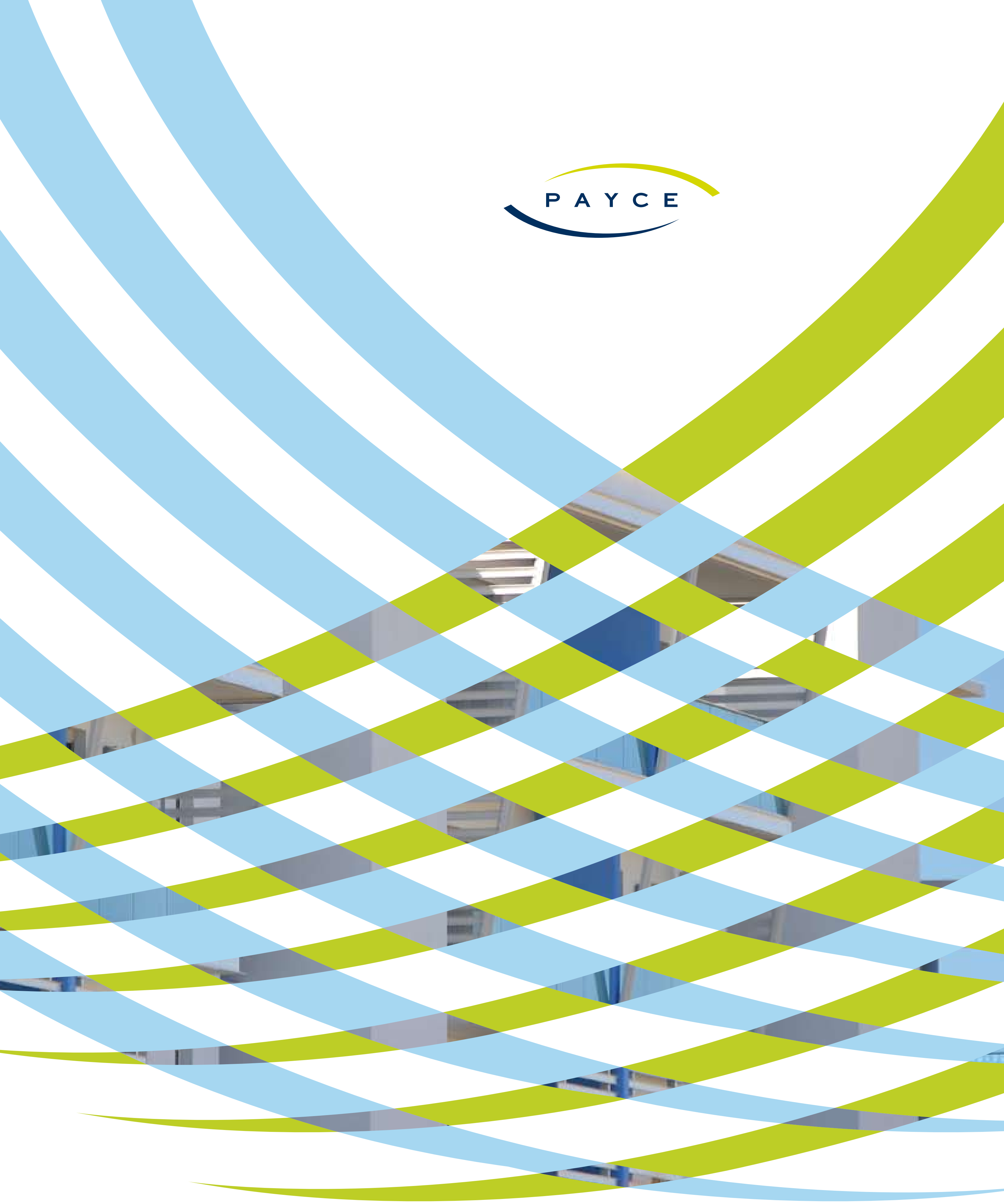


PAYCE

PAYCE CONSOLIDATED LIMITED | **ANNUAL REPORT 2008**

PAYCE CONSOLIDATED LIMITED

ANNUAL REPORT 2008

CONTENTS

CHAIRMAN'S REVIEW

Despite a disappointing 2008 result, when asset impairments and writedowns to net realisable value are excluded, the business earned an operational profit of $4.4M. As noted in the Company's Financial Statements, we were required under AIFRS to recognise $15.3M as impairments, provisions and revaluation losses against assets and an amount of $13.9M was taken up to reduce development assets to net realisable value.

Whilst the past 12-18 months have presented challenging times for both the Company and the Australian economy, the Company's strategy of investing in other property development assets and businesses has reduced our reliance on developing "The Waterfront at Homebush Bay" and has positioned the Company for growth into the future.

Additionally, the Company has recently extended one of its finance facilities and is in negotiations to extend its other facilities, so as to provide surety over our future funding requirements.

In view of market conditions and the depressed world economic outlook, the Company does not intend to undertake any further new unit development during the current year but will remain focused on reducing its unsold stock of developed units and, if satisfactory opportunity exists, may dispose of selected land holdings. However our strategy of diversifying the business operations of the Group continues as our core business strategy. We are well satisfied with the progress to date of this strategy and expect to make further progess in developing and consolidating these diverse activities over the coming year.

No one can predict when economic and market certainty will return but we are confident that our Company will see out this period and will be well positioned to move forward when conditions improve.

THE WATERFRONT AT HOMEBUSH BAY

The Company's major asset is its award winning development, "The Waterfront at Homebush Bay" located near Sydney's Olympic precinct.

During the last financial year, the Company completed its latest development "Palermo", comprising 246 residential apartments.

Despite the tough conditions the Company settled 180 apartments across several buildings. For the first quarter of the current financial year, the Company settled 34 apartments and continues to achieve a good rate of enquiry regarding our apartments.

Last year, Payce announced that it had entered into an Option to dispose of its undeveloped landholdings into an entity which it co-owned with Babcock & Brown. The Company is of the view that it is unlikely that this Option will be exercised prior to its expiry in December 2008 and is developing its strategies accordingly.

These remaining landholdings will allow it to develop a further 1,600-1,800 apartments over the next 5-8 years. At present, none of these sites have been developed for sale as the Company concentrates on selling its remaining completed stock.

OTHER ACTIVITIES

Over the past 3 years, the Company has invested in several other property developments and businesses, including;

- BRIC
- Chiswick
- Ripley
- Victoria Park
- Development and project management
- Childcare

BRIC

This business was established to acquire completed apartments in other developments for a discount. These apartments would then be rented out, whilst an orderly sale process was implemented.

The business initially acquired 99 apartments predominantly in Port Melbourne but also in Homebush Bay.

These apartments have been rented out and are being sold down profitably. BRIC currently holds 36 apartments which it anticipates to sell over the next 12 months.

CHISWICK

Located in Sydney's inner west, this site is DA approved for 108 apartments plus commercial space. Payce holds a 50.1% interest in the site.

To date, no development activities have been undertaken, with the release of the future development for off-the-plan sales on hold until there is a sustained improvement in the Sydney property market.

RIPLEY

The Company holds an equity interest in several entities which own 170ha of land at Ripley. Ripley is located 35km south-west of Brisbane. The area forms part of the growth corridor outlined by the Queensland Government.

Design and planning activities are being conducted for the site, with construction unlikely to commence within the next couple of years.

The Company is enthusiastic about this project as it forms part of our goal to build communities, and represents a long-term development asset that will deliver future returns to the Company.

VICTORIA PARK

As announced in October 2007, the Company acquired a 50% stake in an entity that owned 6.5ha at Victoria Park, 5km south of the Sydney CBD for $151.5M. This represented a major investment for the Company, with the land representing a future development containing a mixture of residential, retail and commercial space.

In March 2008, the Company announced that an Option had been entered into with Meriton to sell the southern part of the site, totalling 3.3ha, for $106M. The Option was exercised and the sale settled on 27 June 2008.

Additionally, on 17 October 2008, another portion of the site was sold to and settled by Audi for approximately $19.7M. Audi are constructing a new office and showroom on the site.

The balance of the site has the potential to be developed into a mixture of residential, retail and commercial space, with the design process currently being performed to facilitate the most appropriate mix of activities on our landholdings. These design and planning activities are being co-ordinated by our co-owned development and project management business, BDS.

DEVELOPMENT AND PROJECT MANAGEMENT

In May 2008, the Company established a development and project management business with Babcock & Brown. This business is called BDS and provides services to both the abovementioned development sites and for other parties.

The Company is seeking to utilise the expertise it has in this business to assist it in developing both its current and future development properties.

CHILDCARE

The Company has investments in 2 childcare businesses, Ramsay Bourne and World of Learning. Collectively these businesses own and operate 37 childcare centres and manage a further 34 on behalf of third parties.

Over the past 12 months, these businesses have focused on the centres currently owned rather than expanding its portfolio. This focus has achieved results with the business currently operating profitable at an EBIT level.

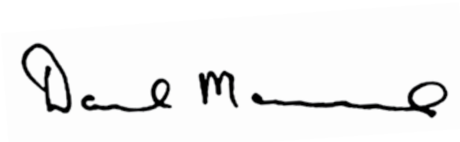
There are opportunities for growth emerging in the childcare industry which the Company is assessing.

DIVIDENDS

Whilst the Company concentrates on reducing its debt position, the Directors do not recommend the payment of a dividend.

ANNUAL GENERAL MEETING

Our Annual General Meeting will be held at "The Waterfront at Homebush Bay" on Thursday 27 November 2008. We invite all shareholders to attend.



D.H. Macintosh
CHAIRMAN

DIRECTORS' REPORT

The Directors present their report together with the financial report of Payce Consolidated Limited ('the Company') and of the consolidated entity, being the Company and its controlled entities, for the financial year ended 30 June 2008.

1. DIRECTORS

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

MR. DAVID H. MACINTOSH
Chairman, Executive Director
Age 52

David Macintosh, has been a Director since 1990, was appointed Chairman in 1992 and a member of the Audit Committee since 2005. He joined the Payce group in 1987 after 10 years in the transport industry in Australia and Europe. He is a Director and President of the Australian Respiratory Council, Governor of the Woolcock Institute of Medical Research, Director of The Australian Lung Foundation and Chairman of The Macintosh Foundation and Macintosh Chair of Paediatric Respiratory Medicine - Sydney University, Endowed Chair held at The Children's Hospital Westmead and Benefactor. He has been actively involved in the Surf Life Saving movement for over 40 years. He is a life member at Long Reef SLSC, Distinguished Service Member at Collaroy SLSC and Sydney Northern Beaches Surf Life Saving. He has degrees in Business and Accounting and is a Fellow of the Institute of Chartered Accountants.

MR. BRIAN M. BOYD
Managing Director
Age 59

Brian Boyd was appointed a Director and Managing Director in 1987. He has over 28 years' experience in the property industry.

MR. ROGER R. SHORT
Independent Non-Executive Director
Age 63

Roger Short was appointed a Director in 1996. He has been a lawyer for over 32 years with extensive involvement in large scale property development projects and commercial and public infrastructure and recently retired from practice with McCullough Robertson. He has been a Director of public companies for more than 22 years. He is currently a Director of Paynter Dixon Qld Pty Ltd and Local Government Infrastructure Services Pty Ltd, a Queensland government-owned co-operation. He is a member of the Audit Committee.

During the past three years he has also served as a director of the following ASX listed company:

Sedgman Limited – June 2006 to Present

All Directors held their position as director throughout the entire financial year and up to the date of this report unless otherwise stated.

2. COMPANY SECRETARIES

MR. STEPHEN M. WAINWRIGHT

Stephen Wainwright, aged 37, was appointed as Company Secretary in 2002. He has a degree in Commerce and is a Chartered Accountant and has extensive experience in accounting and reporting for both public and private companies.

MR. MARK E. MORGAN

Mark Morgan, aged 52, was appointed as Company Secretary in 2004. He has been a lawyer for 26 years, the last 11 as a partner of Morgan Lewis Attorneys. He has worked extensively in the property development field for the last 21 years. He acted for Payce in the acquisition of its Homebush Bay land in 1988 and has been closely involved in the development of that land since then.

3. DIRECTORS' MEETINGS

The number of directors' meetings (including meetings of committees of directors) and the number of meetings attended by each of the Directors of the Company during the financial year are:

Director	Board A	Board B	Audit A	Audit B
D. H. Macintosh	6	6	2	2
B. M. Boyd	6	6		
R.R. Short	6	6	2	2

A - Number of meetings attended
B - Number of meetings held during the time the director held office during the year

The Remuneration Committee was disbanded on 1 July 2007, with remuneration for key management personnel being determined by the Managing Director, and for non-executive directors by the Board.

4. PRINCIPAL ACTIVITY

The principal activities of the consolidated entity during the year were property investment and development. There were no significant changes in the activities of the consolidated entity during the year.

5. OPERATING RESULTS

The consolidated loss of the consolidated entity after providing for income tax and eliminating minority equity interests amounted to $17,443,000.

6. DIVIDENDS PAID AND RECOMMENDED

No dividends were paid or declared since the start of the financial year. No recommendation for payment of dividends has been made.

7. REVIEW OF OPERATIONS

This year's loss has arisen as a result of impairments and writedowns against property assets, rather than from operational issues. Set out below is a table outlining the consolidated entity's result prior to impairments and writedowns.

	$'000
Loss before Income Tax	($24,790)
Write down of property held for development and resale to net realisable value	$10,100
Loss on revaluation of investment properties	$3,481
Impairment of property, plant and equipment	$8,357
Share of loss in equity investment due to write down of property held for development and resale to net realisable value	$3,817
Provisioning against receivables	$3,438
Operational result	$4,403

OPERATIONS

Over the past several years, the Company has outlined its intention to reduce its reliance upon the development of its land holdings at Homebush Bay. This has been achieved with the consolidated entity now holding equity investments in several other businesses. With the exception of an investment in Childcare, all the equity investments are focused on property and property development.

The Company's immediate focus is on debt and the repayment and management of its debt facilities.

The consolidated entity's Facilities can be separated into two parts, being a Corporate Facility secured over its unsold apartments and the other part being secured over its undeveloped landholding.

The consolidated entity has recently extended its Corporate Facility until November 2009, and since December 2007 has reduced this debt from $126M to $90M as at 31 July 2008. The consolidated entity expects to make a substantial reduction in this Facility over the next 12 months as it continues to sell its completed apartments.

The consolidated entity's other Homebush Bay related Facilities totaling $189.2M are limited recourse over our undeveloped Homebush Bay landholdings and are due to expire in December 2008. The consolidated entity is currently discussing with its financiers the extension of these Facilities.

WHOLLY OWNED ASSETS

Homebush Bay

During the year the consolidated entity completed one building (Palermo) comprising 246 apartments (2007 – completed three buildings totaling 425 apartments). Of these completed apartments 180 (2007 – 222) were settled for a sales value of $91.2M (2007 – $119.4M).

The consolidated entity also owns other undeveloped land at Homebush Bay which has the potential to deliver over 2,000 apartments over the next 5-10 years. Approved Development Applications exist for 708 apartments and Master Planning Approval exists for a further 685 apartments.

There are currently no immediate plans to construct on these sites or release them for pre-sale with the consolidated entity concentrating on selling and settling its existing completed apartments.

Additionally, in October 2007, the consolidated entity entered into a Call Option for the sale of these undeveloped lands with an entity it established with Babcock & Brown. The Sale Price of the undeveloped land is $181.8M plus costs incurred from the execution of the Option. The Option expires on 31 December 2008 and the consolidated entity is of the view that it is unlikely that the Option will be exercised.

During the course of the year, the consolidated entity has assessed the carrying value of its assets at Homebush Bay and has recorded impairments of $21.9M.

EQUITY INVESTMENTS

DEVELOPMENT PROJECTS AND RELATED ASSETS

Babcock & Brown Apartment Investment Group (BBAIG)

In October 2007, Payce and Babcock's established on an equal basis a Stapled Entity that was intended to hold two substantial land development assets.

The first was Payce's undeveloped Homebush Bay landholdings for which BBAIG holds an Option over, and the second being a 6.5 hectare site at Victoria Park, Sydney.

BBAIG sold and settled approximately half the Victoria Park site on 27 June 2008 to Meriton for $106M. A contract has also been entered into with Audi for approximately $19M on which they are developing a new office and showroom. Settlement of this transaction is expected prior to December 2008. The Audi sale will not be brought to account until settlement occurs.

For the remaining land, BBAIG continues to assess the development options on the site which will comprise a mixture of residential, retail and commercial.

For the year-ended 30 June 2008, BBAIG has earned a Profit of $28M of which $14M has been equity accounted into Payce's results.

Ripley

In December 2006, the consolidated entity was introduced to a development opportunity at Ripley. Ripley is located approximately 35km south-west of Brisbane. The area has been identified by the Queensland Government as part of its development corridor.

Through several equity investments, the consolidated entity has an interest in over 170 hectares of land, the majority of which is located in what will be the Urban Core of the Ripley Valley.

At present, preliminary planning is occurring for this land with no physical development forecast to occur for several years.

Whilst this investment is currently not delivering any profits to Payce, its future development should deliver substantial profits over an extended period of time.

BRIC (Built Residential Investment Consortium)

This vehicle acquires completed apartments with a view to both renting and selling these apartments over time.

BRIC initially acquired 99 apartments across two locations. These apartments were initially rented out, and over the past 12 months, they have been progressively sold down. As at 30 June 2008, 42 apartments remained on hand.

The rental and sale of these apartments generated a profit of $1.0M of which $0.5M has been equity accounted into Payce's results.

The remaining apartments are expected to be sold over the next 12 months.

BDS Australia

In May 2008, Payce and Babcock & Brown commenced a new business that will provide Development and Project Management services to land developments involving both Payce and Babcock's.

This business has not made any material contributions to Payce's 2008 result, but is expected to make contributions in future years.

Chiswick

With Babcock & Brown, Payce owns a development site at Chiswick, in Sydney's inner-west. The site is DA approved for 108 residential apartments and commercial space.

The value of the site was written down during the year, with the consolidated entity recording a $3.8M loss against the value of its investment in this development.

Until there is a noticeable improvement in the Sydney property market, the planned development will not be released for pre-sale.

Childcare

Payce currently holds an investment in two childcare businesses with several different parties.

On a combined basis, these businesses currently own and operate 37 centres and manage another 34 for third party owners.

At present prior to shareholder loan interest and management fees, and other one-off items, the businesses are operating at a small combined loss, and expect to be profitable on a similar basis in 2009.

8. ENVIRONMENTAL REGULATION

The consolidated entity's operations are subject to State and Federal legislation regulating building and the development of land. The consolidated entity has a policy of complying with all its environmental performance obligations and the Directors are not aware of any significant breaches during the period covered by this report.

9. FINANCIAL POSITION

The net assets of the consolidated entity decreased by $12.1M from June 2007 to $133.7M in 2008.

During the year, the consolidated entity's total asset position increased from $455.8M to $477.7M, whilst total liabilities increased from $310.0M to $344.0M.

The increase in assets is predominantly due to investments in associates in the form of equity and loans.

The increase in liabilities is due to additional borrowings drawn down against existing facilities.

10. EVENTS SUBSEQUENT TO BALANCE DATE

CHILDCARE

Subsequent to year-end, one of the shareholders in World of Learning Pty Limited, of which the consolidated entity held a 37.5% interest in as at 30 June 2008, disposed of its shareholding to the other shareholders.

As a result of this, the consolidated entity now owns 50% of World of Learning Pty Limited.

AVAILABLE-FOR-SALE FINANCIAL ASSETS

Subsequent to year end, the continued volatility of the Australian share market has impacted on the value of the consolidated entity's available-for-sale financial assets which were revalued to fair value as at balance date. As at the date of issuance of this financial report there has been a further decline in value of this asset category since balance date and any further decline or appreciation to the half year ending 31 December 2008 cannot be reliably estimated at this point in time.

11. LIKELY DEVELOPMENTS AND FUTURE RESULTS

The Directors have excluded from this report any further information on the likely developments in the operations of the consolidated entity and the expected results of those operations in future financial years, as the Directors have reasonable grounds to believe that it would be likely to result in unreasonable prejudice to the consolidated entity.

12. KEY BUSINESS STRATEGIES AND FUTURE PROSPECTS

The consolidated entity's business strategies and prospects for growth in future financial years have not been included in this report, as the inclusion of this information is likely to result in an unreasonable prejudice to the consolidated entity.

13. STATE OF AFFAIRS

With the exception of the matters stated in the Review of Operations and set out below, there have been no other significant changes in the state of affairs of the Company or consolidated entity during the year ended 30 June 2008.

> On 19 October 2007, a subsidiary of Babcock & Brown exercised Options granted in October 2005 for 2,577,978 shares at $2.75 per share.

14. DIRECTORS' INTEREST IN SHARES OF THE COMPANY

Details of each director's relevant interest in the shares of the company are shown on page 32 of the financial report.

15. SHARE OPTIONS

OPTIONS GRANTED TO DIRECTORS AND OFFICERS OF THE COMPANY

During or since the end of the financial year, no options were granted to directors of the Company.

The Company granted the following options for no consideration over unissued ordinary shares in the Company to the following Officers of the Company as part of their remuneration:

Officers	Number of options granted	Exercise price	Expiry date
B.H. Bailison	600,000	$3.00	12 May 2013
B.J. Klevansky	1,200,000	$3.00	4 June 2013

All options were granted during the financial year. No options have been granted since the end of the financial year.

UNISSUED SHARES UNDER OPTIONS

At the date of this report unissued ordinary shares of the Company under option are:

Expiry date	Exercise price	Number of shares
12 May 2013	$3.00	600,000
4 June 2013	$3.00	1,200,000

SHARES ISSUED ON EXERCISE OF OPTIONS

During or since the end of the financial year, the Company issued ordinary shares as a result of the exercise of options as follows (there are no amounts unpaid on the shares issued):

Number of shares	Amount paid on each share
2,577,978	$2.75

16. INDEMNIFICATION OF OFFICERS

Clause 112 of the Company's Constitution requires the Company to indemnify each officer of the company (subject to certain qualifications) against any liability incurred by the officer in or arising out of the conduct of the business of the company or the discharge of the duties of the officer unless the liability was incurred by the officer through his or her own dishonesty, negligence, lack of good faith or breach of duty.

The directors and company secretaries named on page 7 have the benefit of the indemnity in Clause 112. The Company has insured against amounts which it is liable to pay to officers pursuant to Clause 112 or which it otherwise agrees to pay by way of indemnity. The terms and conditions of the contracts of insurance prohibit the nature of any liability and the amount of the premium from being disclosed.

17. PROCEEDINGS ON BEHALF OF COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the year.

18. REMUNERATION REPORT

18.1 PRINCIPLES OF COMPENSATION

Remuneration of directors and senior executives is referred to as compensation as defined in AASB 124.

The Directors have agreed that under the Company's Constitution, the non-executive directors are to be paid remuneration for ordinary services such sums as may from time to time be determined by a meeting of members.

The compensation structures explained below are designed to attract suitably qualified executives, reward the achievement of strategic objectives, and achieve the broader outcome of increasing the company's profit and creation of value for shareholders. The compensation structures take into account:

> the capability and experience of the key management personnel;
> the key management personnel's ability to control the relevant segment performance;
> the consolidated entity's performance including:
  – the consolidated entity's earnings;
  – the growth in share price and returns on shareholder wealth;
  – the amount of incentives within each key management personnel's remuneration.

Compensation packages may include a mix of fixed and performance linked compensation.

Fixed Compensation

Fixed compensation consists of base compensation (which is calculated on a total cost basis and includes any fringe benefits tax charges related to employee benefits including motor vehicles), as well as employer contributions to superannuation funds.

Key management personnel compensation levels are reviewed annually by the Managing Director through a process that considers individual, segment and overall performance of the consolidated entity.

Short-term Incentive Bonus (STI)

The objective of the STI program is to link the achievement of the Company's operational targets with the remuneration received by the executives charged with meeting those targets. The operational targets consist of a number of Key Performance Indicators (KPI's) covering both financial and non-financial measures of performance.

On an annual basis, the overall performance of the Company is considered along with the individual executives performance in determining any bonus amount.

Long-term Incentives (LTI)

LTI's are provided to executives through an executive option scheme.

Company Performance and Remuneration

In considering the consolidation entity's performance and benefits for shareholders wealth the Directors have regard to the following indicies in respect of the current financial year and the previous four financial years.

	2008 $'000	2007 $'000	2006 $'000	2005 $'000	2004 $'000
Net (loss)/profit	(17,443)	26,513	1,581	11 ,314	15,506 (i)
Share price at year-end	$2.45	$3.00	$3.00	$2.90	$2.51

(i) Net profit reported under previous Australian Accounting Standards.

Service Agreements

Remuneration and other terms of employment for executives are formalised in service contracts, with the exception of Mr Klevansky which is in the process of being finalised. For executive directors no formalised service contracts exist.

Mr S.M. Wainwright
Company Secretary & Chief Financial Officer

> Employment commenced 7 January 2002
> Fixed remuneration, inclusive of superannuation, of $245,000 per annum, reviewed annually by Managing Director.
> May resign from position giving one months' written notice. The Company may make payment in lieu of notice or part of that period.

Mr B.H. Bailison
Head of Corporate Finance

> Employment commenced 13 May 2008
> Fixed remuneration, inclusive of superannuation, of $300,000 per annum, reviewed annually by Managing Director.
> May resign from position giving one months' written notice. The Company may make payment in lieu of notice or part of that period.
> If terminated by the Company in the first year of employment a severance payment of $200,000 is to be made.
> Entitled to participate in share option scheme.

18.2 DIRECTORS' AND SENIOR EXECUTIVES' REMUNERATION (COMPANY AND CONSOLIDATED)

Details of the nature and amount of each element of remuneration of each director of the Company and all consolidated entity key management personnel who receive the highest remuneration are:

	Short-term employee benefits			Post-employment benefits	Termination benefits	Share based payments		
	Salary, fees & commissions $'000	Primary cash bonus (A) $'000	Non-cash benefits $'000	Super-annuation $'000	Retirement benefits $'000	Equity options $'000	Total $'000	Performance related %
DIRECTORS								
Non-executive								
R.R. Short								
> 2008	48	-	-	5	-	-	53	-
> 2007	39	-	-	4	-	-	43	-
Executive								
D.H. Macintosh								
> 2008	239	-	5	21	-	-	265	-
> 2007	239	-	5	21	-	-	265	-
B.M. Boyd								
> 2008	109	-	138	18	-	-	265	-
> 2007	109	-	139	18	-	-	266	-
Total compensation: - Directors (consolidated)								
> 2008	396	-	143	44	-	-	583	
> 2007	387	-	144	43	-	-	574	
Total compensation: - Directors (company)								
> 2008	48	-	-	5	-	-	53	
> 2007	39	-	-	4	-	-	43	
SPECIFIED EXECUTIVES								
B.J. Klevansky								
General Manager								
> 2008	800	-	-	5	-	478	1,283	37.3
> 2007	800	-	-	-	-	-	800	-
S.M. Wainwright								
Company Secretary/Chief Financial Officer								
> 2008	193	187	7	17	-	-	404	46.3
> 2007	159	20	7	14	-	-	200	10.0
B. Bailison								
Head of Corporate Finance – (appointed 13 May 2008)								
> 2008	38	-	-	3	-	16	57	-
> 2007	-	-	-	-	-	-	-	-
P. Munnings								
General Manager – Operations – (position made redundant 21 January 2008)								
> 2008	194	-	6	84	424	-	708	-
> 2007	327	75	7	41	-	-	450	16.7
Total compensation: - Executives (consolidated)								
> 2008	1,225	187	13	109	424	494	2,452	
> 2007	1,286	95	14	55	-	-	1,450	

NOTES TO THE TABLE OF DIRECTORS' AND SENIOR EXECUTIVES' REMUNERATION

(A). The short-term incentive bonus included as compensation for the relevant year was for performance during that financial year.

DETAILS OF PERFORMANCE RELATED REMUNERATION

Details of the consolidated entity's policy in relation to the proportion of remuneration that is performance related is discussed on page 10.

18.3 ANALYSIS OF BONUSES INCLUDED IN REMUNERATION

Details of the vesting profile of the short-term incentive cash bonuses awarded as remuneration to each Director of the Company and each consolidated entity senior executive are detailed below:

	Included in remuneration $'000	Short-term incentive bonus % vested in year	% forfeited in year
Executives			
S.M. Wainwright	$187	100%	-

18.4 EQUITY INSTRUMENTS

18.4.1 Options and rights over equity instruments granted as compensation

Details on options over ordinary shares in the Company that were granted as compensation to key management personnel during the reporting period and details on options that vested during the reporting period are set as follows:

	Number of options granted during 2008	Grant date	Fair value per option at grant date ($)	Excercise price per option ($)	Expiry date	First excercise date	Last excercise date	Number of options vested during 2008
Executives								
B.H. Bailison	200,000	4 June 2008	$0.57	$3.00	12 May 2013	12 May 2009	12 May 2013	-
B.H. Bailison	200,000	4 June 2008	$0.57	$3.00	12 May 2013	12 May 2010	12 May 2013	-
B.H. Bailison	200,000	4 June 2008	$0.57	$3.00	12 May 2013	12 May 2011	12 May 2013	-
B.J. Klevansky	1,200,000	4 June 2008	$0.40	$3.00	4 June 2013	4 June 2008	4 June 2013	1,200,000

No options over ordinary shares in the Company were granted during the previous reporting period and no options were vested over ordinary shares vested during that period.

No options have been granted since the end of the financial year. The options were provided at no cost to the recipients.

All vested options expire on their expiry date. All unvested options expire on termination of the individual's employment.

18.4.2 Modification of terms of equity-settled share-based payment transactions

No terms of equity-settled share-based payment transactions (including options and rights granted as compensation to key management personnel) have been altered or modified by the issuing entity during the reporting period or prior period.

18.4.3 Exercise of options granted as compensation

No shares were issued on the exercise of options previously granted as compensation during the reporting period or prior periods.

18.4.4 Analysis of options and rights over equity instruments granted as compensation

Details of vesting profile of the options granted as remuneration are detailed below:

	Options granted number	Options granted date	% vested in year	% forfeited in year (A)	Financial years in which grant vests
Executives					
B.H. Bailison	200,000	4 June 2008	-	-	1 July 2008
B.H. Bailison	200,000	4 June 2008	-	-	1 July 2009
B.H. Bailison	200,000	4 June 2008	-	-	1 July 2010
B.J. Klevansky	1,200,000	4 June 2008	100%	-	1 July 2007

(A) The % forfeited in the year represents the reduction of the maximum number of options available to vest due to a performance criteria not being achieved.

18.4.5 Analysis of movements in options

The movements during the reporting period, by value, of options over ordinary shares in the Company held by each Company director and relevant key management personnel is detailed below.

	Granted in year $(A)	Value of options exercised in year $(B)	Lapsed in year $(C)
B.H. Bailison	431,227	-	-
B.J. Klevansky	478,323	-	-
TOTAL	**819,550**	**-**	**-**

(A) The value of options granted in the year is the fair value of the options calculated at grant date using a binominal option-pricing model. The total value of the options granted is included in the above table.

(B) The value of options exercised during the year is calculated as the market price of shares of the Company on the Australian Stock Exchange as at close of trading on the date the options were exercised after deducting the price paid to exercise the option.

(C) The value of the options that lapsed during the year represents the benefit forgone and is calculated at the date the option lapsed using a Black-Scholes option-pricing model with no adjustments for whether the performance criteria have or have not been achieved.

19. NON-AUDIT SERVICES

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditors' expertise and experience with the Company are important.

The Board of Directors has considered the position and is satisfied that the provision of non-audit service is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001 and did not compromise the auditors' independence requirements of the Corporations Act for the following reasons:

> The non-audit services did not impact the impartiality and objectivity of the auditor; and

> None of the general services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, including reviewing or auditing the auditor's own work, acting in a management or decision sharing capacity for the Company or jointly sharing economic risk and rewards.

During the year the following fees were paid or payable for services provided by the auditor of the Company and its related practices:

Assurance Services	2008 $	2007 $
1.Audit Services		
Audit and review of financial reports and other audit work under the Corporations Act 2001	196,630	88,000
2. Other Assurance Services		
Review and analysis services	7,900	-
Total Remuneration	**204,530**	**88,000**

20. AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT

The Lead Auditor's Independence Declaration is set out on page 15 and forms part of the Directors' Report for the financial year ended 30 June 2008.

21. ROUNDING OF AMOUNTS

The parent company is a company of the kind specified in Australian Securities and Investments Commission Class Order 98/100. In accordance with that Class Order, amounts in the financial statements have been rounded to the nearest thousand dollars unless specifically stated to be otherwise.

This report has been made in accordance with a resolution of directors.

B.M. Boyd
DIRECTOR

D.H. Macintosh
DIRECTOR

Sydney, New South Wales
30th September, 2008

WESTON
WOODLEY
ROBERTSON
Chartered Accountants
& Consultants

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: The Directors of Payce Consolidated Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 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.

Weston Woodley & Robertson

Cameron M Johnstone

Partner

Dated this 30th day of September 2008

Sydney

Level 18, 201 Elizabeth Street, Sydney NSW 2000 • PO Box A230, Sydney South NSW 1235 • DX11552 Sydney Downtown
Telephone: (02) 9264 9144 • Facsimile: (02) 9264 6334 • Email: gmn@wwr.com.au • Website: www.wwr.com.au • ABN 65 110 899 420

The Directors are responsible for the corporate governance practices of the company. This statement sets out the main corporate governance practices that were in operation throughout the financial year.

Unless otherwise stated, these comply with the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations.

Details have been included at the end of this statement setting out the ASX Best Practice Recommendations with which the Company has not complied in the reporting period.

BOARD OF DIRECTORS

The Board of Directors has the responsibility to:

> determine the strategic direction of the Company in order to maximise shareholder wealth and to set goals and objectives for management;
> adopt an annual budget and to monitor performance, ensuring that adequate internal controls exist and are complied with;
> ensure significant business risks are identified and properly managed;
> select and appoint new directors and review the performance of the Managing Director;
> maintain high business standards and ethical behaviour.

BOARD COMPOSITION

The Board presently comprises two executive directors, David Macintosh and Brian Boyd, and one non-executive independent director, Roger Short, details of whom are set out on page 7 of the financial report. The Company's Constitution provides that:

> the number of directors shall be not less than 3 nor more than 10;
> one-third of the directors must retire from office at the annual general meeting each year and are eligible for re-election;
> a director appointed to fill a casual vacancy must face election at the next annual general meeting;
> a director ceases to hold office on attaining the age of 72 years;
> a quorum requires a minimum of two directors.

The Board considers an independent director to be a non-executive director who meets the criteria for independence included in the ASX Best Practice Recommendations. The Board considers that Mr R.R. Short meets these criteria. Mr Short does not have substantial shareholdings in the Company, has no material business or contractual relationship with the Company and has no conflicts of interest. Accordingly, he is considered to be independent.

Subject to the prior approval of the Chairman, Board committees and individual Directors are entitled to seek independent professional advice at the Company's expense for the purposes of the proper performance of their duties.

The Board has established an Audit Committee to assist in the execution of its duties.

The performance of all Directors is assessed through a review by the Board taking into account the attendance at and involvement in board meetings, their performance and other matters identified by the Board. Due to the Board's assessment of these processes and the size of the Company, the Board has not otherwise formalised measures of a director's performance.

AUDIT COMMITTEE

This committee was comprised of Roger Short and David Macintosh. Meetings are held as required throughout the year and are attended by the Managing Director, Chief Financial Officer and independent auditors, where appropriate. The main objectives of the committee are to:

> ensure that the quality of financial reporting is adequate and to maintain communication between the Board and independent auditors;
> make informed recommendations to the Board regarding accounting policies, practices and disclosures;
> review the scope, cost and results of the independent audits;
> assess the adequacy of the company's accounting and internal controls.

The committee is also responsible for the nomination of independent auditors.

ETHICAL STANDARDS

The Board of Payce has approved a Code of Conduct and expects all directors, officers and employees to comply with it when acting on behalf on the company.

Payce's Code of Conduct covers the following principles which are to be applied at all times:

> Conflict of interests;
> Confidentiality;
> Fair dealing;
> Protection of and proper use of the Company's assets;
> Compliance with laws and regulations;
> Encouraging the reporting of unlawful/unethical behaviour.

TRADING POLICY

The Board has established a policy in relation to directors and employees holding and dealing in the Company's securities.

Directors are prohibited from short term trading in the Company's securities and directors and employees are prohibited from dealing in the Company's securities whilst in possession of price sensitive information, not generally available to the public.

BUSINESS RISK MANAGEMENT

The Board determines the Company's risk profile and is responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control. The Company's process of risk management and internal compliance and control includes:

- Establishing the Company's goals and objectives, and implementing and monitoring strategies and policies to achieve these goals and objectives;
- Continuously identifying and measuring risks that might impact upon the achievement of the Company's goals and objectives, and monitoring the environment for emerging factors and trends that affect these risks;
- Formulating risk management strategies to manage identified risks, and designing and implementing appropriate risk management policies and internal controls.
- Monitoring the performance of, and continuously improving the effectiveness of risk management systems and internal compliance and controls.
- Effectiveness and efficiency in the use of the Company's resources;
- Compliance with applicable laws and regulations;
- Preparation of reliable published financial information.

The responsibility for undertaking and assessing risk management and internal control effectiveness is delegated to management.

The Managing Director and Chief Financial Officer report in writing to the Board for half-year and year-end reporting periods that:

- the Company's financial statements present a true and fair view of the Company's financial condition and operational results and are in accordance with relevant accounting standards;
- the Company's risk management and internal compliance and control systems are operating efficiently and effectively.

SHAREHOLDERS

Information is communicated to shareholders through:

- the Annual Report;
- the Interim Report;
- disclosures made to the Australian Stock Exchange;
- notices and explanatory memoranda of annual general meetings (AGM);
- the AGM;
- occasional letters from the Board Chair and Managing Director to specifically inform shareholders of key matters of interest.

ASX BEST PRACTICE RECOMMENDATIONS

The Company advises that it does not comply with the following ASX Corporate Governance Council Best Practice Recommendations.

RECOMMENDATION 2.1 – A MAJORITY OF THE BOARD SHOULD BE INDEPENDENT DIRECTORS

During the financial year, the Board considered Roger Short to be independent. Whilst the majority of the Board is not independent, the Board is satisfied that the independent Director was able to provide input into the Company to ensure that decisions were made and actions taken in the best interests of the company and its shareholders.

RECOMMENDATION 2.2 – THE CHAIRPERSON SHOULD BE AN INDEPENDENT DIRECTOR

The Chairman of Payce Consolidated Limited is Mr D.H. Macintosh. Mr Macintosh has been an executive director since 1990 and Chairman since 1992. Mr Macintosh is an integral part of the Company and a substantial shareholder. Due to the complexity and scale of the Company's development, the importance of continuity and the detailed knowledge of the business, it is not considered practical for the role to be carried out by an independent director.

RECOMMENDATION 2.4 – THE BOARD SHOULD ESTABLISH A NOMINATION COMMITTEE

The functions to be performed by a Nomination Committee under the ASX Best Practice Recommendations are currently performed by the Board of Directors. Having regard to the number of members currently comprising the Company's Board, the Directors do not consider it appropriate to delegate these responsibilities to a sub-committee.

RECOMMENDATION 4.3 – STRUCTURE OF AUDIT COMMITTEE

Due to the structure of the Board, the Company does not comply with this Recommendation.

OTHER INFORMATION

Further information relating to the company's corporate governance practices and policies can be obtained from the Company's registered office.

FINANCIAL STATEMENTS

INCOME STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

		CONSOLIDATED		PARENT	
		2008	2007	2008	2007
	Note	$'000	$'000	$'000	$'000
Revenue	2	99,754	126,549	-	-
Cost of sales	3	(96,459)	(100,732)	-	-
Gross profit		3,295	25,817	-	-
Other income	2	773	36,736	-	-
Administration expenses		(16,822)	(13,375)	(308)	(190)
Property expenses		(3,220)	(2,929)	-	-
Marketing expenses		(965)	(708)	-	-
Impairment of property, plant and equipment		(8,357)	(2,396)	-	
Other Expenses	3	(3,481)	-	-	-
Total expenses excluding net financing costs		(32,845)	(19,408)	(308)	(190)
(Loss)/profit before tax and net financing costs		(28,777)	43,145	(308)	(190)
Finance income		10,748	3,232	10,777	1,229
Finance costs		(17,724)	(8,170)	(10,363)	(69)
Net financing costs	4	(6,976)	(4,938)	414	1,160
Share of profits/(losses) of associated company and jointly controlled entity accounted for using the equity method	29b	10,963	(934)	-	-
(Loss)/profit before income tax		(24,790)	37,273	106	970
Income tax expense	5	7,218	(10,761)	7,072	(10,744)
(Loss)/profit for the year		(17,572)	26,512	7,178	(9,774)
Minority equity interest		129	1	-	-
(Loss)/profit attributable to members of the parent entity		(17,443)	26,513	7,178	(9,774)
Earnings per share (cents per share)					
Basic	8	(38.2)c	60.5c		
Diluted	8	(38.1)c	60.5c		

The income statements are to be read in conjunction with the notes to the financial statements set out on pages 23 to 55.

		CONSOLIDATED		PARENT	
	Note	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Current Assets					
Cash and cash equivalents	10	25,688	1,260	3	3
Trade and other receivables	11	20,026	4,427	108,604	47,009
Properties held for development and resale	12	258,053	189,783	-	-
Other	18	892	8,127	70	-
Total Current Assets		**304,659**	**203,597**	**108,677**	**47,012**
Non-Current Assets					
Trade and other receivables	11	29,157	24,227	-	-
Properties held for development and resale	12	27,437	79,311	-	-
Investments accounted for using the equity method	13	50,322	6,525	-	-
Property, plant and equipment	14	5,111	17,558	-	-
Investment properties	15	37,804	102,389	-	-
Financial assets	16	2,623	3,150	77,833	77,833
Deferred tax assets	22	20,544	14,106	19,298	13,803
Intangible assets	17	16	4,910	-	-
Total Non-Current Assets		**173,014**	**252,176**	**97,131**	**91,636**
Total Assets		**477,673**	**455,773**	**205,808**	**138,648**
Current Liabilities					
Trade and other payables	19	12,424	8,319	82	2
Financial liabilities	20	208,101	168,015	123,166	69,229
Short-term provisions	21	811	857	-	-
Total Current Liabilities		**221,336**	**177,191**	**123,248**	**69,231**
Non-Current Liabilities					
Trade and other payables	19	10,013	6,629	-	-
Financial liabilities	20	90,786	102,778	-	-
Deferred tax liabilities	22	21,834	23,305	21,834	23,305
Long-term provisions	21	11	82	-	-
Total Non-Current Liabilities		**122,644**	**132,794**	**21,834**	**23,305**
Total Liabilities		**343,980**	**309,985**	**145,082**	**92,536**
Net Assets		**133,693**	**145,788**	**60,726**	**46,112**
Equity					
Issued capital	23	68,053	60,963	68,053	60,963
Reserves	24	16,718	18,331	813	467
Retained earnings		49,052	66,495	(8,140)	(15,318)
Parent interest		133,823	145,789	60,726	46,112
Minority equity interest		(130)	(1)	-	-
Total Equity		**133,693**	**145,788**	**60,726**	**46,112**

The balance sheets are to be read in conjunction with the notes to the financial statements set out on pages 23 to 55.

	Ordinary	Retained Earnings	Capital Profits Reserve
CONSOLIDATED			
Balance at 1 July 2006	60,963	39,982	2,021
Transfer revaluation increment to asset realisation reserve being increment realised on sale of land held for redevelopment	-	-	-
Revaluation of shares available for sale	-	-	-
Profit attributable to members of parent entity	-	26,513	-
Loss attributable to minority shareholders	-	-	-
Balance at 30 June 2007	60,963	66,495	2,021
Shares issued during the year	7,090	-	-
Equity-settled transactions, net of tax	-	-	-
Transfer revaluation increment to asset realisation reserve being increment realised on sale of land held for redevelopment	-	-	-
Revaluation of shares available for sale	-	-	-
Loss attributable to members of parent entity	-	(17,443)	-
Loss attributable to minority shareholders	-	-	-
Balance at 30 June 2008	68,053	49,052	2,021
PARENT ENTITY			
Balance at 1 July 2006	60,963	(5,544)	1
Loss attributable to members of parent entity	-	(9,774)	-
Balance at 30 June 2007	60,963	(15,318)	1
Shares issued during the year	7,090	-	-
Equity-settled transactions, net of tax	-	-	-
Profit attributable to members of parent entity	-	7,178	-
Balance at 30 June 2008	68,053	(8,140)	1

The Statements of Changes in Equity are to be read in conjunction with the notes to the financial statements set out on pages 23 to 55.

Share Based Payments Reserve	Asset Revaluation Reserve	Available-For-Sale Investments Revaluation Reserve	Asset Realisation Reserve	Forfeited Shares	Minor Equity Interests	TOTAL
-	6,028	-	10,523	4	-	119,521
-	(1,052)	-	1,052	-	-	-
-	-	(245)	-	-	-	(245)
-	-	-	-	-	-	26,513
-	-	-	-	-	(1)	(1)
-	4,976	(245)	11,575	4	(1)	145,788
-	-	-	-	-	-	7,090
346	-	-	-	-	-	346
-	(397)	-	397	-	-	-
-	-	(1,959)	-	-	-	(1,959)
-	-	-	-	-	-	(17,443)
-	-	-	-	-	(129)	(129)
346	4,579	(2,204)	11,972	4	(130)	133,693
-	462	-	-	4	-	55,886
-	-	-	-	-	-	(9,774)
-	462	-	-	4	-	46,112
-	-	-	-	-	-	7,090
346	-	-	-	-	-	346
-	-	-	-	-	-	7,178
346	462	-	-	4	-	60,726

	Note	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	PARENT 2008 $'000	PARENT 2007 $'000
Cash flows from operating activities					
Cash receipts from customers		84,853	141,398	-	-
Cash paid to suppliers and employees		(34,535)	(139,977)	(298)	(180)
Dividends received		637	132	-	-
Partnership distributions received		175	-	-	-
Finance income received		10,748	3,232	10,777	1,229
Finance costs paid		(31,265)	(19,415)	(10,363)	(69)
Net cash provided by/(used in) operating activities	**31a**	**30,613**	**(14,630)**	**116**	**980**
Cash flows from investing activities					
Payments for property, plant and equipment		(1,415)	(2,933)	-	-
Proceeds from sale of property, plant, and equipment		2,169	33	-	-
Payments for investments		(2,272)	-	-	-
Payments for investments in associates		(25,804)	(6,015)	-	-
Payments for investment properties		(137)	(2,110)	-	-
Proceeds from sale of investment properties		752	-	-	
Payments for intangibles		(1,106)	(4,894)	-	-
Proceeds on disposal of subsidiaries	31d	484	-	-	-
Proceeds from repayment of loans		10,907	11,651	53,937	-
Loans to other entities		(35,381)	(14,080)	(61,143)	(1,133)
Net cash (used in) investing activities		**(51,803)**	**(18,348)**	**(7,206)**	**(1,133)**
Cash flows from financing activities					
Proceeds from the issue of share capital		7,090	-	7,090	-
Proceeds from borrowings		232,705	166,691	-	153
Repayment of borrowings		(194,177)	(133,021)	-	-
Net cash provided by financing activities		**45,618**	**33,670**	**7,090**	**153**
Net increase in cash held		**24,428**	**692**	**-**	**-**
Cash at beginning of financial year	10	1,260	568	3	3
Cash at end of financial year	**10**	**25,688**	**1,260**	**3**	**3**

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 23 to 55.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

Payce Consolidated Limited (the "Company") is a company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Stock Exchange. The consolidated financial statements of the Company for the financial year ended 30 June 2008 comprise the Company and its controlled entities (together referred to as the "consolidated entity").

The financial report was authorised for issue in accordance with a resolution of the Directors on 30 September, 2008.

The nature of the operations and principal activities of the consolidated entity are described in Note 30 (segment reporting).

(A) STATEMENT OF COMPLIANCE

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

(B) BASIS OF PREPARATION

The financial report is presented in Australian dollars and been prepared on a historical cost basis, except for investment properties and available-for-sale financial assets which have been measured at fair value.

The preparation of financial statements requires management to make judgements. Estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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 all entities in the consolidated entity.

New standards and interpretations not yet adopted

Certain new accounting standards and amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2008, but have not been applied in preparing this financial report. An assessment of the impact of these relevant standards and interpretations is set out below:

> AASB 8 Operating Segments replaces the presentation requirements of segment reporting in AASB 114 Segment Reporting. AASB 8 is applicable for annual reporting periods beginning on or after 1 January 2009 and is not expected to have an impact on the financial results of the Company and the consolidated entity as the standard is only concerned with disclosures.

> AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8 makes amendments to AASB 5 Non-current Assets Held for Sale and Discontinued Operations, AASB 6 Exploration for and Evaluation of Mineral Resources, AASB 102 Inventories, AASB 107 Cash Flow Statements, AASB 119 Employee Benefits, AASB 127 Consolidated and Separate Financial Statements, AASB 134 Interim Financial Reporting, AASB 136 Impairment Assets, AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts. AASB 2007-3 is applicable for annual reporting periods beginning on or after 1 January 2009 and must be adopted in conjunction with AASB 8 Operating Segments. This standard is only expected to impact disclosures contained within the financial report.

> Revised AASB 101 Presentation of Financial Statements, AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101 and AASB 2007-10 Further Amendments to Australian Accounting Standards arising from AASB 101 are applicable to annual reporting periods beginning on or after 1 January 2009. It requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity but will not effect any of the amounts recognised in the financial statements. If the consolidated entity makes a prior period adjustment or re-classifies items in the financial statements, it must provide a third balance sheet (statement of financial position) at the beginning of the earliest comparative period presented. Further, the consolidated entity has not determined at this stage whether to present a single statement of comprehensive income or two separate statements.

> Revised AASB 123 Borrowing Costs and AASB 2007-6 Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12] are applicable to annual reporting periods commencing on or after 1 January 2009. It has removed the option to expense all borrowing costs and – when adopted – will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. It is expected that there will be no material impact on the financial report of the consolidated entity, as the consolidated entity already capitalises borrowing costs to qualifying assets.

> Revised AASB 3 Business Combinations is applicable to annual reporting periods commencing on or after 1 July 2009 and applies prospectively for all business combinations after it becomes effective. It introduces a number of changes which may have a significant impact on accounting for future business combinations. The Directors have yet to assess the impact the revised standard will have in future periods.

> Revised AASB 127 Consolidation and Separate Financial

Statements is applicable to annual reporting periods commencing on or after 1 July 2009 and introduces a number of changes, including requiring that changes in an ownership interest in a subsidiary that does not result in a loss of control be accounted for as equity transactions. The Directors have yet to assess the impact the revised standard will have in future periods.

> AASB 2008-3 Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 [AASBs 1, 2, 4, 5, 7, 101, 107, 112, 114, 116, 121, 128, 131, 132, 133, 134, 136, 137, 138 & 139 and Interpretations 9 & 107] is applicable to annual reporting periods commencing on or after 1 July 2009. The Directors will assess the impact of this standard concurrent with their assessment of revised AASB 3 and revised AASB 127.

> AASB 2008-1 Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations is applicable to annual reporting periods commencing on or after 1 July 2009. The Directors have yet to assess the impact the revised standard will have in future periods.

> AASB 2008-5 Amendments to Australian Accounting Standards arising from the Annual Improvements Project and AASB 2008-6 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project are applicable to annual reporting periods commencing on or after 1 July 2009. These amendments introduce various changes to IFRSs. The Directors have yet to assess the impact of these amendments, if any.

> AASB 2008-7 Amendments to Australian Accounting Standards – Cost of Investment in Subsidiary, Jointly Controlled Entity or Associate is applicable to annual reporting periods commencing on or after 1 July 2009. The Directors have yet to assess the impact of these amendments, if any.

> IFRIC 15 Agreements for the Construction of Real Estate is applicable to annual reporting periods commencing on or after 1 July 2009. The Directors have yet to assess the impact of this Interpretation will have in future periods.

(C) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(i) Basis of consolidation

The consolidation financial statements comprise the financial statements of Payce Consolidated Limited and its controlled entities ("the consolidated entity").

Controlled entities 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.

A list of controlled entities is contained in Note 33 to the financial statements.

The financial statements of controlled entities are prepared for the same reporting period as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Controlled entities are consolidated from the date on which control is transferred to the consolidated entity and cease to be consolidated from the date on which control is transferred out of the consolidated entity.

Where there is loss of control of a controlled entity, the consolidated financial statements include the results for the part of the reporting period during which Payce Consolidated Limited has control.

Minority equity interests, being that portion of the profit or loss and net assets of subsidiaries attributable to equity interests held by persons outside the consolidated entity, are shown separately within the Equity section of the consolidated Balance Sheet and consolidated Income Statement.

(ii) Business Combinations

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

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

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

(iii) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(iv) Trade and other receivables

Trade and other receivables are stated at their amortised cost less impairment losses (Note1(c)(xii)).

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

(v) Properties held for development and resale

Properties held for development and sale in the ordinary course of business are carried at the lower of cost and net realisable value. Cost includes, where applicable, the cost of acquisition, construction, interest, rates, taxes and other expenses directly related to the development. All recurring costs relating to completed developments are expensed when incurred.

Where an Investment Property changes to being held for development and resale its transfer value is based upon the carry value at the date of transfer. Any subsequent loss as a consequence of remeasurement to net realisable value is immediately recognised in profit and loss.

(vi) Investment in associated companies and jointly controlled entities

The consolidated entity's investment in its associates is accounted for under the equity method of accounting in the consolidated financial statements. This is an entity in which the consolidated entity has significant influence and which is neither a controlled entity nor a joint venture.

The financial statements of the associate are used by the consolidated entity to apply the equity method.

The reporting dates of the associate and the consolidated entity are identical and both use consistent accounting policies.

The investment in the associate is carried in the consolidated balance sheet at cost plus post-acquisition changes in the consolidated entity's share of net assets of the associate, less any impairment in value. The consolidated income statement reflects the consolidated entity's share of the results of operations of the associate.

Where there has been a change recognised directly in the associate's equity, the consolidated entity recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity.

Investments in jointly controlled entities are accounted for using equity accounting principles. Investments are carried at the lower of the equity accounted amount and the recoverable amount. The consolidated entity's share of the jointly controlled entity's net profit or loss is recognised in the income statement from the date joint control commenced until the date joint control ceases. Other movements in reserves are recognised directly in reserves.

(vii) Jointly controlled assets

The interest of the consolidated entity in jointly controlled assets are brought to account by recognising in its financial statements the assets it controls, the liabilities it incurs and the expenses it incurs in maintaining and developing those assets.

(viii) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Land and buildings are measured at cost less accumulated depreciation.

Depreciation on each item of property, plant and equipment (excluding land and investment properties) is based on the expected useful economic lives of the assets using the straight line method at the following rates:

Buildings	2.50%
Plant and equipment	7-27%
Office equipment	9-27%
Leased motor vehicles	12%

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

Impairment

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount (Note 1(c)(xii)).

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. 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 item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on disposal of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is disposed.

(ix) Investment properties

Investment properties comprise investment interests in land and buildings held for rental yields and are not occupied by the consolidated entity.

Initially, investment properties are measured at cost including transaction costs.

Subsequent to initial recognition investment properties are stated at fair value subsequent to determination annually by a registered independent valuer. This determination has been made on the basis for which the properties could be exchanged between willing parties in an arm's length transaction and has taken into consideration current prices in an active market for similar properties in the same location and condition and subject to similar leases.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the period in which they arise.

Investment properties are derecognised when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal.

Any gains or losses on the derecognition of an investment property are recognised in the income statement in the period of derecognition.

(x) Financial assets

Recognition

Investments are initially measured at cost, being the fair value of the consideration given, including transaction costs. Investments are classified into the following specific categories and, after initial recognition, are measured as set out below.

Available-for-sale financial assets

Available-for-sale financial assets comprise shares in listed companies. Available-for-sale financial assets are reflected at fair value, less impairment. For investments that are actively traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date. Unrealised gains and losses arising from changes in fair value are taken directly to the available-for-sale revaluation reserve, until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in the available-for-sale revaluation reserve is included in the income statement for the period.

Loans and receivables

Trade receivables, loans and other receivables are carried at amortised cost less impairment.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment

At each balance sheet date, the consolidated entity assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether impairment has arisen. Impairment losses are recognised in the income statement.

(xi) Intangible assets

Intangible assets acquired separately are capitalised at cost and from a business combination are capitalised at fair value as at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible assets.

The useful lives of these Intangible assets are assessed to be either finite or indefinite.

Where amortisation is charged on assets with finite lives, this expense is taken to the income statement through the "administrative expenses" line item.

Intangible assets excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred.

Trademarks

Trademarks have an indefinite useful life and are carried at cost less impairment losses.

(xii) Impairment of assets

At each end reporting date, the consolidated entity assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the consolidated entity makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in the use cannot be estimated to be close to its fair value costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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.

(xiii) Financial liabilities

All financial liabilities are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with borrowing.

After initial recognition, interest-bearing financial liabilities are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the income statement when the liabilities are derecognised and as well as though the amortisation process.

Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as the lease income.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

(xiv) Provisions

Provisions are recognised when the consolidated entity has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Employee benefits

Provision is made for the consolidated entity's liability for employee benefits arising from services rendered by employees to balance date. These benefits include annual leave and long service leave. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at present value of the estimated future cash outflows to be made for those benefits.

(xv)Share-based payment transactions

At the Directors' discretion options to acquire shares of the Company may be granted to nominated employees. The fair value of options 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 recipients become unconditionally entitled to the options. The fair value of the options granted is measured using a Black-Scholes option-pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of shares options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting. The fair value of shares granted is measured by reference to the closing ASX market price of shares at the grant date, adjusted as necessary for any term or conditions attached to the shares.

(xvi) Taxation

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future. Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Payce Consolidated Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2003.

Controlled entities within the consolidated entity which are required to issue separate financial statements have adopted the "separate taxpayer within group" approach stated in UIG Interpretation 1052 Tax Consolidation Accounting and are required to make adjustments for transactions and events occurring within the tax-consolidated group that do not give rise to a tax consequence for the group when recognising their current tax and deferred tax assets and liabilities representing temporary differences. Any deferred tax assets representing unused tax losses are immediately assumed by Payce Consolidated Limited.

Payce Consolidated Limited is also responsible for recognising the current and deferred tax assets and liabilities for all controlled entities within the tax consolidated group which are not required to issue separate financial statements as no Tax Sharing Agreements are in place.

(xvii) Goods and Service Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the item of expense.

Receivables and payables in the Balance Sheet are shown inclusive of GST.

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

Commitments and contingencies are disclosed net of the amount of GST recoverable from or payable to the taxation authority.

(xviii) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the consolidated entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest revenue

Interest revenue is recognised as it accrues using the effective interest rate method.

Property development

Revenue is recognised on property development projects on settlement.

Commission

Commission income from property sales is recognised when settlement of the property sale occurs.

Lease revenue

Lease income from operating leases is recognised in income on a straight line basis over the term of the lease.

(xix) Borrowing costs

Borrowing costs are interest and other costs incurred in connection with the borrowing of funds. Borrowing costs are expensed as incurred unless they relate to qualifying assets. Qualifying assets are assets which take more than 12 months to get ready for their intended use or sale. In these circumstances, borrowing costs are capitalised to the cost of the assets. Where funds are borrowed generally, borrowing costs are capitalised using a weighted average capitalisation rate.

(xx) Financial Instruments

Recognition and initial measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Financial instruments are initially measured at cost at trade date, which includes transaction costs. Subsequent to initial recognition these financial instruments are measured as set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable dates that are not quoted in an active market and are stated at cost.

Available-for-sale financial assets

Available-for-sale financial assets (investments) are reflected at fair value. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments. Fair value is determined with reference to market prices. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Fair value

Fair value is based on current bid prices for all quoted investments.

Impairment

At each reporting date, the consolidated entity assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire.

(xxi) Comparative Figures

Where required by AASBs comparative figures have been adjusted to conform with changes in presentation for the current financial year.

(xxii) Critical Accounting Estimates and Judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and their 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 periods affected.

In relation to the following notes to the financial statements is information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have a significant effect in the amount recognised in the financial statements:

Note 11. Trade and Other Receivables

At each end reporting date, the consolidated entity assesses whether there is any indication that each significant trade and other receivable asset may be impaired. Where an indicator of impairment exists, the consolidated entity makes a formal estimate of recoverable amount. Where the carrying amount of an each significant trade and other receivable asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount. However these formal estimates of recoverable amount invariably differ from the future amount actually recovered due to matters, circumstances and outcomes from either mediation or legal action not known at the time the formal estimate is made. Further information on credit risk is contained in Note 28 Financial Instruments.

Note 12. Properties held for Development and Resale

It is the consolidated entity's policy that properties held for development and sale in the ordinary course of business are carried at the lower of cost and net realisable value. In determining the carrying amount of this asset category the Directors have taken into consideration independent valuations obtained as at balance date.

Note 14. Property, Plant & Equipment

It is the consolidated entity's policy to review the carrying values of property, plant and equipment for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. In undertaking this review the Directors have taken into consideration independent valuations obtained as at balance date and the relevant terms and conditions of leasing arrangements pertaining to the consolidated entity's freehold land and buildings.

Note 15. Investment Properties

It is the consolidated entity's policy that after initial recognition, investment properties are stated at fair value. In determining the carrying amount of this asset category the Directors have taken into consideration independent valuations obtained as at balance date.

Note 22. Tax

A deferred tax asset representing unused tax losses has been recognised on the basis that it is probable that future taxable amounts will be available to utilise these losses. In making this determination the Directors and management have taken into consideration, among other matters, the underlying budgeted sales assumptions of properties held for development and resale.

	CONSOLIDATED		PARENT	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
NOTE 2. REVENUE AND OTHER INCOME				
Sales revenue				
Property development sales	91,204	119,369	-	-
Rent received	5,387	3,977	-	-
Commissions	17	225	-	-
Other sales income	2,303	1,196	-	-
Other	843	1,782	-	-
Total revenue	99,754	126,549	-	-
Other Income				
Gain on revaluation of investment properties	-	36,604	-	-
Dividends received – other corporations	637	132	-	-
Gain on sale of investment property	121	-	-	-
License fee income	15	-	-	-
Total other income	773	36,736	-	-
NOTE 3. EXPENSES EXCLUDING NET FINANCING COSTS				
Cost of sales	86,359	100,732	-	-
Write down of properties held for development and resale to net realisable value	10,100	-	-	-
Total cost of sales	96,459	100,732	-	-
Other Expenses				
Loss on revaluation of investment properties	3,481	-	-	-
			-	-
Depreciation				
Buildings	701	484	-	-
Plant and equipment	879	830	-	3
Total	1,580	1,314	-	3
Amortisation – Leases assets	-	5	-	-
Impairment of receivables				
Impairment of current trade and other receivables	3,363	473	-	-
Impairment of non-current trade and other receivables	75	700	-	-
Total impairment of receivables	3,438	1,173	-	-
Rental expense on operating leases				
Minimum lease payment	332	326	-	-
Direct property expenditure from investment property generating rental income	4,701	2,425	-	-
Employee benefits expense				
Wages and salaries	4,508	3,775	48	39
Other associated personnel expenses	273	288	3	2
Contributions to defined contribution superannuation funds	393	368	4	4
Equity settled share based payments	494	-	-	-
Decrease in employee benefits provisions	(132)	(67)	-	-
Total employee benefits expense	5,536	4,364	55	45

	CONSOLIDATED		PARENT	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
NOTE 4. NET FINANCING COSTS				
Interest income				
Controlled entities	-	-	10,777	1,229
Associated companies	6,303	1,276	-	-
Other entities	4,445	1,956	-	-
Finance income	10,748	3,232	10,777	1,229
Interest expense:				
Controlled entities	-	-	10,363	69
Associated companies	7,461	-	-	-
Other entities	23,804	19,415	-	-
	31,265	19,415	10,363	69
Amount capitalised	(13,541)	(11,245)	-	-
Finance expenses	17,724	8,170	10,363	69
Net financing (costs)/income	(6,976)	(4,938)	414	1,160

NOTE 5. INCOME TAX EXPENSE

The components of expense comprise				
Current tax	-	-	-	-
Deferred tax	(7,200)	10,936	(7,054)	10,919
Over provision from prior year	(18)	(175)	(18)	(175)
	(7,218)	10,761	(7,072)	10,744

The prima facie tax on profit from ordinary activities before income tax is reconciled to income tax as follows:

Prima facie tax payable on profit from ordinary activities before income tax at 30% (2007: 30%)	(7,437)	11,182	32	291
Non-allowable items	44	59	44	-
Over provision for income tax in prior year	(18)	(175)	(18)	(175)
Loss of subsidiaries not part of the tax consolidation group	193	-	193	-
Share of net profits of associated companies and jointly controlled entities netted directly	-	(223)	-	-
Other	-	(82)	-	-
Expense recognised on tax consolidation under the Act	-	-	(7,323)	10,628
	(7,218)	10,761	(7,072)	10,744

NOTE 6. KEY MANAGEMENT PERSONNEL COMPENSATION

A. NAMES AND POSITIONS HELD OF CONSOLIDATED AND PARENT ENTITY KEY MANAGEMENT PERSONNEL IN OFFICE AT ANY TIME DURING THE FINANCIAL YEAR ARE:

Key Management Person	Position
Mr. D.H. Macintosh	Chairman – Executive
Mr. B.M. Boyd	Managing Director – Executive
Mr. R. R. Short	Director - Non-executive
Mr. B.J. Klevansky	General Manager
Mr. B.H. Bailison	Head of Corporate Finance (appointed 13 May 2008)
Mr. S.M. Wainwright	Company Secretary/Chief Financial Officer
Mr. P. Munnings	General Manager – Operations (position made redundant 21 January 2008)

Key management personnel remuneration has been included in the Remuneration Report section of the Directors' Report.

NOTE 6. KEY MANAGEMENT PERSONNEL COMPENSATION (continued)

B. OPTIONS AND RIGHTS HOLDINGS

Number of Options Held by Key Management Personnel

	Balance 1 July 2007	Received as compensation	Options exercised	Balance 30 June 2008	Total vested 30 June 2008	Total exercisable 30 June 2008	Total unexercisable 30 June 2008
B.J. Klevansky	-	1,200,000	-	1,200,000	1,200,000	1,200,000	-
B.H. Bailison	-	600,000	-	600,000	-	-	600,000
	-	1,800,000	-	1,800,000	1,200,000	1,200,000	600,000

C. SHAREHOLDINGS

Number of shares held by Key Management Personnel

	Balance 1 July 2007	Received as compensation	Options exercised	Net change other	Balance 30 June 2008
D.H. Macintosh	4,417,177	-	-	9,748	4,426,925
B.M. Boyd	13,959,850	-	-	-	13,959,850
R.R. Short	65,000	-	-	-	65,000
B.J. Klevansky	727,273	-	-	-	727,273
	19,169,300	-	-	9,748	19,179,048

	CONSOLIDATED		PARENT	
	2008 $	2007 $	2008 $	2007 $
NOTE 7. AUDITORS' REMUNERATION				
Remuneration of the auditor of the parent entity for:				
Auditing or reviewing the financial reports	196,630	88,000	25,000	15,000
Review and analysis services	7,900	-	-	-
Remuneration of other auditors of controlled entities for:				
Auditing or reviewing the financial report of controlled entities	-	-	-	-

	CONSOLIDATED	
	2008 $'000	2007 $'000
NOTE 8. EARNINGS PER SHARE		
a. Reconciliation of earnings to profit or loss		
(Loss) / Profit	(17,572)	26,512
Loss attributable to minority equity interest	129	1
Earnings used to calculate basic EPS	(17,443)	26,513
Earnings used in calculating Diluted EPS	(17,443)	26,513

	Number	Number
b. Weighted average number of ordinary shares outstanding during the year used in calculating basis EPS	45,625,413	43,822,237
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	45,758,200	43,822,237

	CONSOLIDATED		PARENT	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
NOTE 9. DIVIDENDS				
a. No dividends of the company have been paid, declared or recommended during the year ended 30 June 2008 or since that date.				
b. Balance of franking account	160	160	160	160

Franking credits available for subsequent financial years based on a tax rate of 30% (2007; 30%)

The above amounts represent the balance of the franking account as at the end of the financial year adjusted for:
- franking credits that will arise from the payment of the amount of the provision for income tax
- franking debits that will arise from the payment of dividends recognised as a liability at reporting date
- franking credits that will arise on the receipt of dividends recognised as a receivable at the reporting date

The ability to utilise the franking account credits is dependent upon there being sufficient available profits to declare dividends.

	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	PARENT 2008 $'000	PARENT 2007 $'000
NOTE 10. CASH AND CASH EQUIVALENTS				
Cash on hand	5	5	-	-
Cash at bank	25,683	1,255	3	3
	25,688	1,260	3	3

The effective interest rate on short term bank deposits was 7.32% (2007; 5.23%).

	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	PARENT 2008 $'000	PARENT 2007 $'000
NOTE 11. TRADE AND OTHER RECEIVABLES				
CURRENT				
Trade receivables	2,214	1,341	-	-
Provision for impairment of receivables	(13)	(6)	-	-
	2,201	1,335	-	-
Other receivables	7,718	3,500	-	-
Provision for impairment of receivables	(2,856)	(500)	-	-
	4,862	3,000	-	-
Amounts receivable from:				
Controlled entities	-	-	128,485	66,890
Provision for impairment of receivables	-	-	(19,881)	(19,881)
	-	-	108,604	47,009
Associated companies and jointly controlled entities	13,963	92	-	-
Provision for impairment of receivables	(1,000)	-	-	-
	12,963	92	-	-
	20,026	4,427	108,604	47,009
NON-CURRENT				
Other receivables	12,067	8,857	-	-
Provision for impairment of receivables	(75)	-	-	-
	11,992	8,857	-	-
Amounts receivable from associated companies	17,865	16,070	-	-
Provision for impairment of amounts receivable	(700)	(700)	-	-
	17,165	15,370	-	-
	29,157	24,227	-	-

	CONSOLIDATED		PARENT	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
NOTE 12. PROPERTIES HELD FOR DEVELOPMENT AND RESALE				
CURRENT				
Properties held for development and sale				
At cost	40,257	2,660	-	-
Transfer from Investment properties – at valuation	61,500	-	-	-
Amounts capitalised to development properties:				
Development expenses	136,646	169,626	-	-
Rates, taxes & interest	29,750	17,497	-	-
	268,153	189,783	-	-
Write down of properties held for development and resale to net realisable value	(10,100)	-	-	-
	258,053	189,783	-	-
NON-CURRENT				
Properties held for development and sale				
At cost	25,106	49,912	-	-
Amounts capitalised to development properties:				
Development expenses	898	24,415	-	-
Rates, taxes & interest	1,433	4,984	-	-
	27,437	79,311	-	-
Finance costs recognised during the financial year as part of the:				
Carrying amount	13,541	11,245		
Capitalisation rate	9.8%	8.1%		
NOTE 13. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD				
Associates	4,149	4,385	-	-
Jointly controlled entities	46,173	2,140	-	-
	50,322	6,525	-	-
NOTE 14. PROPERTY, PLANT & EQUIPMENT				
Freehold land and buildings - at cost	14,411	15,928	-	-
Accumulated depreciation	(1,273)	(572)	-	-
Accumulated impairment losses	(9,954)	(2,396)	-	-
	3,184	12,960	-	-
Plant & equipment – at cost	5,901	7,446	-	-
Accumulated depreciation	(805)	(1,024)	-	-
Accumulated impairment losses	(3,606)	(3,074)	-	-
	1,490	3,348	-	-
Office equipment – at cost	1,824	2,561	-	-
Accumulated depreciation	(1,160)	(1,359)	-	-
Accumulated impairment losses	(267)	-	-	
	397	1,202	-	-
Motor vehicles – at cost	65	65	-	-
Accumulated depreciation	(25)	(17)	-	-
	40	48	-	-
	5,111	17,558	-	-

NOTE 14. PROPERTY, PLANT & EQUIPMENT (continued)

RECONCILIATIONS

Reconciliations of the carrying amount for each class of property, plant and equipment are set out below:

	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	PARENT 2008 $'000	PARENT 2007 $'000
FREEHOLD LAND AND BUILDINGS				
Carrying amount at beginning of year	12,960	1,678	-	-
Transfer from properties held for development and resale	-	11,946	-	-
Transfer to investment properties	(413)	-	-	-
Additions	1,112	2,216	-	-
Disposals	(2,216)	-	-	-
Depreciation	(701)	(484)	-	-
Impairment loss	(7,558)	(2,396)	-	-
Carrying amount at end of year	3,184	12,960	-	-
PLANT AND EQUIPMENT				
Carrying amount at beginning of year	3,348	3,276	-	-
Transfer to investment properties	(497)	-	-	-
Additions	88	398	-	-
Disposals	(543)	(14)	-	-
Intra group transfer	(16)	-	-	-
Depreciation	(358)	(312)	-	-
Impairment loss	(532)	-	-	-
Carrying amount at end of year	1,490	3,348	-	-
OFFICE EQUIPMENT				
Carrying amount at beginning of year	1,202	1,392	-	23
Additions	215	319	-	-
Disposals	(256)	-	-	-
Intra group transfer	16	-	-	(20)
Depreciation	(513)	(509)	-	(3)
Impairment loss	(267)	-	-	-
Carrying amount at end of year	397	1,202	-	-
MOTOR VEHICLES				
Carrying amount at beginning of year	48	59	-	-
Additions	-	-	-	-
Disposals	-	(2)	-	-
Depreciation	(8)	(9)	-	-
Carrying amount at end of year	40	48	-	-
LEASED MOTOR VEHICLES				
Carrying amount at beginning of year	-	30	-	-
Disposals	-	(25)	-	-
Amortisation	-	(5)	-	-
Carrying amount at end of year	-	-	-	-

	Note	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	PARENT 2008 $'000	PARENT 2007 $'000
NOTE 15. INVESTMENT PROPERTIES					
Carrying amount at beginning of year		102,389	62,800	-	-
Acquisitions (subsequent expenditure)		137	2,110	-	-
Fair value adjustments		(3,481)	36,604	-	-
Transfers (to)/from properties held for development and resale		(61,500)	875	-	-
Transfers from property, plant and equipment		910	-	-	-
Disposals		(651)	-	-	-
		37,804	102,389	-	-

The basis of the valuation of investment properties is fair value being the amounts for which the properties could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases. The 2008 revaluations were based on independent assessments made by a member of the Australian Property Institute as at balance date.

MINIMUM LEASE PAYMENTS RECEIVABLE ON LEASES OF INVESTMENT PROPERTIES

Minimum lease payments under non-cancelable operating leases of investment properties not recognised in the financial statements are receivable as follows:

	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	PARENT 2008 $'000	PARENT 2007 $'000
Receivable				
not later than 1 year	2,149	2,179	-	-
later than 1 year but not later than 5 years	8,476	8,506	-	-
later than 5 years	4,415	6,534	-	-
	15,040	17,219	-	-

	Note	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	PARENT 2008 $'000	PARENT 2007 $'000
NOTE 16. FINANCIAL ASSETS					
Shares in controlled entities					
At cost	33	-	-	77,833	77,833
Available-for-sale financial assets					
Shares in listed securities - at fair value		2,623	3,150	-	-
Total other financial assets		2,623	3,150	77,833	77,833

	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	PARENT 2008 $'000	PARENT 2007 $'000
NOTE 17. INTANGIBLES				
Trademark				
At cost	16	16	-	-
Accumulated impairment losses	-	-	-	-
	16	16	-	-
Childcare licences				
At cost	-	4,894	-	-
Accumulated impairment losses	-	-	-	-
	-	4,894	-	-
	16	4,910	-	-
Carrying amount at beginning of year	4,910	16	-	-
Additions	1,106	4,894	-	-
Disposals	(6,000)	-	-	
Impairment losses	-	-	-	-
Carrying amount at end of year	16	4,910	-	-

	CONSOLIDATED		PARENT	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
NOTE 18. OTHER ASSETS				
CURRENT				
Prepayments	446	2,114	70	-
Commissions paid in advance	281	4,938	-	-
Other	165	1,075	-	-
	892	8,127	70	-
NOTE 19. TRADE AND OTHER PAYABLES				
CURRENT				
Trade payables	1,668	757	-	-
Option deposits	48	2,787	-	-
Interest received in advance	478	336	-	-
Other payables and accruals	10,230	4,439	82	2
	12,424	8,319	82	2
NON-CURRENT				
Option deposits	1,545	1,046	-	-
Other payables and accruals	8,468	5,583	-	-
	10,013	6,629	-	-
NOTE 20. FINANCIAL LIABILITIES				
CURRENT				
Notes (secured)	205,525	168,015	-	-
Loans (secured)	2,576	-	-	-
Amounts payable to controlled entities	-	-	123,166	69,229
	208,101	168,015	123,166	69,229
NON-CURRENT				
Notes (secured)	79,170	94,529	-	-
Loans (secured)	11,616	6,303	-	-
Margin facility (secured)	-	1,946	-	-
	90,786	102,778	-	-

Notes

Total Notes (secured) of $284,695,000 is secured as follows:-

a. $95,481,000 is secured by way of registered first mortgage over the freehold properties of Payce Properties Pty Limited and a fixed and floating charge over all assets of the consolidated entity other than those assets held by Payce Land Holdings Pty Limited and its controlled entities and Bcove 4 Pty Limited as trustee for the Bcove 4 Trust. The consolidated entity has recently extended this facility to 30 November 2009 but $16,311,000 of this amount has been included as a Current Liability on the basis that proceeds from the sale of completed apartments in the year ending 30 June 2009 will extinguish this liability.

The following covenants exist over this Facility;

> The Outstanding Amount must not exceed 65% of the Secured Assets.
> The consolidated entity's Net Tangible Assets must be greater than $100,000,000 as reported in the annual and semi-annual consolidated financial statements.
> In each Quarter, Net Sales Proceeds received for the Quarter must exceed 5% of the Secured Assets at the commencement of that Quarter.
> Where the Outstanding Amount exceeds 60% of the Secured Assets at the end of a Quarter, the estimated Net Sale Proceeds from exchanged Sale Contracts must exceed 1.5% of the Secured Assets.

	CONSOLIDATED		PARENT	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000

NOTE 20. FINANCIAL LIABILITIES (continued)

b. $189,214,000 is secured (limited recourse) by way of a registered first mortgage over the freehold properties and a fixed and floating charge over the assets and undertakings of Payce Land Holdings Pty Limited and its controlled entities. The facilities which comprise this amount are due to expire in December 2008 and management are currently discussing with its financiers for an extension beyond the current expiry date.

	2008 $'000	2007 $'000	2008 $'000	2007 $'000
The maturity dates for the Notes are:				
04 October 2007	-	9,145	-	-
30 January 2008	-	67,768	-	-
22 June 2008	-	91,102	-	-
30 November 2008	-	94,529	-	-
31 December 2008	189,214	-	-	-
30 November 2009	95,481	-	-	-
	284,695	262,544	-	-

Loans

Security for the loan (2008: $2,576,000; 2007: $Nil) was provided by way of a registered first mortgage over the freehold property held by Henlia No. 13 Pty Limited.

Security for the loan (2008: $11,616,000; 2007: $6,303,000) was provided by way of a registered first mortgage over the freehold property held by Bcove 4 Pty Limited as trustee of the Bcove 4 Trust, together with a fixed and floating charge over the assets within that entity.

Margin Facility

The Margin Facility was secured against an investment in an entity listed on the Australian Stock Exchange. This facility was repaid during the current financial year.

Security

The carrying amounts of assets pledged as security are:
First mortgage

	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Properties held for development and resale	285,490	269,094	-	-
Investment properties	37,804	102,389	-	-
Freehold land and buildings	3,184	12,960	-	-
Available-for-sale financial assets	-	1,946	-	-
Floating charge over assets	121,195	69,385	205,808	138,648
	447,673	455,774	205,808	138,648

NOTE 21. PROVISIONS

	CONSOLIDATED		PARENT	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
CURRENT				
Employee benefits	741	857	-	-
Leasehold make good costs	70	-	-	-
	811	857	-	-
NON-CURRENT				
Employee benefits	11	27	-	-
Leasehold make good costs	-	55	-	-
	11	82	-	-

	Employee benefits $'000	Lease make good costs $'000	Total $'000
Opening Balance at 1 July 2007	884	55	939
Additional provisions	191	15	206
Amounts used	(323)	-	(323)
Balance at 30 June 2008	752	70	822

a. Employee benefits
A provision is recognised for employee entitlements relating to annual and long service leave for employees. The calculation of the present value of future cash flows in respect of long service leave being taken is based upon historical data. The measurement and recognition criteria for employee benefits have been included in Note 1(c)(xiv).

b. Leasehold make good costs
In accordance with the lease agreement, the consolidated entity may have to restore the leased premises at Homebush Bay to its original condition before vacating the premises. An initial provision of $55,000 was made during the year ended 30 June 2005 and a further provision of $15,000 was made in the current year in respect of the consolidated entity's obligation to remove leasehold improvements from the lease premises and to make good.

NOTE 22. TAX

	Opening balance $'000	Charged to income $'000	Charged directly to equity $'000	Transfers between tax assets and liabilities $'000	Closing balance $'000
CONSOLIDATED					
DEFERRED TAX ASSETS					
Provisions deductible for income tax purposes only when paid	302	(20)	-	-	282
Losses for tax purposes available for offset against future profits	14,644	(4,182)	-	-	10,462
Impairment of current trade and other receivables	10	142	-	-	152
Impairment of non-current trade and other receivables	-	210	-	-	210
Income received from associated companies and jointly controlled entities	-	673	-	-	673
Share of losses of associated companies and jointly controlled entities	-	280	-	-	280
Fair value loss adjustment	-	-	105	-	105
Revaluation of property, plant and equipment to fair value	1,496	(944)	-	108	660
Impairment of property, plant and equipment	922	-	-	-	922
Other	125	235	-	-	360
Balance 30 June 2007	**17,499**	**(3,606)**	**105**	**108**	**14,106**
Provisions deductible for income tax purposes only when paid	282	(35)	-	-	247
Losses for tax purposes available for offset against future profits	10,462	381	-	-	10,843
Impairment of current trade and other receivables	152	1,009	-	-	1,161
Impairment of non-current trade and other receivables	210	23	-	-	233
Income received from associated companies and jointly controlled entities	673	1,754	-	-	2,427
Share of losses of associated companies and jointly controlled entities	280	(54)	-	-	226
Fair value loss adjustment	105	-	840	-	945
Revaluation of property, plant and equipment to fair value	660	2,445	-	255	3,360
Impairment of property, plant and equipment	922	88	-	-	1,010
Other	360	(268)	-	-	92
Balance 30 June 2008	**14,106**	**5,343**	**840**	**255**	**20,544**

NOTE 22. TAX (continued)

	Opening balance $'000	Charged to income $'000	Intra-group transfer $'000	Transfers between tax assets and liabilities $'000	Closing balance $'000
CONSOLIDATED (continued)					
DEFERRED TAX LIABILITIES					
Expenses capitalised to properties held for development and resale but deductible for tax purposes	12,064	(2,318)	-	(44)	9,702
Revaluation of investment properties to fair value	3,979	9,472	-	152	13,603
Balance 30 June 2007	**16,043**	**7,154**	**-**	**108**	**23,305**
Expenses capitalised to properties held for development and resale but deductible for tax purposes	9,702	(3,109)	8,572	-	15,165
Revaluation of investment properties to fair value	13,603	(1,054)	(8,572)	255	4,232
Share of profit of associated company	-	2,437	-	-	2,437
Balance 30 June 2008	**23,305**	**(1,726)**	**-**	**255**	**21,834**

	Opening balance $'000	Charged to income $'000	Charged directly to equity $'000	Transfers between tax assets and liabilities $'000	Closing balance $'000
PARENT ENTITY					
DEFERRED TAX ASSETS					
Losses for tax purposes available for offset against future profits	14,644	(4,182)	-	-	10,462
Asset recognised on tax consolidation under the Act	2,535	593	105	108	3,341
Balance 30 June 2007	**17,179**	**(3,589)**	**105**	**108**	**13,803**
Losses for tax purposes available for offset against future profits	10,462	381	-	-	10,843
Asset recognised on tax consolidation under the Act	3,341	4,859	-	255	8,455
Balance 30 June 2008	**13,803**	**5,240**	**-**	**255**	**19,298**
DEFERRED TAX LIABILITIES					
Liability recognised on tax consolidation under the Act	16,043	7,154	-	108	23,305
Balance 30 June 2007	**16,043**	**7,154**	**-**	**108**	**23,305**
Liability recognised on tax consolidation under the Act	23,305	(1,726)	-	255	21,834
Balance 30 June 2008	**23,305**	**(1,726)**	**-**	**255**	**21,834**

	CONSOLIDATED		PARENT	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
NOTE 23. ISSUED CAPITAL				
ISSUED				
46,400,215 (June 2007: 43,822,237) ordinary shares fully paid	68,053	60,963	68,053	60,963

	Number	Number	Number	Number
Balance at beginning of financial period	43,822,237	43,822,237	43,822,237	43,822,237
Shares issued during the period	2,577,978	-	2,577,978	-
Balance at end of financial period	**46,400,215**	**43,822,237**	**46,400,215**	**43,822,237**

On 19 October 2007, a subsidiary of Babcock & Brown Limited exercised Options granted in October 2005 for 2,577,978 shares at $2.75 per share. This increased their holding to 14.99% of the Company.

Effective from 1 July 1998, The Company Law Reform Review Act abolished the concept of par value shares and the concept of authorised capital. Accordingly, the company does not have authorised capital or par value shares in respect of its issued shares.

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

The voting rights are governed by the Company's Constitution. In summary, every member present in person or by proxy shall have one vote and upon a poll, the members with ordinary fully paid shares have one vote for each share held.

Options

For information on relating to share options issued to key management personnel during the financial year refer Note 32 Share-based Payments.

Capital Management

Management controls the capital of the consolidated entity in order to provide the shareholders with adequate returns and ensure that the consolidated entity can fund its operations and continue as a going concern.

The consolidated entity's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets. There are no externally imposed capital requirements. Management effectively manages the consolidated entity's capital by assessing the consolidated entity's financial risks and adjusting the capital structure in response to changes in these risks and in the market. This includes the management of share issues. There have been no changes in the strategy adopted by management to control the capital of the consolidated entity since the prior year. The gearing ration for the year ended 30 June 2008 and 30 June 2007 are as follows:-

		CONSOLIDATED		PARENT	
		2008	2007	2008	2007
	Note	$'000	$'000	$'000	$'000
Total borrowings	19 & 20	321,324	285,741	123,248	69,231
Less cash and cash equivalents		(25,688)	(1,260)	(3)	(3)
Net debt		295,636	284,481	123,245	69,228
Total equity		133,693	145,788	60,726	46,112
Total capital		**429,329**	**430,269**	**183,971**	**115,340**
Gearing ratio		69%	66%	67%	60%

NOTE 24. RESERVES

CAPITAL PROFITS

Upon disposal of non-current assets, capital profits are transferred to the capital profits reserve.

ASSET REVALUATION

The asset revaluation reserve includes the net revaluation increments and decrements arising from the revaluation of non-current assets. This reserve relates to previously revalued land and buildings (consolidated entity) and shares in controlled entities (Parent). This reserve is not available for future asset write-downs as a result of using the deemed cost election under previous accounting standard AASB1041.

AVAILABLE-FOR-SALE INVESTMENTS REVALUATION

Changes in the fair value on translation of investments such as equities classified as available-for-sale financial assets are taken to the available-for-sale investment revaluation reserve.

ASSET REALISATION

Upon disposal of revalued assets, any related revaluation increment standing to the credit of the asset revaluation reserve is transferred to the asset realisation reserve.

FORFEITED SHARES

Where partly paid shares are forfeited, the amount paid is transferred to the forfeited shares reserve.

NOTE 25. CONTINGENT LIABILITIES

	CONSOLIDATED		PARENT	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
a. Guarantees given in the ordinary course of business for borrowings and commitments of controlled entities	57,344	94,529	-	-
b. Guarantees given in the ordinary course of business for borrowings and commitments of an associated company.	1,695	2,350	1,695	2,350
c. Assignment of loans related to the purchase of consolidated entity property held for development and resale by third parties.	5,000	5,000	5,000	5,000
d. Gross rental and outgoings guarantees given in the ordinary course of business (no allowance has been included for anticipated rental income which will offset the rental and outgoings guarantee)	1,927	1,697	-	-

In respect of the foregoing contingent liabilities no material losses giving rise to actual liabilities are anticipated.

e. A superannuation fund on a cash accumulation basis provides employees or their dependants with benefits on retirement, resignation, disability or death. The members and the consolidated entity make contributions as specified in the rules of the fund. The assets of the fund are sufficient to satisfy all benefits that would be payable in the event of the fund's termination, or the voluntary or compulsory termination of employment of each employee. In addition, contributions are made to the superannuation fund in order to satisfy the legal entitlements of employees.

f. As at balance date there was no contingent liability for termination benefits under service agreements with directors or employees of the Parent Company or its controlled entities.

g. Payce Consolidated Limited has undertaken, if required, to provide funds or to indemnify any person against the consequences of default in payment or otherwise be responsible for any debt or monetary liability of the following controlled entities:

> Payce Industries Limited
> Payce Management Limited
> Pacific Assets Limited
> Payce Properties Pty Limited
> Ravelin Pty Limited
> Payce Finance Pty Limited
> Homelinx Pty Limited
> H.B. Properties Pty Ltd
> Quadratical Pty Limited

h. Henlia No. 10 Pty Limited has agreed to provide continuing financial support to Ripley Town Holdings Pty Limited to ensure it is able to meet its financial obligations and continue as a going concern until 19 September 2009.

i. Henlia No. 9 Pty Limited has agreed to provide continuing financial support to the Bcove 4 Trust to ensure it is able to meet its financial obligations and continue as a going concern until 19 September 2009.

j. Provided there are no adverse changes to the structure or operations of World of Learning Pty Limited, it is the current intention of Payce Finance Pty Limited to continue to support World of Learning Pty Limited and its controlled entities until 28 July 2009 so that these entities are able to continue as a going concern.

k. Provided there are no adverse changes to the structure or operations of Ramsay Bourne Holdings Pty Limited, it is the current intention of Payce Finance Pty Limited to continue to support Ramsay Bourne Holdings Pty Limited and its controlled entities until 28 July 2009 so that these entities are able to continue as a going concern.

NOTE 26. FORWARD COMMITMENTS

	CONSOLIDATED		PARENT	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
a. Capital expenditure in relation to development properties, contracted for but not provided for in the financial report				
payable not later than one year	-	4,184	-	-
later than one year but not later than 5 years	-	-	-	-
	-	4,184	-	-
b. Non-cancellable operating lease commitments				
payable not later than one year	182	330	-	-
later than one year but not later than 5 years	33	199	-	-
	215	529	-	-

The consolidated entity leases office space at 8 Baywater Drive, Homebush Bay. The property lease is a four year term non-cancellable lease expiring on 30 December 2008, with rent payable monthly in advance. The lease contains annual rent increases of 4% per annum.

NOTE 27. RELATED PARTY TRANSACTIONS

a. Transactions with Related Parties

Details of transactions with Directors, Director related entities and other related parties are set out in:

Directors' Report	Remuneration Report
Note 4	Net Financing Costs
Note 6	Key Management Personnel Compensation
Note 11	Trade and Other Receivables
Note 13	Investments accounted for using the equity method
Note 16	Financial assets – Shares in Controlled Entities
Note 19	Trade and Other Payables
Note 20	Financial Liabilities
Note 25	Contingent Liabilities
Note 29	Associated Companies and Jointly Controlled Entities
Note 32	Share-based Payments

Subsidiaries

During the financial year ended 30 June 2008 certain controlled entities entered into Call Options with a joint venture entity to sell its undeveloped landholdings at Homebush Bay totalling 11.2ha. In order to effect the transaction these landholdings were transferred between 100 percent controlled entities of the Parent or alternatively 100 percent of the shares in the controlled entity which held the Development Agreement were transferred from one controlled entity to another. The values attributed to the landholdings and the shares were priced on an arm's length basis and any profits arising from the transfers have been eliminated in full at the Consolidated level.

Intercompany loans are made between the Parent and controlled entities or between controlled entities ("entities") for working capital purposes. Loans between entities are repayable on demand and interest is charged at a rate referenced to the Reserve Bank of Australia cash rate. All intra-group interest transactions have been eliminated in full at the Consolidated level.

Intercompany trade receivables/payables existed between entities at balance date. It is consolidated entity's policy not to charge interest on these balances if they are overdue for payment.

Associates

During the financial year ended 30 June 2008 the consolidated entity derived management fee income in the amount of $1,160,093 (2007: $160,080) in providing development and project management or administrative management services to associated companies and jointly controlled entities. These transactions with associated companies and jointly controlled entities were priced on an arm's length basis.

NOTE 28. FINANCIAL INSTRUMENTS

The consolidated entity's principal financial instruments comprise bank accounts, receivables, financial assets, payables and financial liabilities. The parent's principal financial instruments comprise financial assets and financial liabilities.

The main purpose of these financial instruments is to provide operating finance to the consolidated entity. It is, and has been throughout the period under review not to trade in financial instruments.

The main risks arising from the consolidated entity's financial instruments are market risk, credit risk and liquidity risk. The Board of Directors has overall responsibility for the establishment and oversight of the Company and the consolidated entity's risk management framework. Primary responsibility for identification and control of financial risks rests with the Audit Committee under the authority of the Board. Management's overall risk management strategy seeks to assist the consolidated entity in meeting financial targets whilst minimising potential adverse effects on financial performance.

The consolidated entity and the parent entity hold the following financial instruments:

	CONSOLIDATED		PARENT	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
FINANCIAL ASSETS				
Cash and cash equivalents	25,688	1,260	3	3
Trade and other receivables	49,183	28,654	108,604	47,009
Available-for-sale financial assets	2,623	3,150	-	-
Shares in controlled entities	-	-	77,833	77,833
	77,494	**33,064**	**186,440**	**124,845**
FINANCIAL LIABILITIES				
Trade and other payables	22,437	14,948	82	2
Notes (secured)	284,695	262,544	-	-
Loans (secured)	14,192	6,303	-	-
Margin facility (secured)	-	1,946	-	-
Amounts payable to controlled entities	-	-	123,166	69,229
	321,324	**285,741**	**123,248**	**69,231**

The above carrying values included in the balance sheet approximate their fair values.

There is net deficiency of financial assets against financial liabilities. However, financial liabilities have been sourced to fund the acquisition and development of non-financial assets, primarily Properties held for development and resale $285,490,000 (2007: $269,094,000).

NOTE 28. FINANCIAL INSTRUMENTS (continued)

a. Market risk

Market risk is the risk that changes in market prices such as interest rates and share prices will affect income or the value of holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) Interest rate risk

The consolidated entity's exposure to interest rates relates primarily to the consolidated entity's financial liabilities as disclosed in Note 20.

At balance date, the consolidated entity and Parent had the following mix of financial assets and liabilities exposed to Australian Variable interest rate risk:

	CONSOLIDATED		PARENT	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
FINANCIAL ASSETS				
Cash and cash equivalents	25,688	1,260	3	3
Trade and other receivables	5,720	3,450	-	-
Amounts receivable from controlled entities	-	-	108,597	47,009
	31,408	**4,710**	**108,600**	**47,012**
FINANCIAL LIABILITIES				
Trade & other payables	2,593	1,489	-	-
Notes (secured)	232,626	262,544	-	-
Loans (secured)	11,616	6,303	-	-
Amounts payable to controlled entities	-	-	123,166	69,229
	246,835	270,336	123,166	69,229
Net exposure	**(215,427)**	**(265,626)**	**(14,566)**	**(22,217)**

The consolidated entity constantly analyses its rate exposure. Within this analyses consideration is given to potential renewals of existing positions, alternative financing and the mix of variable and fixed interest rates.

The following sensitivity analysis is based on the interest rate risk exposures in existence at the balance sheet dates:

At 30 June 2008, and at 30 June 2007, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

Judgements of reasonably possible movements:*	Post Tax Profit Higher/(lower)		Equity Higher/(lower)	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Consolidated				
+1% (100 basis points)	(806)	(658)	(806)	(658)
-1% (100 basis points)	806	658	806	658
Parent				
+1% (100 basis points)	(13)	(197)	(13)	(197)
-1% (100 basis points)	13	197	13	197

The movements in profit/(loss) are due to higher/lower interest costs from cash balances and variable rate debt (Consolidated) and amounts cash balances receivable from/payable to controlled entities (Parent).

* A 100 basis point increase and a 100 basis point decrease is used and represents management's assessment of the reasonably possible change in interest rates.

(ii) Price risk

The consolidated entity is exposed to equity securities price risk. This arises from shares in listed securities held by the consolidated entity and classified in the balance sheet as available for sale.

NOTE 28. FINANCIAL INSTRUMENTS (continued)

b. Credit risk

Credit risk arises from the financial assets of the consolidated entity, which comprise cash and cash equivalents, and trade and other receivables. The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount, net of provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements. The consolidated entity's and parent's exposure to credit risk arises from potential default of the counter party under a financial instrument or contract with a maximum exposure equal to the carrying amount of those instruments or contracts. The consolidated entity and parent, wherever possible, obtain sufficient collateral or other forms of security such as first mortgages, caveats, fixed & floating charges and personal guarantees to mitigate the risk of financial loss.

The carrying amount of the consolidated entity's financial assets, described above, represent the maximum credit exposure. The consolidated entity's maximum exposure to credit risk at balance date was:

	CARRYING AMOUNT	
	2008 $'000	2007 $'000
Cash and cash equivalents	25,688	1,260
Trade receivables	2,214	1,341
Provision for impairment	(13)	(6)
	2,201	1,335
Vendor property financing	7,340	3,928
Provision for impairment	(146)	-
	7,194	3,928
Loans and other receivables	12,444	8,429
Provision for impairment	(2,785)	(500)
	9,659	7,929
Amounts due from associated companies and jointly controlled entities	31,828	16,162
Provision for impairment	(1,700)	(700)
	30,128	15,462
	74,871	29,914

Provision For Impairment Losses

At each end reporting date, the consolidated entity assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists and based upon information known at the end reporting date the consolidated entity makes a formal estimate of recoverable amount. In determining if the carrying amount of an asset exceeds its recoverable amount the consolidated entity considers whether the receivable is past due and the value of the pledged collateral or other forms of security (if any). Where the carrying amount of a material asset which is past due exceeds the assessed value of the pledged collateral or other forms of security, a provision for impairment is raised. However, the consolidated entity reserves its full rights through litigation, negotiation, arbitration or otherwise to seek recovery of the gross asset and when such outcome(s) become known the provision for impairment is reassessed.

Vendor property financing

The consolidated entity holds collateral or other forms of security in the form of first mortgages and caveats in relation to its vendor property financing loans. The collateral did not have any selling or re-pledging restrictions and the total estimated fair value at balance date was $7,210,000 (2007: $4,157,000).

NOTE 28. FINANCIAL INSTRUMENTS (continued)

c. Liquidity risk

The consolidated entity's objective is to maintain a balance between continuity of funding and flexibility by maintaining sufficient cash and through the use of notes, bank and non-bank loans and committed available credit lines. Due to the dynamic nature of the business, the consolidated entity manages its liquidity risk by monitoring cash flows and ensuring that adequate cash and utilised borrowing facilities are maintained.

The table below reflects all contractual maturities of financial liabilities including estimated interest payments (using existing interest rates) as at 30 June 2008:

	Carry amount $'000	Contractual cash flow $'000	Less than 1 year $'000	Between 1 – 5 years $'000	Over 5 Years $'000
CONSOLIDATED					
2008					
Trade and other payables	22,437	22,686	12,673	8,468	1,545
Notes (secured)	284,695	306,936	270,142	36,794	-
Loans (secured)	14,192	16,330	2,732	13,598	-
	321,324	345,952	285,547	58,860	1,545
2007					
Trade and other payables	14,948	15,075	8,445	5,584	1,046
Notes (secured)	262,544	282,215	137,608	144,607	-
Loans (secured)	6,303	7,223	-	7,223	-
Margin facility (secured)	1,946	2,051	2,051	-	-
	285,741	306,564	148,104	157,414	1,046
PARENT					
2008					
Trade and other payables	82	82	82	-	-
Amounts payable to controlled entities	123,166	134,029	134,029	-	-
	123,248	134,111	134,111	-	-
2007					
Trade and other payables	2	2	2	-	-
Amounts payable to controlled entities	69,229	75,335	75,335	-	-
	69,231	75,337	75,337	-	-

For the above obligations the respective undiscounted cash flows for respective upcoming financial years are presented. Any obligation without a fixed amount or timing is based on the conditions existing at 30 June 2008.

d. Net fair value

The net fair value of financial assets and financial liabilities approximate the carrying amounts as disclosed in the balance sheet and notes to the financial statements.

The net fair value of listed investments have been valued at the quoted market bid price at balance date adjusted for transaction costs expected to be incurred. All other financial assets together with financial liabilities are not readily traded on organised markets in a standardised form.

NOTE 28. FINANCIAL INSTRUMENTS (continued)

	Note	Weighted average interest rate	Floating interest rate $'000	Fixed interest maturing in 1 yr or less $'000	Fixed interest maturing in 1 to 5 yrs $'000	Fixed interest maturing more than 5yrs $'000	Non-interest bearing $'000	Total $'000
2008 - CONSOLIDATED								
Financial assets								
Cash and cash equivalents	10	7.32%	25,688	-	-	-	-	25,688
Trade and other receivables	11	14.31%	5,720	16,379	22,971	-	4,113	49,183
Available-for-sale financial assets	16	-%	-	-	-	-	2,623	2,623
			31,408	16,379	22,971	-	6,736	77,494
Financial liabilities								
Trade and other payables	19	1.07%	2,593	-	-	-	19,844	22,437
Notes (secured)	20	9.38%	232,626	52,069	-	-	-	284,695
Loans (secured)	20	13.55%	11,616	2,576	-	-	-	14,192
			246,835	54,645	-	-	19,844	321,324
Net financial assets/(liabilities)			(215,427)	(38,266)	22,971	-	(13,108)	(243,830)
2007 - CONSOLIDATED								
Financial assets								
Cash and cash equivalents	10	5.23%	1,260	-	-	-	-	1,260
Trade and other receivables	11	13.92%	3,450	454	20,777	-	3,973	28,654
Available-for-sale financial assets	16	-%	-	-	-	-	3,150	3,150
			4,710	454	20,777	-	7,123	33,064
Financial liabilities								
Trade and other payables	19	0.82%	1,489	-	-	-	13,459	14,948
Notes (secured)	20	7.53%	262,544	-	-	-	-	262,544
Loans (secured)	20	14.49%	6,303	-	-	-	-	6,303
Margin facility (secured)	20	8.80%	-	-	1,946	-	-	1,946
			270,336	-	1,946	-	13,459	285,741
Net financial assets/(liabilities)			(265,626)	454	18,831	-	(6,336)	(252,677)
2008 - PARENT								
Financial assets								
Cash and cash equivalents	10	7.32%	3	-	-	-	-	3
Trade and other receivables	11	9.32%	108,597	-	-	-	7	108,604
Shares in controlled entities	16	-%	-	-	-	-	77,833	77,833
			108,600	-	-	-	77,840	186,440
Financial liabilities								
Trade and other payables	19	-%	-	-	-	-	82	82
Amounts payable to controlled entities	20	8.82%	123,166	-	-	-	-	123,166
			123,166	-	-	-	82	123,248
Net financial assets/(liabilities)			(14,566)	-	-	-	77,748	63,192
2007 - PARENT								
Financial assets								
Cash and cash equivalents	10	5.23%	3	-	-	-	-	3
Trade and other receivables	11	9.32%	47,009	-	-	-	-	47,009
Shares in controlled entities	16	-%	-	-	-	-	77,833	77,833
			47,012	-	-	-	77,833	124,845
Financial liabilities								
Trade and other payables	19	-%	-	-	-	-	2	2
Amounts payable to controlled entities	20	8.82%	69,229	-	-	-	-	69,229
			69,229	-	-	-	2	69,231
Net financial assets/(liabilities)			(22,217)	-	-	-	77,831	55,614

NOTE 29. ASSOCIATED COMPANIES AND JOINTLY CONTROLLED ENTITIES

Name	Principal activity	Consolidated entity's ownership interest 2008 %	2007 %	Consolidated entity's carrying amounts of investments and loans 2008 $'000	2007 $'000	Contribution towards Net (Loss)/Profit* 2008 $'000	2007 $'000
BDS Australia Pty Ltd	Project & development management	50.0%	100.0%	1,193	-	(161)	-
Babcock and Brown Apartment Investment Trust Group	Property development	50.0%	-	51,415	-	17,016	-
BRIC Holdings Pty Ltd	Investment in residential property	50.0%	50.0%	3,850	2,140	715	(812)
Henlia No.7 Pty Ltd	Property development	50.1%	50.1%	2,599	4,740	(3,817)	-
Ramsay Bourne Holdings Pty Ltd	Child care services	33.3%	33.3%	9,826	7,609	(2,195)	-
Ripley Town Holdings Pty Ltd	Property development	49.17%	49.17%	9,807	7,498	(250)	(122)
The Waterfront Partnership	Real estate agency	50.0%	-	79	-	214	-
World of Learning Pty Ltd	Child care services	37.5%	100.0%	1,153	-	(509)	-
Wingate Babcock Pty Ltd	Project & development management	33.3%	-	528	-	(50)	-

* Contribution towards Net (Loss)/Profit is after taking into consideration the elimination of upstream and downstream transactions between Payce Consolidated Limited and the relevant associated company or jointly controlled entity. All associated companies and jointly controlled entities were incorporated in Australia and have a 30 June reporting date.

During the year the consolidated entity disposed of 50% of the issued capital of BDS Australia Pty Limited and 67.5% of the issued capital of World of Learning Pty Limited.

The consolidated entity at balance date maintained 50.1% interest in Henlia No.7 Pty Limited however it has been deemed not to be a controlled entity as it does not retain majority voting rights or management control.

	CONSOLIDATED June 2008 $'000	June 2007 $'000
a. Movements during the year in equity accounted investments in and loan borrowings to/(from) associated companies and jointly controlled entities		
Balance at the beginning of the year	21,987	4,750
New investments during the year	25,804	6,015
New loan advances during the year	16,930	12,156
Share of associated company and jointly controlled entity profit/(loss) after income tax	10,963	(934)
Loan balance originating on de-recognition of controlled entity	5,286	-
Share of losses to date of de-recognition of controlled entities	(345)	-
Partnership profit distribution received	(175)	-
Balance at the end of the financial year	80,450	21,987

NOTE 29. ASSOCIATED COMPANIES AND JOINTLY CONTROLLED ENTITIES (continued)

	CONSOLIDATED	
	June 2008 $'000	June 2007 $'000
b. Equity accounted profits of associated companies and jointly controlled entities are broken down as follows:		
Share of associated company and jointly controlled entity profit/(loss) before income tax expense	12,780	(934)
Share of associated company and jointly controlled entity's income tax expense	1,817	-
Share of associated company and jointly controlled entity profit/(loss) after income tax	10,963	(934)
c. Summarised presentation of aggregate assets, liabilities and performance of associated companies and jointly controlled entities		
Current assets	14,191	1,891
Non-current assets	224,346	92,789
Total assets	238,537	94,680
Current liabilities	55,724	37,394
Non-current liabilities	116,039	57,091
Total Liabilities	171,763	94,485
Net assets	66,774	195
Revenue	156,169	10,487
Profit/(loss) after income tax of associated companies and jointly controlled entities	15,567	(6,343)
d. Unrecognised share of losses of an associated companies and jointly controlled entities		
Ramsay Bourne Holdings Pty Ltd		
Current year	-	(1,468)
Cumulative	-	(1,754)
Henlia No.7 Pty Ltd		
Current year	-	(34)
Cumulative	-	(34)

The parent entity is not aware of any significant events or transactions which have occurred after the reporting date that could materially effect the financial position or operating performance of the associates for the next financial year.

No associate had any contingent liabilities as at year end.

The parent entity is not aware of any dissimilar accounting policies adopted by the associates that would materially affect the amounts of the consolidated entity's share of net assets, the profit or loss and the reserves of the associates.

NOTE 30. SEGMENT REPORTING

	Rental Properties		Development Properties		Consolidated	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Revenue						
External Sales	5,387	3,977	91,204	119,369	96,591	123,346
Unallocated revenue					3,163	3,203
Total revenue					99,754	126,549
Result						
Segment Result	(11,085)	35,173	(2,408)	20,858	(13,493)	56,031
Unallocated expenses					(11,297)	(18,758)
(Loss)/Profit before income tax					(24,790)	37,273
Income Tax Benefit/(Expense)					7,218	(10,761)
(Loss)/Profit after income tax					(17,572)	26,512
Assets						
Segment assets	41,244	106,109	285,490	269,104	326,734	375,213
Unallocated assets					150,939	80,560
Total assets					477,673	455,773
Liabilities						
Segment liabilities	34,179	1,931	235,884	230,165	270,063	232,096
Unallocated liabilities					73,917	77,889
Total liabilities					343,980	309,985
Other						
Investments in and loans to/(from) associated companies and jointly controlled entities accounted for using the equity method					80,450	21,987
Acquisition of non-current segment assets	63	4,094	22,682	16,792	22,745	20,886
The segment result includes the following non-cash items:						
Impairment of freehold land and buildings	(7,558)	(2,396)	-	-	(7,558)	(2,396)
(Loss)/gain on revaluation of investment properties	(3,481)	36,604	-	-	(3,481)	36,604
Write down of properties held for development and resale to net realisable value	-	-	(10,100)	-	(10,100)	-
Depreciation and amortisation of segment assets	(732)	(587)	-	-	(732)	(587)

Secondary Reporting – Geographical Segments

The consolidated entity's Business segments are located and operate in Australia.

Intersegmental Transfers

Segment revenues, expenses and results include transfers between segments. The prices charged on intersegmental transactions are the same as those charged for similar transactions outside of the consolidated entity at an arm's length. These transfers are eliminated on consolidation.

Business Segments

The consolidated entity has the following two business segments;

Development Properties – the entity owns land on which it is developing residential apartments for sale.

Rental Properties – the entity owns industrial and retail property from which it derives rental income.

	CONSOLIDATED		PARENT	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000

NOTE 31. CASH FLOW INFORMATION

a. Reconciliation of Cash Flow from Operations with (Loss)/Profit after Income Tax

	2008 $'000	2007 $'000	2008 $'000	2007 $'000
(Loss)/Profit after Income Tax	**(17,572)**	**26,512**	**7,178**	**(9,774)**
Non-cash flows in (loss)/profit				
Depreciation and amortisation	1,580	1,319	-	3
Loss on disposal of property, plant and equipment	696	8	-	-
Impairment of property, plant and equipment	8,357	2,396	-	-
Impairment of trade and other receivables	3,438	1,173	-	-
Loss/(gain) on revaluation of investment properties	3,481	(36,604)	-	-
Gain on sale of investment properties	(121)	-	-	-
Write-down of development properties to net realisable value	10,100	-	-	-
Equity-settled share based payment expenses	494	-	-	-
Share of associated companies net loss after income tax	(10,963)	934	-	-
Changes in assets and liabilities, net of the purchase of controlled entities				
(Increase) in receivables	(13,664)	(10,616)	-	-
Decrease/(Increase) in other assets	6,838	6,003	(71)	6
Decrease/(Increase) in property held for resale	50,293	(6,154)	-	-
(Increase)/Decrease in deferred tax assets	(6,438)	3,393	(5,600)	3,376
(Decrease)/Increase in payables	(4,303)	(10,294)	80	2
(Decrease)/Increase in deferred tax liabilities	(1,471)	7,367	(1,471)	7,367
(Decrease) in provisions	(132)	(67)	-	-
Cash flow from operations	30,613	(14,630)	116	980

b. Reconciliation of cash at the end of the year

The above figures are reconciled to cash at the end of the financial year as shown in the statements of cash flows.

	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Cash on hand and at bank	25,688	1,260	3	3
Net cash assets	25,688	1,260	3	3

c. Financing facilities

At 30 June 2008 bank financing facilities of $260,561,000 (2007: $292,683,000) were available to the consolidated entity, of which $244,242,000 (2007: $270,793,000) had been drawn down. The balance of the facility is available to finance infrastructure development costs, acquisition of additional property, working capital and realisation of secured assets. The facilities are provided by BOS International (Australia) Limited, secured by a registered first mortgage over the freehold properties and a fixed and floating charge over Payce Consolidated Limited and some of its controlled entities.

d. Disposal of Entities

During the year Payce Consolidated Limited diluted its interest in controlled entities World of Learning Pty Limited and BDS Australia Pty Limited. Aggregate details of these transactions are:

	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Disposal price	484	-	-	-
Assets and Liabilities held at disposal date:				
Receivables	(726)	-	-	-
Property, plant and equipment	(35)	-	-	-
Intangibles	(6,000)	-	-	-
Payables	7,610	-	-	-
	849	-	-	-
Net gain on disposal	(365)	-	-	-
	484	-	-	-

NOTE 32. SHARE-BASED PAYMENTS

On 4 June 2008 Payce Consolidated Limited granted 1,200,000 fully vested options to Mr. B. J. Klevansky to take up ordinary shares at an exercise price of $3 each and have an exercise period of five years from grant date. At balance date no share option has been exercised. The options hold no voting, dividend or winding up rights and are not transferable.

On 4 June 2008 Payce Consolidated Limited granted 600,000 options to Mr. B.H. Bailison to take up ordinary shares at an exercise price of $3 each. The options hold no voting, dividend or winding up rights and are not transferable. The options vest as follows:-

Number	Vesting Date
200,000	12 May 2009
200,000	12 May 2010
200,000	12 May 2011

Options vest subject to remaining employed on Vesting date, otherwise lapse upon the date of cessation of employment. The options can be exercised during the period from the relevant Vesting date to 12 May 2013.

	2008 Number of options	2008 Weighted average exercise price $	2007 Number of options	2007 Weighted average exercise price $
CONSOLIDATED				
Outstanding at the beginning of the year	-	-	-	-
Granted	1,800,000	3.00	-	-
Forfeited	-	-	-	-
Exercised	-	-	-	-
Expired	-	-	-	-
Outstanding at year-end	1,800,000	3.00	-	-
Exercisable at year-end	1,200,000	3.00	-	-
PARENT				
Outstanding at the beginning of the year	-	-	-	-
Granted	1,800,000	3.00	-	-
Forfeited	-	-	-	-
Exercised	-	-	-	-
Expired	-	-	-	-
Outstanding at year-end	1,800,000	3.00	-	-
Exercisable at year-end	1,200,000	3.00	-	-

The weighted average fair value of the options granted during the year was $0.46.

This price was calculated by using a Black-Scholes option pricing model applying the following inputs:-

Weighted average exercise price	$3.00
Life of each option	In accordance with the terms and conditions of each grant.
Underlying share price	$2.00
Expected share price volatility	24.50%
Risk free interest rate	7.25%
Expected dividends	-

Historical volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future tender, which may not eventuate.

Included under employee benefits expense in the income statement is $494,000 (2007: $Nil) and relates in full, to equity-settled share-based payment transactions.

NOTE 33. CONTROLLED ENTITIES

Aqualuna Pty Ltd
Bcove 4 Pty Ltd ATF Bcove 4 Trust
BRIC Property Services Pty Ltd
H.B. Properties Pty Ltd
Henlia Finance Pty Ltd
Henlia Finance No.2 Pty Ltd
Henlia No.1 Pty Ltd
Henlia No.2 Pty Ltd
Henlia No.3 Pty Ltd
Henlia No.4 Pty Ltd
Henlia No.8 Pty Ltd
Henlia No.9 Pty Ltd
Henlia No.10 Pty Ltd
Henlia No.11 Pty Ltd
Henlia No.12 Pty Ltd
Henlia No.13 Pty Ltd
Henlia No.14 Pty Ltd
Henlia No.15 Pty Ltd
Henlia No.16 Pty Ltd
HomeLinX Pty Ltd
Pacific Assets Ltd
Palermo Finance Pty Ltd
Palermo Finance No. 2 Pty Ltd
Payce Alora Pty Ltd
Payce Asia Pty Ltd
Payce Asia No. 2 Pty Ltd
Payce Child Care Pty Ltd
Payce Child Care No.2 Pty Ltd
Payce Finance Pty Ltd
Payce Finance No.2 Pty Ltd
Payce Industries Ltd
Payce Land Holdings Pty Ltd
Payce Management Ltd
Payce Properties Pty Ltd
PRT 1 Pty Ltd ATF PRT Trust
Pulse Leisure Pty Ltd
Quadratical Pty Ltd
Ravelin Pty Ltd
Sorrento Paros Finance Pty Ltd
Sorrento Paros Finance No.2 Pty Ltd
Trade Winds Finance Pty Ltd
Valencia Finance Pty Ltd
Valencia Finance No.2 Pty Ltd
Waterfront Estate Management Pty Ltd

Payce Consolidated Limited has a 75% ownership interest in Bcove 4 Pty Limited as trustee for the BCove 4 Unit Trust and an 80 percent ownership interest in Payce Asia No. 2 Pty Ltd. All other controlled entities are wholly owned.

All controlled entities were incorporated in Australia and have the same financial year as that of the parent company.

During the year the consolidated entity disposed of 50% of the issued capital of BDS Australia Pty Limited and 67.5% of the issued capital of World of Learning Pty Limited which resulted in a loss of $110,000 and $235,000 respectively on de-recognition.

The company also created a number of new entities primarily for the purpose of holding its investments in several new business ventures. None of these new entities have made a significant contribution to the current year's result.

The parent company, Payce Consolidated Limited, is incorporated and domiciled in Australia.

The registered office company is;
Payce Consolidated Limited
8 Baywater Drive
Homebush Bay NSW 2127

NOTE 34. EVENTS AFTER BALANCE SHEET DATE

Childcare

Subsequent to year end, the Consolidated Entity increased its shareholding in World of Learning Pty Limited from 37.5% to 50.0%.

Available-for-sale financial assets

Subsequent to year-end, the continued volatility of the Australian share market has impacted on the value of the consolidated entity's available-for-sale financial assets which were revalued to fair value as at balance date. As at the date of issuance of this financial report there has been a further decline in value of this asset category since balance date and any further decline or appreciation to the half year ending 31 December 2008 cannot be reliably estimated at this point in time.

DIRECTORS' DECLARATION
FOR THE YEAR ENDED 30 JUNE

1. In the opinion of the Directors of Payce Consolidated Limited:

(a) the financial statements and notes that are set out on pages 18 to 55 and the Remuneration report in the Directors' report contained in pages 10 to 14, are in accordance with the Corporations Act 2001, including:
   (i) give a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the 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; and

(c) 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. The Directors have been given the declaration required by Section 295A of the Corporations Act 2001 from the Managing Director and the Company Secretary/Chief Financial Officer for the financial year ended 30 June 2008.

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

B.M. BOYD
DIRECTOR

D.H. MACINTOSH
DIRECTOR

Sydney, New South Wales
30th September, 2008

WESTON
WOODLEY
ROBERTSON
Chartered Accountants
& Consultants

INDEPENDENT AUDITOR'S REPORT TO

THE MEMBERS OF PAYCE CONSOLIDATED LIMITED

Report on the financial report

We have audited the accompanying financial report of Payce Consolidated Limited (the company), which comprises the balance sheets as at 30 June 2008, and the income statements, statements of changes in equity and cash flow statements for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 34 and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls 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(a), the directors also state, in accordance with Australian Accounting Standard AASB 101: "Presentation of Financial Statements", that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation 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 Australian Accounting Interpretations), a view which is consistent with our understanding of the company's and the consolidated entity'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.

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Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of Payce Consolidated Limited is in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the company's and the consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

(b) The financial report also complies with International Financial Reporting Standards as disclosed in Note 1(a).

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and the 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 Payce Consolidated Limited for the year ended 30 June 2008, complies with Section 300A of the Corporations Act 2001.

Weston Woodley & Robertson

Cameron M Johnstone

Partner

Dated this 30th day of September 2008

Sydney

Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this report. The information presented is at 30 September 2008.

CLASSES OF SHARES AND VOTING RIGHTS

There were 768 holders of the ordinary shares of the Company. The voting rights attaching to the ordinary shares, set out in Article 55 of the Company's Articles of Association, are:

"(1) Subject to Sub-Article (2) of this Article 55, an entitlement to receive notice of general meetings shall confer on members the right to attend and vote thereat.

(2) Subject to any rights or restrictions with respect to voting rights that are attached to or affect any class or classes of shares, on a show of hands each person present as a member, proxy, attorney or representative has one vote and on a poll each member present in person or by proxy, attorney or representative has:

(a) one vote for every fully paid share held by him;

(b) one vote for each partly paid share held by him which was part of an issue of partly paid shares offered pro rata to shareholders; and

(c) in respect of each partly paid share held by him that was not part of an issue offered pro rata to shareholders, a vote pro rata to the proportion of the total issue price then paid up on each such share."

There were no quoted or unquoted options over unissued ordinary shares of the Company.

DISTRIBURION OF SHAREHOLDERS

Category	Number Of Ordinary Shareholders	Number Of Ordinary Shares	Shares %
1 – 1,000	399	205,376	0.4
1,001 – 5,000	234	594,383	1.3
5,001 – 10,000	58	458,067	1.0
10,001 – 100,000	56	1,683,807	3.6
100,001 and over	21	43,458,582	93.7
	768	46,400,215	100.0

At 30 September 2008 257 shareholders held less than a marketable parcel of shares which, based on the quoted market price, was calculated at that date to be the equivalent of 500 shares.

ON-MARKET BUY-BACK

There is no current on-market buy-back.

RESTRICTED SECURITES

There were no restricted holdings of securities.

TWENTY LARGEST SHAREHOLDERS

Ordinary Shares (quoted) as at 30 September 2008

Name	Number of ordinary shares held	Percentage of capital held
Lanox Pty Limited	13,959,850	30.1
KMSJ Pty Limited	6,766,060	14.6
B&B Prime Securities Pty Ltd	4,379,165	9.4
Hurlcla Pty Limited	4,063,794	8.7
Firetest Pty Limited	3,116,513	6.7
KTWO Pty Limited	2,957,844	6.4
Babcock & Brown Australia Real Estate Pty Limited	2,577,978	5.5
Mr David Hugh Macintosh & Mr John Paul Seale [The Macintosh Foundation A/C]	1,100,000	2.4
Skyglow Pty Ltd (Klevansky Family Account)	726,336	1.6
Merrill Lynch (Australia) Nominees Pty Limited	605,655	1.3
UBS Wealth Management Australia Nominees Pty Ltd	511,726	1.1
Naumov Pty Limited	472,811	1.0
Mr Frederick Bruce Wareham	406,056	0.9
Assiduous Pty Limited	359,333	0.8
Ulbister Pty Limited	316,000	0.7
Riverbel Investments Pty Limited [Riverbel Family No 2 A/C]	279,111	0.6
Pendrill Pty Limited	225,780	0.5
Appreciation Holdings Pty Limited [The David Behrens S/F A/C]	210,018	0.5
Citicorp Nominees Pty Limited	208,671	0.5
Mrs Alisa Margaret Wareham	113,781	0.2
	43,356,482	93.4

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2008

Brian Michael Boyd	13,959,850
Garry James Boyd	13,946,367
David Hugh Macintosh	4,426,925
Lanox Pty Limited	13,959,850
KMSJ Pty Limited	6,766,060
B&B Prime Securities Pty Limited	4,379,165
Hurlcla Pty Limited	4,063,794
KTWO Pty Limited	2,957,844
Firetest Pty Limited	3,116,513
Babcock & Brown Australia Real Estate Pty Limited	2,577,978

CORPORATE DIRECTORY
PAYCE CONSOLIDATED LIMITED

DIRECTORS
Mr D.H. Macintosh (Chairman)
Mr B.M. Boyd (Managing Director)
Mr R.R. Short

SECRETARIES
Mr M.E.Morgan
Mr S.M. Wainwright

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8 Baywater Drive
Homebush Bay NSW 2127
(t) 02 9648 0066
(f) 02 9648 0466

SHARE REGISTRY
Registries Limited
Level 2, 28 Margaret Street
Sydney NSW 2000
(t) 02 9297 0677

AUDITORS
Weston Woodley & Robertson

SOLICITORS
Freehills
Mallesons Stephen Jaques
Minter Ellison
Morgan Lewis Alter

BANKER
BOS International (Australia) Limited
Westpac Banking Corporation

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