amounts for each class of provision, except for employee benefits, are set out below:

	CONSOLIDATED		THE COMPANY	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
<b>Restructuring (current)</b>				
Carrying amount at beginning of year	4,281	10,510	–	1,898
Provisions made during the year	–	6,443	–	–
Provisions used during the year	(4,281)	(14,147)	–	(414)
Provisions reversed during the year	–	(1,525)	–	(1,484)
Transfers from non-current provisions	–	3,000	–	–
Carrying amount at end of year	–	4,281	–	–
<b>Warranties (current)</b>				
Carrying amount at beginning of year	2,155	2,510	–	–
Increase through acquisition of entities and businesses	3	–	–	–
Provisions made during the year	184	681	–	–
Provisions reversed during the year	(250)	–	–	–
Provisions used during the year	(494)	(1,104)	–	–
Translation differences	(27)	68	–	–
Carrying amount at end of year	1,571	2,155	–	–
<b>Surplus leased premises (current)</b>				
Carrying amount at beginning of year	2,954	673	1,084	135
Provisions made during the year	80	3,922	–	1,049
Provisions used during the year	(1,828)	(1,333)	(984)	–
Provisions reversed during the year	(1,058)	(1,351)	–	(100)
Transfers from non-current provisions	–	1,043	(100)	–
Carrying amount at end of year	148	2,954	–	1,084
<b>Deferred earn-out (current)</b>				
Carrying amount at beginning of year	7,651	2,358	–	–
Increase through acquisition of entities and businesses	–	6,140	–	–
Provisions made during the year	10,100	1,511	–	–
Provisions used during the year	(6,635)	(1,233)	–	–
Provisions reversed during the year	–	(1,125)	–	–
Transfers from non-current provisions	458	–	–	–
Carrying amount at end of year	11,574	7,651	–	–
<b>Other provisions (current)</b>				
Carrying amount at beginning of year	2,096	1,428	748	1,079
Increase through acquisition of entities and businesses	365	663	–	–
Provisions made during the year	1,399	1,295	–	958
Provisions used during the year	(1,961)	(214)	(648)	(214)
Provisions reversed during the year	(1,172)	(1,076)	–	(1,075)
Carrying amount at end of year	727	2,096	100	748

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 19: PROVISIONS (CONTINUED)

#### Reconciliations (continued)

	CONSOLIDATED		THE COMPANY	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
<b>Restructuring (non-current)</b>				
Carrying amount at beginning of year	–	3,000	–	–
Transfers to current provision	–	(3,000)	–	–
Carrying amount at end of year	–	–	–	–
<b>Surplus leased premises (non-current)</b>				
Carrying amount at beginning of year	1,819	2,437	–	–
Increase through acquisition of entities and businesses	–	429	–	–
Provisions made during the year	–	1,390	–	–
Provisions reversed during the year	(429)	–	–	–
Provisions used during the year	(1,390)	(1,394)	–	–
Transfers to current provision	–	(1,043)	–	–
Carrying amount at end of year	–	1,819	–	–
<b>Lease make-good (non-current)</b>				
Carrying amount at beginning of year	2,727	2,794	217	205
Increase through acquisition of entities and businesses	724	233	–	–
Provisions made during the year	229	215	–	12
Provisions reversed during the year	(1,282)	(515)	(217)	–
Carrying amount at end of year	2,398	2,727	–	217
<b>Lease straight-lining (non-current)</b>				
Carrying amount at beginning of year	1,191	–	–	–
Increase through acquisition of entities and businesses	24	676	–	–
Provisions made during the year	525	515	–	–
Provisions reversed during the year	(206)	–	–	–
Carrying amount at end of year	1,534	1,191	–	–
<b>Deferred earn-out (non-current)</b>				
Carrying amount at beginning of year	758	6,344	–	–
Increase through acquisition of entities and businesses	–	758	–	–
Provisions used during the year	–	(1,000)	–	–
Provisions reversed during the year	(100)	(5,344)	–	–
Transfers to current provision	(458)	–	–	–
Carrying amount at end of year	200	758	–	–
<b>Other provisions (non-current)</b>				
Carrying amount at beginning of year	450	–	–	–
Provisions (used)/made during the year	(28)	450	–	–
Carrying amount at end of year	422	450	–	–

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 20: ISSUED CAPITAL

	THE COMPANY		THE COMPANY	
	2008 SHARES	2007 SHARES	2008 \$000	2007 \$000
<b>Share capital</b>				
Ordinary shares, fully paid	90,577,876	71,155,650	504,664	265,365
<b>Ordinary shares – movements during the year</b>				
Balance at beginning of year	71,155,650	70,405,129	265,365	256,736
Shares issued:				
• as part of dividend reinvestment plan	703,409	611,650	8,137	6,455
Associated transaction costs			(10)	(18)
• shares issued for institutional placement and entitlement	15,525,801	–	198,730	–
Associated transaction costs			(4,577)	–
• shares granted for consideration under vendor management plan	2,597,084	–	31,919	–
• shares granted for no consideration under the employee and management share plans	171,344	77,911	1,127	763
• shares issued for consideration under the employee share plans	66,526	48,248	751	477
• shares issued for consideration under the management share plans	14,221	12,712	160	125
• value attributable to shares purchased on-market under the management share plans and not yet vested	–	–	–	(543)
• shares issued for no consideration under the management share plans	343,841	–	1,996	–
• value attributable to management share plan shares vested during the year (previously recognised in share equity reserve)	–	–	1,066	1,370
Balance at end of year	90,577,876	71,155,650	504,664	265,365

#### Terms and conditions

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. In the event of winding up of the Company, ordinary shareholders rank after creditors and are fully entitled to any proceeds of liquidation.

#### Capital management

The consolidated entity's and the parent entity's overall strategic capital management objective is to:

- safeguard the consolidated entity's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- provide optimal capital structure to reduce the cost of capital;
- maintain a strong/conservative capital base so as to maintain creditor and market confidence and to sustain future development of the business;
- maintain a conservative funding structure which provides sufficient flexibility to fund the operational demands of the business and to underwrite any strategic opportunities; and
- manage capital to ensure sufficient buffer over and beyond any banking covenants.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 20: ISSUED CAPITAL (CONTINUED)

#### Capital management (continued)

The consolidated entity monitors the return on capital, which the consolidated entity defines as net operating income divided by total shareholders' equity. The consolidated entity's target is for all divisions to achieve a return on average net operating assets of 20% over the medium-term. During the year, the return on average net operating assets was 14.5% (2007: 15.7%).

Returns on capital fluctuate according to prevailing economic circumstances and, in particular, the level of merger and acquisition activity the consolidated entity undertakes and the mix of debt and equity used to fund the consolidated entity.

The consolidated entity monitors capital with reference to having an optimal level of gearing. The level of gearing is measured by reference to the net debt gearing ratio which is calculated as net debt divided by total capital. Net debt is calculated as total interest bearing financial assets and liabilities less cash and cash equivalents. Total capital is calculated as equity as shown in the balance sheet plus net debt.

During the year the consolidated entity strategy was to maintain the net debt gearing ratio in a target band of 40% to 50%.

The consolidated entity also monitors the level of dividends to ordinary shareholders.

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to the shareholders, return capital to shareholders or issues new shares.

The consolidated entity's capital management objectives will be effected through:

- an ongoing flow of fully franked dividends, which subject to the consolidated entity's franking ability and ongoing profitability will be on an annually progressive basis; and
- from time to time, on-market purchases mitigate the dilutionary impact of share issues which would be otherwise necessary to satisfy obligations under employee share-based remuneration plans as they crystallise.

The consolidated entity expects to continue the payment of fully franked dividends on an ongoing basis subject to its overall earnings performance, prevailing economic circumstances, alternative demands on funds or alternative more effective capital management opportunities becoming available.

The Board of directors and management review the Capital Management Policy on a periodic basis and implement initiatives which are deemed appropriate in the environment existing at that time. External consultants and advisers are used as required to determine the appropriate capital structure for the consolidated entity and advise on other capital management related items. There were no changes to the consolidated entity's approach to capital management during the year.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 21: RESERVES

	CONSOLIDATED		THE COMPANY	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Foreign currency translation reserve	1,833	2,766	–	–
Hedging reserve	3,214	607	–	–
Share equity reserve	4,725	903	774	903
	9,772	4,276	774	903
<b>Movements during the year:</b>				
<b>Foreign currency translation reserve</b>				
Balance at beginning of year	2,766	2,090	–	–
Net translation adjustment	(933)	676	–	–
Balance at end of year	1,833	2,766	–	–
<b>Hedging reserve</b>				
Balance at beginning of year	607	311	–	–
Total recognised income and expense	2,607	296	–	–
Balance at end of year	3,214	607	–	–
<b>Share equity reserve</b>				
Balance at beginning of year	903	1,376	903	1,376
Employee share-based payments	937	897	–	897
Deferred earn-out	3,951	–	–	–
Employee shares vested during the year	(1,066)	(1,370)	(129)	(1,370)
Balance at end of year	4,725	903	774	903

### Nature and purpose of reserves

#### Foreign currency translation

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where their functional currency is different to the presentation currency of the reporting entity as well as from the translation of liabilities that hedge the Company's net investment in a foreign subsidiary. Refer to accounting policy Note 1(d).

#### Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

#### Share equity

The share equity reserve relates to shares issued, and held on trust, associated with the Group's equity compensation plans that have not vested at the reporting date. The fair value of the shares is expensed over the vesting period and credited to this reserve. The reserve will reverse against share capital when the underlying shares vest in the employee.

### NOTE 22: RETAINED EARNINGS

	NOTE	CONSOLIDATED		THE COMPANY	
		2008 \$000	2007 \$000	2008 \$000	2007 \$000
Balance at beginning of year		74,813	72,164	28,978	(586)
Net profit attributable to members of the parent entity		57,971	43,974	112,831	70,889
Dividends	23	(53,588)	(41,325)	(53,588)	(41,325)
Balance at end of year		79,196	74,813	88,221	28,978

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 23: DIVIDENDS

Dividends recognised in the current year by the Company are:

	CENTS PER SHARE	TOTAL AMOUNT \$000	DATE OF PAYMENT	FRANKED/ UNFRANKED
<b>2008</b>				
Interim 2008 ordinary	31.0	27,960	4 March 2008	Franked
Final 2007 ordinary	36.0	25,628	3 September 2007	Franked
Total amount		53,588		
<b>2007</b>				
Interim 2007 ordinary	27.5	19,499	2 March 2007	Franked
Final 2006 ordinary	31.0	21,826	31 August 2006	Franked
Total amount		41,325		

Franked dividends declared or paid during the year were franked at the tax rate of 30%.

After 31 May 2008, the following dividends were proposed by the directors for 2008. The dividends have not been provided for. The declaration and subsequent payment of dividends have no income tax consequences.

	CENTS PER SHARE	TOTAL AMOUNT \$000	DATE OF PAYMENT	FRANKED/ UNFRANKED
Final 2008 ordinary	36.0	32,608	1 September 2008	Franked

The financial effect of the dividend declared subsequent to reporting date has not been brought to account in the financial statements for the year ended 31 May 2008 and will be recognised in subsequent financial reports.

#### Dividend reinvestment plan

Shareholders participating in the Dividend Reinvestment Plan ("Plan") are entitled on each dividend payment to be allotted the number of ordinary shares (rounded to the nearest whole number) which the cash dividend on Plan shares in the relevant shareholding account would purchase at the issue price. To participate in the Plan, eligible shareholders must complete a Notice of Dividend Election where participation commences on a date nominated by the directors and is effective as regards the first dividend payment made following such nomination after receipt by the Company of the Notice of Dividend Election, provided it is received before the book closing date for that dividend. All administrative costs are met by the Company. The Company's Dividend Reinvestment Plan is currently in operation at a nil discount to market. The last date for receipt of election notices for the Plan is 18 August 2008.

#### Dividend franking account

	THE COMPANY	
	2008	2007
	\$000	\$000
30% franking credits available to shareholders of Alesco Corporation Limited for subsequent financial years	43,983	38,880

The above available amounts are based on the balance of the dividend franking account at year-end adjusted for:

- franking credits that will arise from payment of the current tax liabilities;
- franking debits that will arise from the payment of dividends recognised as a liability at the year-end; and
- franking credits that the entity may be prevented from distributing in subsequent years.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends. The impact on the dividend franking account of the dividend proposed subsequent to year-end but not recognised as a liability is to reduce it by \$13,975,000 (2007: \$10,978,000). In accordance with the tax consolidation legislation, the Company as the head entity in the tax-consolidated group has assumed all franking credits from all entities within the tax-consolidated group.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 24: AUDITORS' REMUNERATION

	CONSOLIDATED		THE COMPANY	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>Audit services (Auditors of the Company)</b>				
KPMG Australia:				
Audit and review of financial reports	720,953	662,900	144,000	121,100
Overseas KPMG firms:				
Audit and review of financial reports	171,797	260,923	–	–
	<b>892,750</b>	<b>923,823</b>	<b>144,000</b>	<b>121,100</b>
<b>Other services (Auditors of the Company)</b>				
KPMG Australia:				
Taxation services	90,840	186,450	90,840	186,450
Other services	199,675	–	–	–
Overseas KPMG firms:				
Taxation services	209,650	51,646	–	–
	<b>500,165</b>	<b>238,096</b>	<b>90,840</b>	<b>186,450</b>

### NOTE 25: EMPLOYEE BENEFITS

#### Superannuation funds

The Company and its controlled entities contribute to defined contribution superannuation funds.

The amount recognised as an expense within the Group during the year was \$11,761,055 (2007: \$7,910,253).

The amount recognised as an expense in the Company during the year was \$563,767 (2007: \$464,274).

#### Directors' retirement scheme

The Board resolved to discontinue the accrual of retirement benefit entitlements for non-executive directors effective from 31 May 2004 as it was the Board's belief that replacing future retirement benefits with the payment of additional directors' fees would achieve greater certainty and transparency for shareholders. Non-executive directors retain their entitlement to any retirement benefits accrued up to 31 May 2004.

The Alesco Directors' Retirement Scheme provided retiring non-executive directors with the following benefits:

- more than six years' service – a lump sum amount equal to their last three years' remuneration;
- between three and six years' service – an equivalent proportion of their last three years' remuneration; and
- less than three years' service – nil.

The Company's liability for directors retirement benefits of \$400,483 (2007: \$400,483) is calculated based on the number of years service provided at the reporting date. This amount has been included in employee benefits of the Company.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 25: EMPLOYEE BENEFITS (CONTINUED)

#### Equity-based plans

Alesco operates share plans for its employees and executives. These plans have been approved by shareholders, most recently at the 2005 and 2006 Annual General Meetings.

The fair value of shares issued during the reporting period at their issue date is the volume weighted average market price of the shares of the Company listed on the Australian Stock Exchange in the five days up to and including the allocation date. Shares issued under the plans rank equally with other fully paid ordinary shares but are subject to certain trading restrictions for a period of time. Participation in the plans is voluntary.

#### Employee share plans

Under the Alesco Employee Share Plan (AESP) all eligible employees may acquire up to \$1,000 worth of ordinary shares in the Company, subject to rounding. Eligible employees within the Group (other than employees resident and working in New Zealand) can receive the first \$500 worth of shares for no consideration. Eligible employees can also elect to take up an additional number of shares up to the value of \$500. Where such an election is made, the eligible employees' salary or wages are reduced by an equivalent amount over the 12 months following the allocation date.

The AESP complies with current Australian tax legislation, enabling employees to have up to \$1,000 of shares, in respect of an employee share scheme, excluded from their assessable income.

The New Zealand Employee Share Plan (AESPNZ) was designed to mirror the AESP to the extent permitted under NZ law. Any differences are due to statutory requirements of relevant New Zealand legislation. Alesco New Zealand Trustee Limited, a subsidiary of Alesco Corporation Limited, is the trustee appointed to administer the AESPNZ plan and holds shares for New Zealand employee participants.

Eligible employees in New Zealand can acquire up to NZ\$2,340 worth of ordinary shares in the Company over a three-year period, at a discount of up to 95% of the market value of shares. The discount is determined by the Board and was set at 95% for the issue made during the reporting period. This limit has been set in accordance with currently available tax concessions to employees under New Zealand law.

Eligible employees include all full-time and part-time employees who are employed by an entity in the Group as at the allocation date. The shares cannot be sold, transferred, or otherwise disposed of, until the earlier of three years from the allocation date or when the employee is no longer employed by an entity within the Group.

#### Management share plans

The Alesco management share plans enable eligible senior management the opportunity to receive part of their potential remuneration in shares in the Company ("remuneration shares") and to apply for shares which are allocated to them at the discretion of the Board on the satisfaction of specific performance conditions ("incentive shares"). Remuneration shares cannot be sold, transferred, or otherwise disposed of, until they have been paid for in full or when the employee is no longer employed by an entity within the Group. Incentive shares cannot be sold, transferred, or otherwise disposed of, until the relevant performance conditions attaching to those shares have been satisfied. Currently, the performance condition attached to incentive shares issued to date is that the earnings per share growth (before amortisation of intangibles and significant items) for the Group is equal to or exceeds 5%, compounded annually over the three financial years subsequent to the grant date. The trustee also has the discretion to waive performance conditions.

In order to purchase shares under the New Zealand Management Share Plan (AMSPNZ), the New Zealand company of which the manager is an employee is required to make an interest-free loan on behalf of the manager to the plan trustee. The plan trustee then applies these funds to acquire Alesco shares on behalf of the New Zealand participating managers.

The shares issued by the management share plans are either issued or acquired on-market and are held by a trustee on trust for the participant for up to a maximum period of 10 years.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 25: EMPLOYEE BENEFITS (CONTINUED)

#### Executive share acquisition plan

The Company has established the Alesco Performance Share Acquisition Plan ("Plan") for its most senior executives. Under the Plan, interest-free loans will be provided to key senior executives to fund the acquisition of ordinary fully paid shares in the Company. Senior executives are entitled to receive interest-free loans with full recourse from the Company to fund the purchase of shares in the entity. These interest-free loans have a term of up to 10 years, or earlier in the case of senior executive termination.

Eligible employees receiving loans to purchase shares are the registered owners of the shares from the date they are purchased or issued and have the right to vote and receive cash from dividends to meet their individual tax liability on the dividends. The balance of the dividends is used to repay the loans. A holding lock is placed on these shares to prevent sale until the respective loan has been repaid in full to the entity.

Awards may be earned based on the Company's the Company's compound annual growth rate in earnings per share (before amortisation of intangibles and significant items) over a three-year period (EPS Growth). The maximum award allowed under the Plan is currently 53.5% of the loan to eligible employees. Awards will be earned by senior executives in the form of either cash bonuses (used to pay down the outstanding loan) or loan waivers.

The size of the annual acquisition of shares and therefore loans is calculated by the base salary package of the eligible employee multiplied by the stretch long-term incentive target, divided by the prevailing share price of the entity at the date of issue.

During the year ended 31 May 2008, the Group extended loans to eligible employees under the Plan for an amount of \$3,172,000 (31 May 2007: \$3,050,000).

Information regarding loans extended to eligible employees during the year is provided in the Remuneration Report section of the Directors' Report on pages 31 to 40.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

FOR THE YEAR ENDED 31 MAY 2008

**NOTE 25: EMPLOYEE BENEFITS (CONTINUED)**

**Equity-based plans (continued)**

**Summary of share plan movements**

Shares issued, distributed and forfeited during the year were made at varied dates throughout the year. A summary of share movements in the employee share plans are as follows:

SHARE PLAN	GRANT DATE	OPENING BALANCE		ISSUED DURING THE YEAR		DISTRIBUTIONS DURING THE YEAR		FORFEITED DURING THE YEAR		CLOSING BALANCE	
		NO.	\$	NO.	\$	NO.	\$	NO.	\$	NO.	\$
<b>Employee share plans – 2008</b>											
AESP	12 Oct 04	64,298	–	–	13.21	(64,165)	13.20	(133)	13.20	–	–
AESPHK	12 Oct 04	2,522	–	–	13.20	(2,522)	–	–	–	–	–
AESPNZ	12 Oct 04	21,079	–	–	13.23	(21,079)	–	–	–	–	–
AESP	2 Nov 05	63,502	–	–	11.47	(7,343)	–	–	–	56,159	438,040
AESPHK	2 Nov 05	2,668	–	–	–	–	–	–	–	2,668	20,810
AESPNZ	2 Nov 05	26,135	–	–	11.42	(5,858)	–	–	–	20,277	158,161
AESP	1 Nov 06	83,346	8.90	101	11.55	(11,535)	–	–	–	71,912	560,914
AESPHK	1 Nov 06	1,700	–	–	13.81	(50)	–	–	–	1,650	12,870
AESPNZ	1 Nov 06	28,128	–	–	11.39	(6,053)	–	–	–	22,075	172,185
AESP	1 Nov 07	–	10.85	135,079	9.42	(7,621)	10.76	(748)	10.76	126,710	988,338
AESPHK	1 Nov 07	–	10.85	1,804	–	–	–	–	–	1,804	14,071
AESPNZ	1 Nov 07	–	10.85	27,543	9.46	(2,482)	–	–	–	25,061	195,476
		293,378		164,527		(128,708)		(881)		328,316	2,560,865

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

FOR THE YEAR ENDED 31 MAY 2008

**NOTE 25: EMPLOYEE BENEFITS (CONTINUED)**

**Equity-based plans (continued)**

**Summary of share plan movements (continued)**

SHARE PLAN	GRANT DATE	OPENING BALANCE		ISSUED DURING THE YEAR		DISTRIBUTIONS DURING THE YEAR		FORFEITED DURING THE YEAR		CLOSING BALANCE		FAIR VALUE AGGREGATE \$
		NO.	\$	NO.	\$	NO.	\$	NO.	\$	NO.	\$	
<b>Employee share plans – 2007</b>												
AESP	31 Oct 03	46,940		191	9.66	(47,131)	9.80	–	–	–	–	–
AESP NZ	31 Oct 03	26,386		–	–	(26,386)	9.74	–	–	–	–	–
AESP	12 Oct 04	74,574		133	9.05	(10,409)	11.06	–	–	64,298	964,470	
AESPHK	12 Oct 04	2,654		–	–	(132)	8.74	–	–	2,522	37,830	
AESP NZ	12 Oct 04	24,998		–	–	(3,919)	10.37	–	–	21,079	316,185	
AESP	2 Nov 05	74,373		116	9.05	(10,987)	11.09	–	–	63,502	952,530	
AESPHK	2 Nov 05	2,900		–	–	(232)	8.74	–	–	2,668	40,020	
AESP NZ	2 Nov 05	32,469		–	–	(6,218)	10.30	(116)	8.49	26,135	392,025	
AESP	1 Nov 06	–		91,530	9.88	(8,184)	12.56	–	–	83,346	1,250,190	
AESPHK	1 Nov 06	–		1,900	9.88	(200)	12.08	–	–	1,700	25,500	
AESP NZ	1 Nov 06	–		30,052	9.88	(1,924)	12.30	–	–	28,128	421,920	
		285,294		123,922		(115,722)		(116)		293,378	4,400,670	

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

FOR THE YEAR ENDED 31 MAY 2008

**NOTE 25: EMPLOYEE BENEFITS (CONTINUED)**

**Equity-based plans (continued)**

**Summary of share plan movements (continued)**

SHARE PLAN	GRANT DATE	OPENING BALANCE		ISSUED DURING THE YEAR		DISTRIBUTIONS DURING THE YEAR		FORFEITED DURING THE YEAR		CLOSING BALANCE		
		NO.	\$	NO.	\$	NO.	\$	NO.	\$	NO.	\$	
<b>Management share plans – 2008</b>												
AMSP	30 Jan 03	9,100	–	–	10.20	(1,000)	–	–	–	8,100	63,180	
AMSP	7 Mar 03	3,121	–	–	–	–	–	–	–	3,121	24,344	
AMSP	26 Sep 03	40,000	–	–	12.95	(40,000)	–	–	–	–	–	
AMSP	31 Oct 03	28,350	–	–	10.34	(7,128)	–	–	–	21,222	165,532	
AMSPNZ	31 Oct 03	373	–	–	–	–	–	–	–	373	2,909	
AMSP	2 Feb 04	33,368	–	–	9.10	(1,611)	–	–	–	31,757	247,705	
AMSP	8 Sep 04	4,100	–	–	–	–	–	–	–	4,100	31,980	
AMSP	12 Oct 04	159,335	–	–	10.65	(41,475)	(7,000)	–	–	110,860	864,708	
AMSPHK	12 Oct 04	2,066	–	–	–	–	–	–	–	2,066	16,115	
AMSPNZ	12 Oct 04	8,832	–	–	10.50	(1,633)	(500)	–	–	6,699	52,252	
AMSP	11 Aug 05	5,300	–	–	–	–	–	–	–	5,300	41,340	
AMSP	18 Aug 05	5,200	–	–	–	–	–	–	–	5,200	40,560	
AMSP	2 Nov 05	123,469	8.75	84	10.96	(3,142)	(16,500)	–	–	103,911	810,506	
AMSPHK	2 Nov 05	1,000	–	–	–	–	–	–	–	1,000	7,800	
AMSPNZ	2 Nov 05	12,281	–	–	12.03	(232)	(2,500)	–	–	9,549	74,482	
AMSP	2 Nov 06	84,694	–	–	11.05	(2,129)	(9,700)	–	–	72,865	568,347	
AMSPHK	2 Nov 06	1,300	–	–	–	–	–	–	–	1,300	10,140	
AMSPNZ	2 Nov 06	14,008	–	–	10.05	(555)	(6,600)	–	–	6,853	53,453	
AMSP	12 Feb 07	5,555	–	–	10.05	(555)	(4,000)	–	–	1,000	7,800	
AMSP	28 Mar 07	20,000	–	–	–	–	–	–	–	20,000	156,000	
AMSP	1 Jun 07	–	14.56	10,000	–	–	–	–	–	10,000	78,000	
AMSP	1 Nov 07	–	10.84	66,320	–	–	(5,300)	–	–	61,020	475,956	
AMSP	1 Nov 07	–	10.85	15,458	10.31	(1,380)	–	–	–	14,078	109,808	
AMSPHK	1 Nov 07	–	10.85	1,300	–	–	–	–	–	1,300	10,140	
AMSPNZ	1 Nov 07	–	10.85	10,850	–	–	(4,300)	–	–	6,550	51,090	
AMSPNZ	1 Nov 07	–	10.85	1,723	10.50	(176)	(177)	–	–	1,370	10,686	
		561,452		105,735		(101,016)		(56,577)		509,594	3,974,833	

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

FOR THE YEAR ENDED 31 MAY 2008

**NOTE 25: EMPLOYEE BENEFITS (CONTINUED)**

**Equity-based plans (continued)**

**Summary of share plan movements (continued)**

SHARE PLAN	GRANT DATE	OPENING BALANCE		ISSUED DURING THE YEAR		DISTRIBUTIONS DURING THE YEAR		FORFEITED DURING THE YEAR		CLOSING BALANCE		
		NO.	\$	NO.	FAIR VALUE PER SHARE \$	NO.	FAIR VALUE PER SHARE \$	NO.	FAIR VALUE PER SHARE \$	NO.	FAIR VALUE AGGREGATE \$	
<b>Management share plans – 2007</b>												
AMSP	30 Jan 03	18,700	–	–	10.06	(9,600)	–	–	–	9,100	136,500	
AMSP	7 Mar 03	5,590	–	–	11.74	(2,469)	–	–	–	3,121	46,815	
AMSP	26 Sep 03	120,000	–	–	9.13	(80,000)	–	–	–	40,000	600,000	
AMSP	30 Oct 03	20,000	–	–	8.90	(20,000)	–	–	–	–	–	
AMSP	31 Oct 03	53,980	–	–	11.50	(25,630)	–	–	–	28,350	425,250	
AMSP	2 Feb 04	33,368	–	–	–	–	–	–	–	33,368	500,520	
AMSPNZ	31 Oct 03	14,300	–	–	12.56	(9,927)	–	(4,000)	9.56	373	5,595	
AMSP	8 Sep 04	4,100	–	–	–	–	–	–	–	4,100	61,500	
AMSP	12 Oct 04	200,061	9.66	–	11.12	(25,859)	–	(16,000)	12.25	159,335	2,390,025	
AMSPHK	12 Oct 04	2,066	–	–	–	–	–	–	–	2,066	30,990	
AMSPNZ	12 Oct 04	12,451	–	–	11.22	(1,119)	–	(2,500)	9.56	8,832	132,480	
AMSP	11 Aug 05	5,300	–	–	–	–	–	–	–	5,300	79,500	
AMSP	18 Aug 05	5,200	–	–	–	–	–	–	–	5,200	78,000	
AMSP	2 Nov 05	133,167	9.66	–	12.24	(314)	–	(11,500)	11.77	123,469	1,852,035	
AMSPHK	2 Nov 05	1,000	–	–	–	–	–	–	–	1,000	15,000	
AMSPNZ	2 Nov 05	17,058	–	–	9.99	(277)	–	(4,500)	10.34	12,281	184,215	
AMSP	2 Nov 06	–	9.88	–	11.73	(101)	–	(5,800)	12.53	84,694	1,270,410	
AMSPHK	2 Nov 06	–	9.88	–	–	–	–	–	–	1,300	19,500	
AMSPNZ	2 Nov 06	–	9.88	–	–	–	–	–	–	14,008	210,120	
AMSP	12 Feb 07	–	12.67	–	–	–	–	–	–	5,555	83,325	
AMSP	28 Mar 07	–	12.44	–	–	–	–	–	–	20,000	300,000	
		646,341		134,707		(175,296)		(44,300)		561,452	8,421,780	

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 26: COMMITMENTS AND CONTINGENT LIABILITIES

The estimated maximum amount of commitments and contingent liabilities not provided for in the financial statements is set out below:

	CONSOLIDATED		THE COMPANY	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
<b>Capital expenditure commitments</b>				
Plant and equipment contracted but not provided for and payable within one year	1,907	1,462	–	–
<b>Non-cancellable operating lease expense commitments</b>				
Future operating lease commitments not provided for in the financial statements and payable:				
within one year	22,169	20,376	971	292
later than one year but within five years	46,868	35,175	2,906	316
later than five years	12,464	9,836	–	–
	<b>81,501</b>	<b>65,387</b>	<b>3,877</b>	<b>608</b>

The Group leases property, plant and equipment under non-cancellable operating leases expiring in one to thirteen years. Leases generally provide the Group with a right of renewal at which time all terms are renegotiated. Lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals are based on either movements in the Consumer Price Index or operating criteria.

	NOTE	CONSOLIDATED		THE COMPANY	
		2008	2007	2008	2007
		\$000	\$000	\$000	\$000
<b>Finance lease payment commitments</b>					
Finance lease commitments are payable:					
within one year		489	138	–	–
later than one year but within five years		351	311	–	–
		<b>840</b>	<b>449</b>	<b>–</b>	<b>–</b>
Future lease finance charges		(42)	(36)	–	–
		<b>798</b>	<b>413</b>	<b>–</b>	<b>–</b>
Lease liabilities provided for in the financial statements:					
Current	17	453	192	–	–
Non-current	17	345	221	–	–
<b>Total lease liabilities</b>		<b>798</b>	<b>413</b>	<b>–</b>	<b>–</b>

The Group leases plant and equipment under finance leases expiring within one to two years. At the end of the lease term, the Group has the option to purchase the equipment at a residual market value.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 26: COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

#### Contingent liabilities

In the ordinary course of business, the Company is involved as a defendant in legal proceedings. Where appropriate, the Company takes legal advice. The Group does not consider that the outcome of any current proceedings is likely to have a material effect on its operations or financial position. A liability has been recognised for any known losses expected to be incurred where such losses are capable of reliable measurement.

The directors are of the opinion that provisions are not required in respect of the following matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

	CONSOLIDATED		THE COMPANY	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000

#### Contingent liabilities considered remote:

##### Guarantees

Under the terms of a Deed of Cross Guarantee (Deed) described in Note 27, the Company has guaranteed the repayment of all current and future creditors in the event any of the entities party to the Deed is wound up.

No deficiency in net assets exists in these companies at reporting date

Benefits payable to Chief Executive Officer under service agreements, where terminated prior to the conclusion of the contract

The Company has guaranteed payments to creditors of controlled entities

The Company has guaranteed bank facilities of certain controlled entities

	–	–	–	–
	2,000	1,360	2,000	1,360
	–	–	1,700	8,333
	–	–	413,000	383,000

### NOTE 27: DEED OF CROSS GUARANTEE

Pursuant to ASIC Class Order 98/1418 (as amended), a number of wholly-owned controlled entities as listed below are relieved from the *Corporations Act 2001* requirements for preparation, audit and lodgement of financial reports and Directors' Report.

It is a condition of the class order that the Company and each of the controlled entities enter into a Deed of Cross Guarantee ("Deed"). The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up any of the controlled entities under certain provisions of the *Corporations Act 2001*. If a winding up occurs under other provisions of the *Corporations Act 2001*, the Company will only be liable in the event that after six months any creditor has not been paid in full. The controlled entities have also given similar guarantees in the event that the Company is wound up.

The controlled entities subject to the Deed are:

- Alesco Finance Pty Limited
- Alesco No. 1 Pty Limited
- Alesco No. 2 Pty Limited
- Alesco Holdings Pty Limited
- Automatic Technology (Australia) Pty Limited
- B&D Australia Pty Limited
- Biolab (Aust) Pty Limited
- Capricorn Stockhorses Pty Limited
- Concrete Technologies Pty Limited
- Flextool (Aust) Pty Limited
- Lincoln Sentry Group Pty Limited
- Marathon Tyres Pty Limited
- McCracken's Water Services Pty Limited
- Paludal Pty Limited
- Parbury Pty Limited
- Pargone Pty Limited
- Parchem Construction Products Pty Limited
- Plastic Plumbing Supplies Pty Limited
- Promedica Pty Limited
- Total Eden Holdings Pty Limited
- Total Eden Watering Systems Pty Limited

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 27: DEED OF CROSS GUARANTEE (CONTINUED)

A consolidated income statement and consolidated balance sheet, comprising the Company and controlled entities which are a party to the Deed, after eliminating all transactions between parties to the Deed is as follows:

	CONSOLIDATED	
	2008	2007
	\$000	\$000
<b>Summarised income statement and retained earnings</b>		
Profit before related income tax expense	70,263	62,848
Income tax expense	(19,674)	(17,629)
Profit after related income tax expense	50,589	45,219
Retained profits at beginning of year	77,570	73,676
Dividends recognised during the year	(53,588)	(41,325)
Retained profits at end of year	74,571	77,570
<b>Balance sheet</b>		
Cash and cash equivalents	–	7,086
Receivables	165,830	115,814
Inventories	130,541	110,861
Other	9,320	6,110
<b>Total current assets</b>	<b>305,691</b>	<b>239,871</b>
Receivables	72,095	72,520
Investments in equity accounted investees	485	509
Other investments	6,707	36,285
Property, plant and equipment	77,989	71,085
Intangible assets	578,179	364,173
Deferred tax assets	16,055	15,260
Other	975	1,812
<b>Total non-current assets</b>	<b>752,485</b>	<b>561,644</b>
<b>Total assets</b>	<b>1,058,176</b>	<b>801,515</b>
Bank overdraft	198	–
Payables	128,148	100,989
Interest-bearing loans and borrowings	453	20,366
Current tax liabilities	9,066	7,332
Provisions	36,414	37,043
<b>Total current liabilities</b>	<b>174,279</b>	<b>165,730</b>
Interest-bearing loans and borrowings	321,240	282,165
Provisions	8,195	10,333
<b>Total non-current liabilities</b>	<b>329,435</b>	<b>292,498</b>
<b>Total liabilities</b>	<b>503,714</b>	<b>458,228</b>
<b>Net assets</b>	<b>554,462</b>	<b>343,287</b>
Issued capital	468,463	265,365
Reserves	11,428	352
Retained earnings	74,571	77,570
<b>Total equity</b>	<b>554,462</b>	<b>343,287</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 28: CONTROLLED ENTITIES

#### (a) Particulars in relation to controlled entities

	NOTE	ORDINARY SHARE CONSOLIDATED EQUITY INTEREST	
		2008 %	2007 %
<b>Parent entity</b>			
Alesco Corporation Limited			
<b>Controlled entities</b>			
Alesco Finance Pty Limited		100	100
Alesco HK Limited	(i)	100	100
Finac Pty Limited		100	100
Alesco No. 2 Pty Limited		100	100
Alesco No. 1 Pty Limited		100	100
Marathon Tyres Pty Limited		100	100
Marathon Tyres (WA) Pty Limited		100	100
Pargone Pty Limited		100	100
Parbury Pty Limited		100	100
Dekorform Pty Limited		100	100
Parchem Construction Products Pty Limited		100	100
Robinhood Australia Pty Limited		100	100
Lincoln Sentry Group Pty Limited		100	100
Joinery Products Hardware Supplies Pty Limited	(ii)	100	—
Biolab (Aust) Pty Limited		100	100
Promedica Pty Limited		100	100
EnviroEquip Pty Limited		100	100
Technology Design Solutions Pty Limited	(viii)	100	100
App-Tek Pty Limited		100	100
App-Tek Safety Pty Limited		100	100
App-Tek Victoria Pty Limited		100	100
Alesco Holdings Pty Limited		100	100
Total Eden Holdings Pty Limited	(iii)	100	—
Total Eden Watering Systems Pty Limited	(iii)	100	—
Elegant Landscapes Pty Limited	(iii)	100	—
Hydro Engineering Pty Limited	(iii)	100	—
Diamond Industrial Tools (WA) Pty Limited	(iii)	100	—
Capricorn Stockhorses Pty Limited	(iii)	100	—
McCracken's Water Services Pty Limited	(iii)	100	—
McCracken's Water Services (Townsville) Pty Limited	(iii)	100	—
McCracken's Water Services (East Gippsland) Pty Limited	(iii)	100	—
McCracken's Water Services (Melbourne) Pty Limited	(iii)	100	—
McCracken's Water Services (SEQ) Pty Limited	(iii)	100	—
McCracken's Water Services (Bomaderry) Pty Limited	(iii)	100	—

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 28: CONTROLLED ENTITIES (CONTINUED)

#### (a) Particulars in relation to controlled entities (continued)

	NOTE	ORDINARY SHARE CONSOLIDATED EQUITY INTEREST	
		2008 %	2007 %
McCracken's Water Services (Cairns) Pty Limited	(iii)	100	—
McCracken's Water Services (Mareeba) Pty Limited	(iii)	100	—
J De Wit and Associates Pty Limited	(iii)	100	—
Pump N Power Pty Limited	(iii)	100	—
Central Air & Water Pty Limited	(iii)	100	—
Leewall Pty Limited	(iii)	100	—
PC & Ridgeway & Co Pty Limited	(iii)	100	—
Paludal Pty Limited	(iii)	100	—
PPS Properties Pty Limited	(iii)	100	—
Plastic Plumbing Supplies Pty Limited	(iii)	100	—
Plastic Pipe Australia Pty Limited	(iii)	100	—
B&D Australia Pty Limited		100	100
Automatic Technology (Australia) Pty Limited		100	100
ATA Garage Door Openers Limited	(iv)	100	100
Counter mast Limited	(i)	100	100
Lux-a-Door Pty Limited	(v)	50	50
Concrete Technologies Pty Ltd		100	100
ACN 115 087 191 Pty Limited		100	100
ACN 109 245 990 Pty Limited		100	100
ACN 105 525 380 Pty Limited		100	100
ACN 054 640 274 Pty Limited		100	100
ACN 060 126 025 Pty Limited		100	100
ACN 086 371 851 Pty Limited		100	100
ACN 061 800 548 Pty Limited		100	100
Flextool (Aust) Pty Limited		100	100
Alesco NZ Limited	(vi)	100	100
Alesco NZ Trustee Limited	(vi)	100	100
Biolab Limited	(vi)	100	100
Robinhood Limited	(vi)	100	100
Supertub Limited	(vi)	100	100
Easyiron Limited	(vi)	100	100
Parbury Buildings Products (NZ) Limited	(vi)	100	100
Concrete Plus Limited	(vi)	100	100
Lincoln Sentry Group NZ Limited	(vi),(vii)	100	100
B&D Doors (NZ) Limited	(vi)	100	100

(i) Incorporated and carries on business in Hong Kong.

(ii) Acquired on 3 August 2007.

(iii) Acquired on 1 August 2007.

(iv) Incorporated and carries on business in the United Kingdom.

(v) Incorporated and carries on business in South Africa.

(vi) Incorporated and carries on business in New Zealand.

(vii) Acquired by Alesco NZ Limited on 1 June 2007. Previously owned by Lincoln Sentry Group Pty Limited.

(viii) Technology Design Solutions Pty Limited previously known App-Tek Pty Limited.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 28: CONTROLLED ENTITIES (continued)

#### (b) Acquisition of controlled entities and businesses

##### Acquisition of Total Eden Holdings Pty Ltd

The consolidated entity acquired 100% of the voting shares of Total Eden Holdings Pty Limited on 1 August 2007, for a purchase price of \$140,160,000 (excluding assumed debt of \$85,889,000). Total Eden Holdings Pty Limited is the head entity of the Total Eden McCracken's group. Total Eden McCracken's is a leading provider of water management products and services to Australia's agricultural, commercial, industrial, domestic and mining industries. This acquisition forms the Water Products & Services segment.

During the period to 31 May 2008, the Total Eden McCracken's group contributed earnings before interest and tax of \$20,171,000. The consolidated entity has not disclosed the revenue and net profit as if the acquisition had occurred on 1 June 2007 due to dissimilar accounting policies and reporting periods of the acquired entities making it impractical to do so.

The acquisition of the Total Eden McCracken's group had the following effect on the consolidated entity's assets and liabilities:

	CONSOLIDATED		
	PRE-ACQUISITION CARRYING AMOUNTS \$000	FAIR VALUE ADJUSTMENTS \$000	RECOGNISED VALUES ON ACQUISITION \$000
Cash and cash equivalents	1,764	–	1,764
Receivables	29,956	(2,402)	27,554
Inventories	24,652	(3,005)	21,647
Other assets	1,380	(170)	1,210
Property, plant and equipment	6,911	(1,360)	5,551
Deferred tax assets	1,450	2,918	4,368
Intangible assets	144	(144)	–
Payables	(26,487)	(2,410)	(28,897)
Current tax liabilities	(3,275)	114	(3,161)
Provisions	(4,567)	(551)	(5,118)
Interest-bearing loans and borrowings	(85,889)	–	(85,889)
Net identifiable assets and liabilities	(53,961)	(7,010)	(60,971)
Goodwill on acquisition			215,082
Deferred consideration			(13,951)
Equity consideration			(31,917)
Consideration paid, satisfied in cash			108,243
Cash acquired			(1,764)
Net cash outflow			106,479

The goodwill recognised on the acquisition of the Total Eden McCracken's group is mainly attributable to the skills and technical talent of the acquired business work-force and strong market presence of the acquired business products and brands.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 28: CONTROLLED ENTITIES (continued)

#### (b) Acquisition of controlled entities and businesses (continued)

##### Acquisitions of other entities/businesses

On 3 August 2007, the consolidated entity acquired 100% of the voting shares of Joinery Products Hardware Supplies Pty Limited, a leading supplier of hardware accessories to door and window manufacturers for a purchase price of \$9,072,000 (excluding assumed debt of \$2,110,000).

The consolidated entity also acquired the business assets of BladeTec Tool Company Limited on 31 July 2007, a specialist supplier of concrete cutting and grinding equipment and consumables in New Zealand, for a purchase price of \$1,331,000.

In addition, the consolidated entity acquired certain business assets from Hugall & Hoile (Aust) Pty Limited and associated businesses on 7 August 2007, for a purchase price of \$1,675,000. The consolidated entity acquired certain business assets from KP Pumps & Irrigation Pty Limited on 2 November 2007, for a purchase price of \$1,899,000. These businesses supply water management products and services in Australia.

The business assets of Nu-tech Australia Pty Limited were acquired by the consolidated entity on 1 February 2008, for a purchase price of \$1,372,000. This business distributes gas detection and other safety and environmental monitoring products in Australia.

On 8 April 2008, the consolidated entity acquired the right to distribute vertical wire and glass balustrade systems from Balustrades Australia Pty Limited, for a purchase price of \$601,000.

During the year ended 31 May 2008, acquisition of these controlled entities and businesses contributed earnings before interest and tax of approximately \$994,000. Alesco Corporation Limited has not disclosed the revenue and net profit as if these acquisitions had occurred on 1 June 2007 due to dissimilar accounting policies and reporting periods of the acquired entities making it impractical to do so.

The above acquisitions, in aggregate, had the following effect on the consolidated entity's assets and liabilities:

	CONSOLIDATED		
	PRE-ACQUISITION CARRYING AMOUNTS \$000	FAIR VALUE ADJUSTMENTS \$000	RECOGNISED VALUES ON ACQUISITION \$000
Cash and cash equivalents	26	–	26
Receivables	3,413	12	3,425
Inventories	5,354	(75)	5,279
Other assets	68	–	68
Property, plant and equipment	1,047	(24)	1,023
Deferred tax assets	130	–	130
Intangible assets	2,757	–	2,757
Payables	(2,861)	38	(2,823)
Provisions	(488)	(62)	(550)
Interest-bearing loans and borrowings	(2,110)	–	(2,110)
Net identifiable assets and liabilities	7,336	(111)	7,225
Goodwill on acquisition			8,725
Consideration paid, satisfied in cash			15,950
Cash acquired			(26)
Net cash outflow			15,924

The goodwill recognised on the above acquisitions is mainly attributable to the skills and technical talent of the acquired business work-force, strong market presence of the acquired businesses' products and brands, and synergies expected to be achieved from integrating the companies into the consolidated entity's existing Functional & Decorative, Scientific & Medical, Water Products & Services and Construction & Mining segments.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 28: CONTROLLED ENTITIES (CONTINUED)

#### (b) Acquisition of controlled entities and businesses (continued)

Details of prior period acquisitions of entities/businesses are as follows:

	CONSOLIDATED		
	PRE- ACQUISITION CARRYING AMOUNTS	FAIR VALUE ADJUSTMENTS	RECOGNISED VALUES ON ACQUISITION
	\$000	\$000	\$000
Cash and cash equivalents	3,983	–	3,983
Receivables	30,863	(101)	30,762
Inventories	33,765	(375)	33,390
Other assets	1,228	41	1,269
Property, plant and equipment	7,884	(283)	7,601
Deferred tax assets	955	1,741	2,696
Intangible assets	1,948	7,382	9,330
Payables	(19,399)	(165)	(19,564)
Current tax liabilities	(504)	(140)	(644)
Provisions	(5,525)	(4,354)	(9,879)
Interest-bearing loans and borrowings	(27,102)	–	(27,102)
Net identifiable assets and liabilities	28,096	3,746	31,842
Goodwill on acquisition			87,881
Deferred consideration			(6,897)
Consideration paid, satisfied in cash			112,826
Cash acquired			(3,983)
Net cash outflow			108,843

Goodwill recognised on the above acquisitions is attributable mainly to the skills and technical talent of the acquired business workforce and synergies expected to be achieved from integrating the Company into the Group's existing businesses.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 29: INVESTMENTS IN EQUITY ACCOUNTED INVESTEEES

NAME	PRINCIPAL ACTIVITIES	REPORTING DATE	ORDINARY SHARE OWNERSHIP INTEREST		INVESTMENT CARRYING AMOUNT	
			2008 %	2007 %	2008 \$000	2007 \$000
Lux-a-Door Pty Limited	Manufacturing	30 June	50	50	485	509

#### Results of joint venture entities

The Group's share of the joint venture entity's results consists of:

	CONSOLIDATED	
	2008 \$000	2007 \$000
<b>Results of joint venture entities</b>		
The Group's share of the joint venture entity's results consists of:		
Revenues	1,865	2,309
Expenses	(1,726)	(2,063)
Profit before income tax expense	139	246
Income tax expense	(46)	(73)
Net profit – accounted for using the equity method	93	173

#### Balance sheet

The Group's share of the joint venture entity's assets and liabilities consists of:

Current assets	915	1,102
Non-current assets	243	100
Total assets	1,158	1,202
Current liabilities	(179)	(241)
Non-current liabilities	(494)	(452)
Total liabilities	(673)	(693)
Net assets – accounted for using the equity method	485	509

#### Share of post-acquisition retained profits

Share of retained profits at beginning of year	385	212
Share of net result	93	173
Share of retained profits at end of year	478	385

#### Movements in carrying amount of investment

Carrying amount at beginning of year	509	480
Foreign currency translation	(117)	(144)
Share of net result	93	173
Carrying amount at end of year	485	509

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 30: SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal structure.

Inter-segment pricing is determined on an arm's-length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated and elimination items mainly comprise corporate entities and elimination adjustments. Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

#### Business segments

The Group comprises the following main business segments, based on the Group's management reporting system:

Garage Doors & Openers	Garage doors and openers.
Functional & Decorative Products	Home building and renovation products to the kitchen, laundry and bathroom markets.
Construction & Mining	Concrete products including construction chemicals, decorative concrete and associated equipment, specialised construction chemicals, earthmoving and heavy duty industrial tyres.
Scientific & Medical	Scientific and medical consumables and equipment for laboratory, environmental and research markets.
Water Products & Services	Water management products and services to agricultural, industrial, commercial, domestic and mining industries.

#### Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

The Group's business segments operate predominantly in Australia and New Zealand.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

FOR THE YEAR ENDED 31 MAY 2008

**NOTE 30: SEGMENT REPORTING (CONTINUED)**

	GARAGE DOORS & OPENERS		FUNCTIONAL & DECORATIVE PRODUCTS		CONSTRUCTION & MINING		SCIENTIFIC & MEDICAL		WATER PRODUCTS & SERVICES		UNALLOCATED & ELIMINATIONS		CONSOLIDATED	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
PRIMARY REPORTING BUSINESS SEGMENTS	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>Revenue</b>														
Revenue from sale of goods	193,809	193,346	312,051	192,829	184,269	174,831	152,370	141,109	165,341	—	—	—	1,007,840	702,115
Revenue from rendering of services	13,037	11,523	—	—	12,926	15,464	9,005	8,235	23,918	—	—	—	58,886	35,222
Other income	895	455	650	143	1,750	227	490	—	465	—	77	26	4,327	851
External segment revenue	207,741	205,324	312,701	192,972	198,945	190,522	161,865	149,344	189,724	—	77	26	1,071,053	738,188
Inter-segment revenue	—	323	—	—	63	—	606	996	—	—	(669)	(1,319)	—	—
<b>Total revenue</b>	<b>207,741</b>	<b>205,647</b>	<b>312,701</b>	<b>192,972</b>	<b>199,008</b>	<b>190,522</b>	<b>162,471</b>	<b>150,340</b>	<b>189,724</b>	<b>—</b>	<b>(592)</b>	<b>(1,293)</b>	<b>1,071,053</b>	<b>738,188</b>
<b>Result</b>														
EBITDA (pre-significant items and share of associates' net profit)	30,981	36,052	41,345	27,950	30,404	27,595	21,743	18,807	21,635	—	(6,990)	(7,766)	139,118	102,638
Share of associates' net profit	93	173	—	—	—	—	—	—	—	—	—	—	93	173
EBITDA (pre-significant items)	31,074	36,225	41,345	27,950	30,404	27,595	21,743	18,807	21,635	—	(6,990)	(7,766)	139,211	102,811
Depreciation	(4,577)	(6,013)	(4,981)	(4,629)	(2,476)	(2,384)	(1,458)	(1,209)	(1,408)	—	(783)	(580)	(15,683)	(14,815)
<b>EBITA (pre-significant items)</b>	<b>26,497</b>	<b>30,212</b>	<b>36,364</b>	<b>23,321</b>	<b>27,928</b>	<b>25,211</b>	<b>20,285</b>	<b>17,598</b>	<b>20,227</b>	<b>—</b>	<b>(7,773)</b>	<b>(8,346)</b>	<b>123,528</b>	<b>87,996</b>
Amortisation of identifiable intangibles	(3,516)	(3,472)	(2,398)	(1,289)	(442)	—	(391)	—	(56)	—	—	—	(6,803)	(4,761)
Significant items	(7,966)	—	(2,165)	(5,715)	—	—	—	—	—	—	—	—	(10,131)	(5,715)
<b>EBIT</b>	<b>15,015</b>	<b>26,740</b>	<b>31,801</b>	<b>16,317</b>	<b>27,486</b>	<b>25,211</b>	<b>19,894</b>	<b>17,598</b>	<b>20,171</b>	<b>—</b>	<b>(7,773)</b>	<b>(8,346)</b>	<b>106,594</b>	<b>77,520</b>
Net financing costs													(26,005)	(16,027)
<b>Profit before income taxes</b>													<b>80,589</b>	<b>61,493</b>
Income tax expense													(22,618)	(17,519)
<b>Profit for the year</b>													<b>57,971</b>	<b>43,974</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

FOR THE YEAR ENDED 31 MAY 2008

**NOTE 30: SEGMENT REPORTING (CONTINUED)**

	DOORS & OPENERS		FUNCTIONAL & DECORATIVE PRODUCTS		CONSTRUCTION & MINING		SCIENTIFIC & MEDICAL		WATER PRODUCTS & SERVICES		UNALLOCATED & ELIMINATIONS		CONSOLIDATED	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
BUSINESS SEGMENTS (CONTINUED)	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Capital expenditure	3,526	13,462	5,333	3,942	5,049	3,860	1,336	1,359	2,381	—	2,492	4,013	20,117	26,636
Segment assets	177,365	313,189	147,876	183,782	131,632	145,816	101,415	126,215	296,752	—	264,237	47,478	1,119,277	816,480
Investment in equity accounted investees	485	509	—	—	—	—	—	—	—	—	—	—	485	509
	177,850	313,698	147,876	183,782	131,632	145,816	101,415	126,215	296,752	—	264,237	47,478	1,119,762	816,989
Segment liabilities	74,314	93,348	94,569	96,368	81,254	88,265	20,952	21,632	282,630	—	(27,589)	172,922	526,130	472,535

	AUSTRALIA		NEW ZEALAND		CONSOLIDATED	
	2008	2007	2008	2007	2008	2007
SECONDARY REPORTING GEOGRAPHICAL SEGMENTS	\$000	\$000	\$000	\$000	\$000	\$000
External revenue by location of customers	963,626	633,122	107,427	105,066	1,071,053	738,188
Segment assets by location of assets	973,357	657,999	146,405	158,990	1,119,762	816,989
Capital expenditure	17,221	24,066	2,896	2,570	20,117	26,636

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 31: FINANCIAL INSTRUMENTS

The Group is exposed to a variety of financial risks in the normal course of its business activities. This includes credit risk, liquidity risk and market risk. The Group's overall risk management strategy focuses on minimising potential adverse affects on the Group's financial performance.

The Board of directors has overall responsibility for the establishment and oversight of the Group's financial risk management framework. The Treasury Department is responsible for developing and monitoring the Group's financial risk management policies and procedures. The Treasury Department reports regularly to the Board of directors.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risk and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which employees understand their roles and obligations.

The Group Audit & Compliance Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit & Compliance Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit & Compliance Committee.

#### (a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and derivative financial instruments.

To manage this risk, the Group has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. Transactions involving derivative financial instruments are with counterparties with sound credit ratings. Given their high credit ratings, the Group does not expect any counterparty to fail to meet its obligations.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet. In respect to those financial assets and the credit risk embodied within them, the Group holds no significant collateral as security and there are no other significant credit enhancements in respect of these assets. The credit quality of all financial assets that are neither past due nor impaired is appropriate and is consistently monitored in order to identify any potential adverse changes in the credit quality. There are no significant financial assets that have had renegotiated terms that would otherwise, without that renegotiation, have been past due or impaired.

#### Trade and other receivables

The Group's exposure to credit risk is mainly influenced by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, has less of an influence on credit risk. There is no concentration for credit risk in relation to specific customers or geographically.

The Group has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, where available, and in some cases bank references. Purchase limits are established for each customer which represents the maximum open amount without requiring the approval from corporate management; these limits are reviewed quarterly. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only a prepayment basis.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, whether they are a wholesale or retail customer, geographic location, industry, ageing profile, maturity and existence of previous financial difficulties. Trade and other receivables relate mainly to the Group's wholesale customers. Customers who are graded as "high risk" are placed on

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 31: FINANCIAL INSTRUMENTS (CONTINUED)

#### (a) Credit risk (continued)

##### Trade and other receivables (continued)

a restricted customer list, and future sales are made on a prepayment basis with the approval of senior management.

Goods are sold subject to retention of title clauses, so that in the event of non-payment the Group may have a secured claim. The Group does not require collateral in respect of trade and other receivables.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

##### Guarantees

The Group's policy is to provide financial guarantees only to wholly-owned subsidiaries. At 31 May 2008 no guarantees were outstanding (31 May 2007: none).

##### Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk as at the reporting date was:

	CONSOLIDATED		THE COMPANY	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Trade and other receivables	193,159	134,099	523,975	199,416
Cash and cash equivalents	1,910	8,334	–	6,000
Interest rate swaps	5,354	2,044	–	–
	200,423	144,477	523,975	205,416

The maximum exposure to credit risk for trade receivables carrying amount as at the reporting date by geographic region was:

	CONSOLIDATED		THE COMPANY	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Australia	171,972	117,899	–	–
New Zealand	13,548	15,185	–	–
Other	2,147	2,153	–	–
	187,667	135,237	–	–

The maximum exposure to credit risk for trade receivables carrying amount at the reporting date by type of customer was:

	CONSOLIDATED		THE COMPANY	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Doors & Openers	23,653	23,798	–	–
Functional & Decorative products	59,561	53,889	–	–
Construction & Mining	32,006	31,102	–	–
Scientific & Medical	31,143	26,448	–	–
Water Products & Services	41,304	–	–	–
	187,667	135,237	–	–

The Group does not have any significant customers.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 31: FINANCIAL INSTRUMENTS (CONTINUED)

#### (a) Credit risk (continued)

##### impairment losses

The ageing of gross trade receivables at the reporting date was:

	CONSOLIDATED		THE COMPANY	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Not past due	112,465	88,676	—	—
Past due 0-30 days	56,472	34,961	—	—
Past due 31-60 days	8,353	5,922	—	—
Past due 61-90 days	6,606	3,055	—	—
Past due 91-365 days	3,152	2,424	—	—
More than one year	619	199	—	—
	<b>187,667</b>	<b>135,237</b>	<b>—</b>	<b>—</b>

The ageing of trade receivables impairment at the reporting date was:

	CONSOLIDATED		THE COMPANY	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Not past due	1,335	2,078	—	—
Past due 0-30 days	124	75	—	—
Past due 31-60 days	169	173	—	—
Past due 61-90 days	1,463	371	—	—
Past due 91-365 days	2,545	1,518	—	—
More than one year	619	199	—	—
	<b>6,255</b>	<b>4,414</b>	<b>—</b>	<b>—</b>

The movement in the allowance for impairment in respect of trade receivables during the year was:

	CONSOLIDATED		THE COMPANY	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Balance at the 1 June	4,414	4,185	—	—
Acquisition of businesses or companies	2,994	1,040	—	—
Provided during year	1,891	1,817	—	—
Charged to provision or debts written off	(2,586)	(2,128)	—	—
Reversed during year	(414)	(605)	—	—
Foreign currency translation	(44)	105	—	—
Balance as at 31 May	<b>6,255</b>	<b>4,414</b>	<b>—</b>	<b>—</b>

The allowance account in respect of trade receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at this point the amount considered irrecoverable is written off against the financial asset directly.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 31: FINANCIAL INSTRUMENTS (CONTINUED)

#### (b) Liquidity risk

The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting arrangements.

	CONSOLIDATED					
	CARRYING AMOUNT	CONTRACTUAL CASH FLOW	6 MONTHS OR LESS	6 - 12 MONTHS	1 -2 YEARS	2 -5 YEARS
31 MAY 2008	\$000	000	\$000	\$000	\$000	\$000
<b>Non-derivative financial liabilities</b>						
Finance lease liabilities	798	1,109	340	305	270	194
Customer deposits	1,214	1,214	1,202	12	—	—
Trade payables and accruals	147,847	147,847	147,233	614	—	—
Others	347	347	75	75	150	47
	150,206	150,517	148,850	1,006	420	241

	THE COMPANY					
	CARRYING AMOUNT	CONTRACTUAL CASH FLOW	6 MONTHS OR LESS	6 - 12 MONTHS	1 -2 YEARS	2 -5 YEARS
31 MAY 2008	\$000	\$000	\$000	\$000	\$000	\$000
<b>Non-derivative financial liabilities</b>						
Trade payables and accruals	4,014	4,014	4,014	—	—	—

	CONSOLIDATED					
	CARRYING AMOUNT	CONTRACTUAL CASH FLOW	6 MONTHS OR LESS	6 - 12 MONTHS	1 -2 YEARS	2 -5 YEARS
31 MAY 2007	\$000	\$000	\$000	\$000	\$000	\$000
<b>Non-derivative financial liabilities</b>						
Finance lease liabilities	413	445	127	83	151	84
Customer deposits	714	714	693	21	—	—
Trade payables and accruals	113,575	113,575	112,101	1,474	—	—
Others	421	421	75	150	150	46
	115,123	115,155	112,996	1,728	301	130

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 31: FINANCIAL INSTRUMENTS (CONTINUED)

#### (b) Liquidity risk (continued)

	THE COMPANY					
	CARRYING AMOUNT	CONTRACTUAL CASH FLOW	6 MONTHS OR LESS	6 - 12 MONTHS	1 -2 YEARS	2 -5 YEARS
31 MAY 2007	\$000	\$000	\$000	\$000	\$000	\$000
<b>Non-derivative financial liabilities</b>						
Trade payables and accruals	4,667	4,667	4,667	–	–	–
	4,667	4,667	4,667	–	–	–

#### Cash flow hedges

The following table indicates the periods in which the cash flows associated with derivatives that are cash flow hedges are expected to occur:

	CONSOLIDATED					
	CARRYING AMOUNT	EXPECTED CASH FLOW	6 MONTHS OR LESS	6 - 12 MONTHS	1 -2 YEARS	2 -5 YEARS
31 MAY 2008	\$000	\$000	\$000	\$000	\$000	\$000
Interest rate swaps	5,354	5,738	1,220	1,145	1,582	1,791
Foreign currency forwards – Outflow	(762)	(762)	(762)	–	–	–
	4,592	4,976	458	1,145	1,582	1,791

	THE COMPANY					
	CARRYING AMOUNT	EXPECTED CASH FLOW	6 MONTHS OR LESS	6 - 12 MONTHS	1 -2 YEARS	2 -5 YEARS
31 MAY 2008	\$000	\$000	\$000	\$000	\$000	\$000
Interest rate swaps	–	–	–	–	–	–
Foreign currency forwards – Outflow	–	–	–	–	–	–

	CONSOLIDATED					
	CARRYING AMOUNT	EXPECTED CASH FLOW	6 MONTHS OR LESS	6 - 12 MONTHS	1 -2 YEARS	2 -5 YEARS
31 MAY 2007	\$000	\$000	\$000	\$000	\$000	\$000
Interest rate swaps	2,044	2,264	427	487	700	650
Foreign currency forwards – Inflow	(1,261)	(1,261)	(1,261)	–	–	–
	783	1,003	(834)	487	700	650

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 31: FINANCIAL INSTRUMENTS (CONTINUED)

#### (b) Liquidity risk (continued)

##### Cash flow hedges (continued)

31 MAY 2007	THE COMPANY					
	CARRYING AMOUNT \$000	EXPECTED CASH FLOW \$000	6 MONTHS OR LESS \$000	6 - 12 MONTHS \$000	1 - 2 YEARS \$000	2 - 5 YEARS \$000
Interest rate swaps	–	–	–	–	–	–
Foreign currency forwards – Outflow	–	–	–	–	–	–

#### (c) Currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts:

31 MAY 2008	CONSOLIDATED					
	AUD \$000	NZD \$000	USD \$000	EURO \$000	GBP \$000	OTHER \$000
Trade receivables	926	850	790	3	2	188
Secured bank loan	–	(80,049)	–	–	–	–
Trade payables	(657)	(823)	(8,763)	(4,152)	(794)	(212)
Gross balance sheet exposure	269	(80,022)	(7,973)	(4,149)	(792)	(24)
Estimated forecast sales	12,107	–	3,774	115	–	750
Estimated forecast purchases	(700)	(4,751)	(41,787)	(49,490)	(446)	(1,758)
Gross exposure	11,407	(4,751)	(38,013)	(49,375)	(446)	(1,008)
Forward exchange contracts	–	–	10,926	9,480	310	256
Net exposure	11,676	(84,773)	(35,060)	(44,044)	(928)	776

The Company does not have any exposure to foreign currency risk as at 31 May 2008.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 31: FINANCIAL INSTRUMENTS (CONTINUED)

#### (c) Currency risk (continued)

	CONSOLIDATED					
	AUD \$000	NZD \$000	USD \$000	EURO \$000	GBP \$000	OTHER \$000
31 MAY 2007						
Trade receivables	1,013	853	1,186	5	62	268
Secured bank loan	–	(75,231)	–	–	–	–
Trade payables	(716)	(285)	(7,417)	(4,582)	(1,308)	(217)
Gross balance sheet exposure	297	(74,663)	(6,231)	(4,577)	(1,246)	51
Estimated forecast sales	7,260	–	3,722	148	–	–
Estimated forecast purchases	(800)	(2,454)	(25,296)	(38,027)	(70)	(439)
Gross exposure	6,460	(2,454)	(21,574)	(37,879)	(70)	(439)
Forward exchange contracts	–	–	27,045	13,409	2,866	113
Net exposure	6,757	(77,117)	(760)	(29,047)	1,550	(275)

The Company did not have any exposure to foreign currency risk as at 31 May 2007.

The following significant exchange rates were applied during the year:

AUD:	CONSOLIDATED			
	AVERAGE RATE		REPORTING DATE RATE	
	2008	2007	2008	2007
NZD	1.1563	1.1539	1.2230	1.1276
USD	0.8878	0.7779	0.9559	0.8244
EURO	0.6111	0.5984	0.6160	0.6137
GBP	0.4428	0.4047	0.4833	0.4173

The Company has the same exchange rates as the consolidated entity for the years ended 2008 and 2007.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 31: FINANCIAL INSTRUMENTS (CONTINUED)

#### (c) Currency risk (continued)

##### Sensitivity analysis for currency risk

A 10% strengthening of the AUD against the following currencies at period end would have decreased equity by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2007.

	CONSOLIDATED	
	EQUITY	
	2008	2007
	\$000	\$000
USD	993	2,533
EURO	862	1,219
GBP	28	260
CAD	10	4
JPY	14	25
NZD	—	(85)
	<b>1,907</b>	<b>3,956</b>

The Company does not have any foreign currency risk.

A 10% weakening of the AUD against the above currencies at period end would have had an equal but opposite effect to that shown above, on the basis that all other variables remain constant.

#### (d) Interest rate risk

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	CONSOLIDATED		THE COMPANY	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
<b>Fixed rate instruments</b>				
Financial liabilities	1,144	1,619	—	—
<b>Variable rate instruments</b>				
Financial assets	1,910	8,334	519,969	198,090
Financial liabilities	320,549	300,912	—	—

##### Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit and loss and the Group does not designate derivatives (interest rate swaps) as a hedging instrument under a fair value hedge accounting model. Therefore, a change in interest rates at the reporting date would not affect profit and loss.

A change of 100 basis points in interest rates would have increased the Group's equity by \$4,632,000 (2007: \$2,453,000). There is no impact on the Company's equity because the Company does not hold any fixed rate financial instruments.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 31: FINANCIAL INSTRUMENTS (CONTINUED)

#### (d) Interest rate risk (continued)

##### Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for May 2007.

31 MAY 2008	CONSOLIDATED			
	PROFIT OR LOSS		EQUITY	
	100 BP INCREASE	100 BP DECREASE	100 BP INCREASE	100 BP DECREASE
Variable rate instruments	(3,186)	3,186	–	–
Interest rate swap	1,677	(1,677)	4,632	(4,632)
Cash flow sensitivity (net)	(1,509)	1,509	4,632	(4,632)

31 MAY 2007	CONSOLIDATED			
	PROFIT OR LOSS		EQUITY	
	100 BP INCREASE	100 BP DECREASE	100 BP INCREASE	100 BP DECREASE
Variable rate instruments	(2,926)	2,926	–	–
Interest rate swap	1,445	(1,445)	2,453	(2,453)
Cash flow sensitivity (net)	(1,481)	1,481	2,453	(2,453)

31 MAY 2008	COMPANY			
	PROFIT OR LOSS		EQUITY	
	100 BP INCREASE	100 BP DECREASE	100 BP INCREASE	100 BP DECREASE
Variable rate instruments	2,451	(2,451)	–	–

31 MAY 2007	COMPANY			
	PROFIT OR LOSS		EQUITY	
	100 BP INCREASE	100 BP DECREASE	100 BP INCREASE	100 BP DECREASE
Variable rate instruments	1,906	(1,906)	–	–

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 31: FINANCIAL INSTRUMENTS (CONTINUED)

#### (d) Fair values

The fair values together with the carrying amounts shown in the Group's balance sheet are as follows:

	CARRYING AMOUNT		NET FAIR VALUE	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Cash and cash equivalents	1,910	8,334	1,910	8,334
Receivables	193,159	134,099	193,159	134,099
Fair value derivatives	4,592	783	4,592	783
Other investments	89	89	89	89
Bank loans	(320,549)	(300,912)	(320,549)	(300,912)
Other borrowings	(659)	(1,206)	(659)	(1,206)
Payables	(149,480)	(114,710)	(149,480)	(114,710)
Finance lease liabilities	(798)	(413)	(798)	(413)

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments:

#### Derivatives

Forward exchange contracts are marked to market using listed market prices. For interest rate swaps, broker quotes are used.

#### Interest-bearing loans and borrowings

Fair value is calculated based on discounted expected future principal and interest cash flows.

#### Finance lease liabilities

The fair value is estimated as the present value of future cash flows, discounted at market interest rates for homogeneous lease agreements. The estimated fair values reflect change in interest rates.

#### Trade and other receivables/payables

For receivables/payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other receivables/payables are discounted to determine the fair value.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 32: NON-KEY MANAGEMENT PERSONNEL DISCLOSURES

#### Identity of related parties

The Group has a related party relationship with its subsidiaries, joint venture and with its key management personnel. Details of interests in wholly-owned controlled entities are set out at Note 28.

#### Other related party transactions

##### Subsidiaries

During the year the Company received interest income totalling \$20,686,669 (2007: \$8,865,819).

During the year the Company entered into the following transactions with wholly-owned subsidiaries:

- current income tax balances transferred under tax-funding agreements in accordance with the tax consolidation regime;
- received service fee income of \$5,596,216 (2007: \$5,807,239); and
- received management fee income of \$7,939,000 (2007: \$20,742,965).

Loans between entities in the wholly-owned group are repayable at call. Interest is generally charged at commercial rates. The Company has a receivable of \$519,969,225 (2007: \$198,090,105) and a payable of \$320,991,067 (2007: \$300,506,751) from subsidiaries.

The Group has a \$nil (2007: \$nil) receivable from a joint venture entity related party, Lux-a-Door Pty Ltd, relating to stock purchases made during the year. Total sales made to the joint venture entity were \$71,754 (2007: \$125,058) for the year. Transactions with the joint venture entity were based on normal commercial terms and conditions.

##### Other

During the year, the Group paid rent of \$1,147,938 (2007: \$1,034,705) to entities associated with MD Nesbitt and GM Nesbitt, directors of a controlled entity. During the year, a controlled entity, Marathon Tyres Pty Limited, paid consulting fees of \$58,851 (2007: \$134,586) to MD Nesbitt, a director of that entity.

At reporting date, the Company held 70,616 (2007: 54,373) treasury shares.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 33: KEY MANAGEMENT PERSONNEL DISCLOSURES

The following were the key management personnel of the Group at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period.

#### Non-executive directors<sup>1</sup>

SP Wareing

RM Aitken

JW Hall

BJ Jackson

MB Luby (appointed on 18 December 2007)

EJ Pope

#### Executive directors

JJ Ryan

NA Thompson (appointed 31 January 2007).

#### Executives

P Boyd

Group General Manager, Garage Doors & Openers

J Brennan

Group General Manager, Functional & Decorative Products

S Cox

Group General Manager, Construction & Mining

A Fonseca<sup>2</sup>

Group Financial Controller

B O'Connor

Group Chief Information Officer

W Powell<sup>3</sup>

Group General Manager, Scientific & Medical

L Rafferty

Group General Manager, Legal & Corporate Affairs

A Sullivan

Group General Manager, Strategy & Business Development

J Wedge<sup>4</sup>

Group General Manager, Water Products & Services (appointed 1 August 2007)

<sup>1</sup> RV McKinnon was appointed as a non-executive director on 1 July 2008.

<sup>2</sup> A Fonseca, Group Financial Controller, retired from the Executive Committee on appointment to Group Finance Manager, Water Products & Services on 1 June 2008.

<sup>3</sup> W Powell, Group General Manager, Scientific & Medical was appointed Group General Manager, Water Products & Services on 1 June 2008.

<sup>4</sup> J Wedge retired from the Executive Committee on 30 June 2008.

R Paul, General Manager Parbury, retired on 5 October 2007.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 33: KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

#### Key management personnel compensation

The key management personnel compensation included in "personnel expenses" are as follows:

	CONSOLIDATED		THE COMPANY	
	2008	2007	2008	2007
	\$	\$	\$	\$
Short-term employee benefits	7,601,620	5,460,630	4,073,452	3,469,217
Other long-term benefits	446,180	565,400	366,770	426,442
Post-employment benefits	217,695	749,194	208,415	640,175
Termination benefits	236,619	482,413	–	–
Equity compensation benefits	437,008	476,056	240,477	282,722
	8,926,122	7,733,693	4,889,114	4,818,556

#### Individual directors' and executives' compensation disclosures

Information regarding individual directors' and executives' compensation is provided in the Remuneration Report section of the Directors' Report on pages 31 to 40.

#### Transactions with key management personnel

Apart from the details disclosed in this note and the Remuneration Report, no director has entered into a material contract with the Company or the Group since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end.

From time to time directors of the Company or its controlled entities may purchase goods from the Group.

These purchases are on the same terms and conditions as those entered into by other Group employees. All transactions with directors and their related entities were based on normal commercial terms and conditions.

During the year the Company paid \$56,651 (2007: \$28,247) to a not-for-profit organisation involved in the provision of counselling services to employees of the Group. Mr Ryan is the Chairman of this organisation. Mr Ryan does not receive any fees or other payments for this position.

During the prior year the Company implemented the Alesco Performance Share Acquisition Plan ("Plan") for its most senior executives. Under the Plan, loans are provided to key senior executives to fund the acquisition of ordinary fully paid shares in the Company. Ownership in the shares vests immediately with the senior executive, the loan is interest-free and fully recourse. Awards will be earned by senior executives in the form of either cash bonuses (used to pay down the outstanding loan) or loan waivers and will be calculated by reference to the Company's compound annual growth rate in earnings per share (before amortisation of intangibles and significant items) over a three-year period (EPS Growth).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 33: KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

#### Transactions with key management personnel (continued)

Details of loans provided to key senior executives (arising from the fresh issue of shares) during the year under the Alesco Performance Share Acquisition Plan are listed below:

	INCLUDED IN COMPENSATION	VALUE OF LOAN	SHARES ACQUIRED
<b>DIRECTORS</b>	\$	\$	NO.
J Ryan	80,425	1,240,844	110,000
N Thompson	29,245	451,216	40,000
<b>EXECUTIVES</b>			
J Brennan	13,611	210,000	18,616
S Cox	17,241	266,000	23,581
A Fonseca	13,611	210,000	18,616
B O'Connor	13,838	213,500	18,927
W Powell	16,333	252,000	22,340
L Rafferty	17,241	266,000	23,581
A Sullivan	13,385	206,500	18,306

Details of loans provided to key senior executives in the prior year under the Alesco Performance Share Acquisition Plan (from shares purchased on market) are listed below.

	INCLUDED IN COMPENSATION	VALUE OF LOAN	SHARES ACQUIRED
<b>DIRECTORS</b>	\$	\$	NO.
J Ryan	191,435	1,498,187	150,000
N Thompson	33,094	259,000	25,931
<b>EXECUTIVES</b>			
P Boyd	36,944	332,500	26,426
S Cox	26,833	210,000	21,025
A Fonseca	23,256	182,000	18,222
B O'Connor	25,940	203,000	20,325
W Powell	26,833	210,000	21,025
L Rafferty	26,833	210,000	21,025
A Sullivan	25,045	196,000	19,624

Amounts included in compensation for the financial year represent the estimated award that will be earned by senior executives in the form of either cash bonuses (used to pay down the outstanding loan) or loan waivers and is calculated by reference to the Company's compound annual growth rate in earnings per share (before amortisation of intangibles and significant items) over a three-year period (EPS Growth).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 33: KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

#### Movements in shares

The movement during the reporting period in the number of ordinary shares in the Company held directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	HELD AT 1 JUNE 2007	GRANTED UNDER SHARE PLANS	PURCHASED	SOLD	HELD ON APPOINTMENT/ RETIREMENT	HELD AT 31 MAY 2008
	NO.	NO.	NO.	NO.	NO.	NO.
<b>Directors</b>						
SP Wareing	46,853	–	15,206	–	–	62,059
RM Aitken	30,852	–	13,428	–	–	44,280
JW Hall	6,000	–	667	–	–	6,667
BJ Jackson	36,435	–	4,049	–	–	40,484
MB Luby	–	–	–	–	7,000	7,000
EJ Pope	8,246	–	5,917	–	–	14,163
JJ Ryan	355,981	110,000	39,556	–	–	505,537
NA Thompson	35,931	40,000	13,994	–	–	89,925
<b>Executives</b>						
P Boyd	46,426	–	5,160	–	–	51,586
J Brennan	–	18,616	–	–	–	18,616
S Cox	43,860	23,581	–	–	–	67,441
A Fonseca	51,729	18,616	–	–	–	70,345
B O'Connor	37,478	18,927	4,165	–	–	60,570
R Paul	28,633	–	–	–	(28,633)	–
W Powell	34,364	22,340	1,483	–	–	58,187
L Rafferty	36,071	23,581	4,201	–	–	63,853
A Sullivan	57,178	18,306	6,354	–	–	81,838
J Wedge	–	–	82,937	–	1,171,875	1,254,812

The shares issued to executive directors and executives include shares granted under the Alesco Management Share Plan and the Alesco Performance Share Acquisition Plan which have not vested as at 31 May 2008.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 33: KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

#### Movements in shares (continued)

The movement during the previous reporting period in the number of ordinary shares in the Company held directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	HELD AT 1 JUNE 2006	GRANTED UNDER SHARE PLANS	PURCHASED	SOLD	HELD ON APPOINTMENT/ RETIREMENT	HELD AT 31 MAY 2007
	NO.	NO.	NO.	NO.	NO.	NO.
<b>Directors</b>						
SP Wareing	46,853	—	—	—	—	46,853
RM Aitken	30,852	—	—	—	—	30,852
JW Hall	5,000	—	1,000	—	—	6,000
BJ Jackson	36,435	—	—	—	—	36,435
EJ Pope	8,246	—	—	—	—	8,246
KF Clarke	339,647	—	—	—	(339,647)	—
JJ Ryan	205,981	150,000	—	—	—	355,981
NA Thompson	10,000	25,931	—	—	—	35,931
<b>Executives</b>						
P Boyd	—	46,426	—	—	—	46,426
S Cox	22,835	21,025	—	—	—	43,860
A Fonseca	33,507	18,222	—	—	—	51,729
N Freeland	26,000	9,000	—	—	(35,000)	—
C Fuller	13,408	15,419	—	—	(28,827)	—
B O'Connor	—	20,325	—	—	17,153	37,478
R Paul	10,411	18,222	—	—	—	28,633
W Powell	17,454	21,025	885	(5,000)	—	34,364
L Rafferty	15,046	21,025	—	—	—	36,071
A Sullivan	37,554	19,624	—	—	—	57,178

The shares issued to executive directors and executives include shares granted under the Alesco Management Share Plan and the Alesco Performance Share Acquisition Plan which have not vested as at 31 May 2008.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 34: NOTES TO THE STATEMENTS OF CASH FLOWS

#### (a) Reconciliation of cash

For the purposes of the statements of cash flows, cash includes cash on hand and at bank and short-term deposits at call, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statements of cash flows is reconciled to the related items in the balance sheet as follows:

	CONSOLIDATED		THE COMPANY	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Cash and cash equivalents	1,910	8,334	–	6,000
Bank overdrafts	–	–	(4,798)	(669)

#### (b) Reconciliation of profit after income tax to net cash provided by operating activities

	CONSOLIDATED		THE COMPANY	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Profit for the year	57,971	43,974	112,831	70,889
Add/(less) items classified as investing/financing activities:				
(Profit) on sale of property, plant and equipment	475	(67)	–	(161)
Net financing costs/(income)	25,988	16,027	(185)	–
Add/(less) non-cash items:				
Net financing income from controlled entities	–	–	(20,686)	(8,865)
Management fees from controlled entities	–	–	(13,535)	(26,550)
Loans forgiven from controlled entities	–	–	(100,000)	(55,000)
Depreciation and amortisation	22,486	19,576	583	581
Share of joint venture entities result	(93)	(173)	–	–
Unrealised foreign exchange (gain)/loss	315	27	3,573	(2,198)
Goodwill written off as part of business sale	1,393	–	–	–
Equity-settled share-based payment expenses	2,064	1,660	243	250
Net cash provided by/(used in) operating activities before changes in assets and liabilities	110,599	81,024	(17,176)	(21,054)
Changes in assets and liabilities during the year adjusted for effects of purchase and disposal of controlled entities during the financial year:				
Decrease/(increase) in receivables	(20,826)	(7,544)	2,765	–
Decrease/(increase) in inventories	(1,425)	(7,476)	–	–
Decrease/(increase) in other current assets	(3,801)	(1,732)	–	1,139
(Decrease)/increase in payables	3,829	27,021	–	916
Amounts (paid from)/set aside to provisions	(7,831)	(11,338)	(2,439)	(2,570)
(Decrease)/increase in current tax liabilities	(2,594)	3,057	(2,858)	5,356
(Decrease)/increase in deferred tax assets	6,410	348	(1,108)	1,796
Net cash provided by/(used in) operating activities	84,361	83,360	(20,816)	(14,417)

During the year, dividends totalling \$8,136,451 (2007: \$6,445,339) were reinvested in the Company pursuant to the Dividend Reinvestment Plan.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

### NOTE 35: SUBSEQUENT EVENTS

On 2 June 2008, the consolidated entity acquired certain business assets from Datataker Pty Limited for a purchase price of \$2,369,000. This business manufactures and supplies data logging, recording and data acquisition systems and is a bolt on acquisition for the Scientific & Medical segment.

On 2 June 2008, the consolidated entity acquired certain business assets from Brandos Industrial Supplies Pty Limited, for a purchase price of \$2,500,000. This business is involved in processing and distribution of industrial tapes and is a bolt on acquisition for the Functional & Decorative Products segment.

## DIRECTORS' DECLARATION

1. In the opinion of the directors of Alesco Corporation Limited (the "Company"):
  - (a) the financial statements and notes and the remuneration disclosures that are contained in the Remuneration Report in the Directors' Report, set out on pages 31 to 112, are in accordance with the *Corporations Act 2001*, including:
    - (i) giving a true and fair view of the Company and Group's financial position as at 31 May 2008 and of their performance, for the financial year ended on that date; and
    - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;
  - (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(a)
  - (c) the audited remuneration disclosures that are contained in the Directors' Report comply with Australian Accounting Standard AASB 124 Related Party Disclosures, the *Corporations Act 2001* and the *Corporations Regulations 2001*; and
  - (d) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. There are reasonable grounds to believe that the Company and the Group entities identified in Note 27 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those Group entities pursuant to ASIC Class Order 98/1418.
3. The directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer for the financial year ended 31 May 2008 as required by section 295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of the directors:



**SP WAREING**

Chairman

31 July 2008

Sydney



## INDEPENDENT AUDIT REPORT

TO THE MEMBERS OF ALESCO CORPORATION LIMITED

### Report on the financial report

We have audited the accompanying financial report of Alesco Corporation Limited (the "Company"), which comprises the balance sheets as at 31 May 2008, and the income statements, statements of recognised income and expense and cash flow statements for the year ended on that date, a description of significant accounting policies and other explanatory Notes 1 to 35 and the Directors' Declaration of the Group 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 Australian Accounting Standard 101 *Presentation of Financial Statements*, that the financial report of the Group, 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 performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australia Accounting Interpretations), a view which is consistent with our understanding of the Company's and the Group's financial position and of their performance.

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

(continued overleaf)

## INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF ALESCO CORPORATION LIMITED

### Report on the financial report (continued)

#### Auditor's opinion on the financial report

In our opinion:

- (a) the financial report of Alesco Corporation Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Company's and Group's financial position as at 31 May 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*.
- (b) the financial report of the Group also complies with International Financial Reporting Standards as disclosed in Note 1.

#### Report on the remuneration report

We have audited the Remuneration Report included on pages 31 and 40 of the directors' report for the year ended 31 May 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 auditing standards.

#### Auditor's opinion

In our opinion, the remuneration report of Alesco Corporation Limited for the year ended 31 May 2008, complies with Section 300A of the *Corporations Act 2001*.



KPMG



Phillip M Napier

Partner

Sydney

31 July 2008



**LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001**

TO THE DIRECTORS OF ALESCO CORPORATION LIMITED

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 May 2008 there have been:

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

KPMG

Phillip M Napier  
Partner

31 July 2008  
Sydney

# STATEMENT OF SHAREHOLDERS

AS AT 22 JULY 2008

<b>1.</b>	<b>Number of ordinary shareholders</b>		
	Voting rights – on a show of hands, one vote for every registered holder and on a poll one vote for each share held by registered holders		18,415
<b>2.</b>	<b>Number of holders of options over unissued ordinary shares</b>		
	No voting rights		–
<b>3.</b>	<b>Percentage of the total holdings by or on behalf of the twenty largest holders</b>		
	Ordinary shares		32.25%
	Options		–
<b>4(a).</b>	<b>Distribution of shareholders and option holders</b>	<b>ORDINARY</b>	<b>OPTIONS</b>
	1 – 1,000	8,047	–
	1,001 – 5,000	7,765	–
	5,001 – 10,000	1,560	–
	10,001 – 100,000	985	–
	100,001 and over	58	–
<b>4(b).</b>	<b>Number of holders holding less than a marketable parcel</b>	700	–
<b>5.</b>	<b>Notification of substantial shareholdings</b>		
	The number of shares held by substantial shareholders and their associates are:		
	Perpetual Limited	9,952,769	
<b>6.</b>	<b>Restricted securities</b>	<b>NO. OF SHARES</b>	
	There are no restricted securities	–	
<b>7.</b>	<b>Top twenty ordinary shareholders</b>	<b>NO. OF SHARES</b>	<b>%</b>
	RBC Dexia Investor Services Australia Nominees Pty Limited	6,042,757	6.67
	National Nominees Limited	2,569,729	2.84
	ARGO Investments Limited	2,515,979	2.78
	RBC Dexia Investor Services Australia Nominees Pty Limited	2,406,742	2.66
	JP Morgan Nominees Australia Limited	2,234,334	2.47
	Australian United Investment Company Limited	1,320,000	1.46
	Milton Corporation Limited	1,282,610	1.42
	Mr James Rodney Wedge	1,171,875	1.29
	Queensland Investment Corporation	1,111,118	1.23
	ANZ Nominees Limited <INCOME REINVEST PLAN A/C>	1,108,053	1.22
	Citicorp Nominees Pty Limited	1,053,877	1.16
	HSBC Custody Nominees (Australia) Limited	981,817	1.08
	ANZ Nominees Limited <INCOME REINVEST PLAN A/C>	897,775	0.99
	UBS Wealth Management Australia Nominees Pty Ltd	880,019	0.97
	Cogent Nominees Pty Limited	828,023	0.91
	Citicorp Nominees Pty Limited	706,602	0.78
	Diversified United Investment Limited	600,000	0.66
	Suncorp Custodian Services Pty Limited	532,852	0.59
	UBS Nominees Pty Ltd	485,535	0.54
	Pacific Custodians Pty Limited <ALESCO MGMNT PLAN TRUSTEE A/C>	479,092	0.53
<b>8.</b>	<b>On market buy back</b>		
	There is no current on market buy back.		

## SEVEN YEARS AT A GLANCE

	2008	2007	2006	2005	2004	2003	2002
SEVEN YEARS AT A GLANCE	\$M	\$M	\$M	\$M	\$M	\$M	\$M
<b>Income statement</b>							
Revenue	1,071.1	738.2	601.5	632.6	481.5	392.1	400.4
Profit before interest, tax, amortisation of intangibles and significant items	123.5	88.0	75.7	66.6	40.2	27.0	24.1
Significant items (net of tax)	(7.5)	(4.1)	0.7	12.2	0.1	–	–
Amortisation of intangibles	(6.8)	(4.8)	(4.4)	(4.0)	(6.8)	(4.0)	(3.7)
Net interest	(26.0)	(16.0)	(11.1)	(10.3)	(3.7)	(4.3)	(5.2)
Profit before income tax	83.2	63.1	60.9	64.5	29.8	18.7	15.2
Income tax	(25.2)	(19.1)	(18.1)	(15.2)	(9.9)	(6.0)	(5.9)
Profit after income tax	58.0	44.0	42.8	49.3	19.9	12.7	9.3
Outside equity interests	–	–	–	–	–	–	(0.1)
Net profit attributable to members of the parent entity	58.0	44.0	42.8	49.3	19.9	12.7	9.2
Earnings per share*	83.8¢	74.6¢	66.5¢	60.3¢	54.2¢	42.7¢	38.5¢
Dividends per share	66.5¢	63.5¢	56¢	45¢	33¢	26¢	24¢
<b>Balance sheet</b>							
<b>Net operating assets</b>							
Receivables	203.9	142.5	98.0	93.9	79.4	77.0	72.3
Inventories	155.0	129.0	89.9	89.6	78.4	93.8	92.7
Intangibles	649.8	434.0	340.1	296.0	99.8	105.4	56.8
Other investments	0.6	0.6	0.6	0.3	0.8	1.2	1.2
Land and buildings	17.2	16.8	17.6	21.4	7.0	9.5	9.9
Plant and equipment	72.7	65.6	45.6	39.2	21.2	23.1	17.1
Employee provisions	(30.2)	(23.8)	(20.1)	(16.9)	(12.8)	(11.1)	(7.8)
Payables	(149.4)	(114.7)	(67.8)	(73.3)	(60.4)	(63.6)	(68.3)
Other operating assets/liabilities	(19.2)	(26.1)	(32.1)	(30.2)	(5.8)	(5.6)	(6.6)
Net operating assets	900.4	623.9	471.8	420.0	207.6	229.7	167.3
<b>Funded by</b>							
Parent entity equity interests	593.6	344.4	332.7	319.1	208.2	151.3	102.2
	–	–	–	–	–	–	0.6
Net debt	319.3	294.2	154.8	103.5	4.1	80.8	67.9
Other funds	(12.5)	(14.7)	(15.7)	(2.6)	(4.7)	(2.4)	(3.4)
Funds employed	900.4	623.9	471.8	420.0	207.6	229.7	167.3
<b>Statistics</b>							
Operating profit margin*	11.5%	11.9%	12.6%	10.5%	8.4%	6.9%	6.0%
Operating asset turns	1.9	1.3	1.3	1.4	2.2	2.2	2.3
Return on average net operating assets (RNOA)	14.9%	15.7%	16.8%	15.2%	18.1%	15.3%	14.1%
Return on average shareholders' funds*	13.6%	15.8%	14.5%	13.3%	15.5%	13.0%	12.3%
Interest cover (times)*	5.4	6.3	6.8	6.5	10.8	6.4	4.6
Dividend cover (times)	1.3	1.2	1.2	1.3	1.6	1.6	1.6
Gearing %	35.0%	46.1%	31.8%	25.1%	1.9%	34.8%	66.0%
<b>Share information</b>							
Weighted average number of shares on issue	86.4m	70.8m	69.9m	68.4m	49.1m	39.1m	33.3m
Market capitalisation	\$710.1m	\$1,067.3m	\$686.5m	\$486.2m	\$372.5m	\$204.6m	\$120.4m

\* Before significant items and amortisation of intangibles

The 2005-2008 results are prepared under AIFRS and the 2003-2004 results are prepared under AGAAP

## CORPORATE DIRECTORY

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23 008 666 064

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**2008 FINANCIAL CALENDAR**

Release of FY08 half-year results:  
30 January 2008

Release of FY08 full-year results:  
29 July 2008

Interim dividend

Record date: 19 February 2008

Payment date: 4 March 2008

Final dividend

Record date: 18 August 2008

Payment date: 1 September 2008

**ANNUAL GENERAL MEETING**

Tuesday, 16 September 2008 at 2.30 pm to be held  
in the AGL Theatre at Museum of Sydney, corner of  
Phillip and Bridge Streets, Sydney NSW 2000.

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ANNUAL REPORTS**

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other shareholder information.

For Shareholder enquiries please contact the share  
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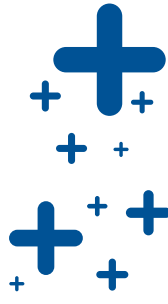
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