**Allco Finance Group Limited**
ABN 53 077 721 129

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1 Macquarie Place
Sydney NSW 2000

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29 August 2008

The Manager
ASX Limited
20 Bridge St
Sydney NSW 2000

**Allco Finance Group 2008 Annual Results**

Attached for release to the market are:

- Results and corporate strategy announcement
- Appendix 4E
- Financial Report

Yours sincerely

T. Lennox

Tom Lennox
**Company Secretary**

**For further information:**

Ms Christine Bowen
Head of External Relations
Allco Finance Group
Tel: +61 2 8916 7739

Mr Tim Allerton
City Public Relations
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**Allco Finance Group (ASX: AFG) announces new corporate strategy and financial result for the year ended 30 June 2008**

Allco Finance Group (Allco) today outlined its new corporate strategy as it released the 2008 annual result.

Following a lengthy strategic review, the Group is undertaking a radical change to the business model to become an investment manager focused in its core capabilities of Aviation, Shipping and Private Equity.

Chief Executive Officer of Allco, Mr David Clarke said, "This new business model means Allco will be a fiduciary manager of investment funds in Aviation, Shipping and Private Equity. We will cease our principal investment activities, sell remaining non-core assets, and in the future only use the balance sheet to co-invest in our managed funds."

An outcome of this review is also the decision to exit the businesses of Financial Assets and Infrastructure, as previously announced, as well as Rail and Real Estate.

Mr Clarke said, "This new structure is a major departure from our previous operations in which the Group was heavily reliant on debt and as a result, was exposed to the global credit crisis and deteriorating financial markets. With its previous complex structure, Allco had entered some non-core businesses that were dependent on the ongoing availability of corporate funding."

"A combination of reasons led to our decision to exit these businesses. They were either unprofitable in the new economic environment or required significant capital to achieve profitable scale. We have determined that capital is better deployed in our three core asset classes, which fit our Funds Management model," he added

To transition to this new corporate strategy, Allco's focus is on three key priorities:

- Selling assets to reduce its corporate debt and fund the new strategy;
- Restructuring the business to match the cost base to the revised revenue model; and
- Raising third party capital to build funds under management in our core asset classes.

The asset sales program is already well underway, with the recent divestments of certain Rail, Infrastructure and Real Estate assets contributing to the reduction in Allco's corporate debt from $1,041 million at the half year to $704 million at 25 August 2008.

# ASX RELEASE

"The move to a simpler, more focused business has already resulted in a reduction in operating costs. Unfortunately, this has required the departure of many talented employees to date and will see a further reduction in headcount by up to 50 per cent by the end of June 2009 as we accelerate our restructuring program," said Mr Clarke.

**2008 Financial Result Summary**

Allco has announced a Net Loss After Tax of $1,731.6 million for the 12 months to 30 June 2008. This is consistent with an ASX announcement made on 1 May 2008, where Allco advised an anticipated loss of in excess on $1.5 billion. The result follows a critical review of asset values across the business and primarily reflects non-cash changes.

The Group was heavily impacted by the deterioration in the financial markets and the resultant loss of value in recently acquired businesses with non-cash impairments for goodwill, management rights, loans and equity accounted investments.

- Reported result includes:
  - Non-cash impairments of $1,425.2 million, including $885.1 million in goodwill writedown
  - Other non-cash items of $293.3 million
  - Restructuring costs $50.0 million
  - Contractual break costs of $50.6 million
  - Gain on asset sales to reduce debt $58.3 million
- Normalised Net Profit after Tax (i.e. adjusted for above items) of $29.2 million
- Net revenue loss of $1,352.2 million
  - With goodwill and other asset impairments added back, net revenue profit of $358.7 million
- Net assets $545.3 million
  - Net tangible assets $147.1 million
  - Net tangible assets adjusted for minority interests and deferred tax assets $21.0 million
- Assets under management in funds of $13.7billion ($9.7billion in pcp)

**Dividend**

Allco's need to preserve capital and liquidity to stabilise the business and significantly reduce borrowings means no final dividend will be paid for the year ended 30 June 2008 as previously foreshadowed, and no dividend will be paid in FY2009.

## CORE OPERATIONS

**Aviation**

With 23 professional employees, the Aviation division now has a portfolio of 66 aircraft owned and/or managed worth $US3.5 billion, with 21 commitments for new orders which are all 100% leased.

The division contributed Net Revenue of $111.2 million for the year (after adding back impairments), $25.4 million of which was in the second half.

Mr Clarke said that Aviation presented a compelling market opportunity, with strong long-term growth drivers, a short supply of fuel efficient aircraft and very healthy demand in emerging markets.

**Shipping**
Allco's Shipping division Allocean, operated by 25 experienced professionals, currently owns and/or manages 36 vessels worth $US930 million, with another 20 on order (worth $US670 million).

Net revenue for the year totalled $31.6 million (after adding back impairments), after a Net Revenue loss of $9.6 million in the second half.

The division has a wide diversity of vessel types, chartered in established markets to creditworthy operators, with debt facilities in place until the end of 2009. Allocean is benefiting from continued growth in the international transportation of large volumes of commodities and finished goods.

The division is exposed to the industry's three main segments – bulk carriers, containers and tankers – each offering attractive risk and returns.

Mr Clarke said "We plan to continue to diversify and broaden our fleet with greater exposure to the growth segments, particularly in high margin, niche areas like LPG and offshore supply."

**Private Equity**
Private Equity is to continue as a core business of Allco, with opportunities opening up from the current market turbulence.

The division contributed net revenue of $4.4 million (after adding back impairments) over the last year, after a net revenue loss of $0.8 million in the second half.

Private Equity comprises the management and 11.8 per cent ownership of Allco Equity Partners (AEP). Allco also has an option to acquire a further 23.2 per cent at $5 per share (less dividends paid), exercisable prior to 31 December 2009. Allco is also subject to a put at that price after that date (or earlier in certain limited circumstances).

Over its four year history, AEP has invested more than $600 million in operating businesses including Baycorp, Signature Security and IBA Health, and returned or reinvested approximately $240 million in capital. The business currently has $98.3 million in cash available to be used for its capital management program and investments.

The division has aspirations to manage $2 billion worth of Private Equity capital in a range of funds over the next three years.

**Funds Management**
Mr Clarke indicated that progress continues to be made in building Allco's Funds Management platform with preparation underway for third party wholesale capital raisings focused on large institutional investors in North America, Europe and the Middle East. The business has received encouraging indications of interest in the Aviation and Shipping funds from these investors.

**FOCUS AND OUTLOOK**

2009 will be a year of continued restructuring. The performance of the business is dependent on the successful implementation of the new business plan and as such, the key areas of focus for the Group are:

- Raising investor capital into Allco-managed Aviation, Shipping and Private Equity funds.
- Accelerating the restructure of the business with further office closures and headcount reductions.
- The sale or winding-down of our non-core businesses, with assets sales in excess of $300 million planned before June 2009.
- A further reduction in the senior debt of $304 million to a targeted level of $400 million by June 2009.
- Significantly reducing costs with a target to cut operating expenses by 50 per cent from $330 million in 2008 to less than $165 million in 2009.

The Group is concentrating its activities on the asset management of Aviation, Shipping and Private Equity, with experienced teams enjoying strong market relationships and deep industry knowledge.

Allco is reviewing its remuneration structure to support the transition to the new Funds Management business model, ensuring that the business has the capacity to engage and retain business critical employees and expertise, and continue to align executive interests with those of shareholders and investors. Reflecting this, shareholder approval will be sought at the Annual General Meeting for the issue of 69 million performance hurdled employee options to senior executives with strong influence on long term performance. Additionally, as the Group transitions to a Funds Management platform, and consistent with industry best practice, a larger proportion of the remuneration of the Group's investment professionals will be tied to the long term performance of the funds.

Mr Clarke concluded "The reconstruction of the Group is progressing, however the business remains in a fragile position and the continued market weakness is making the task difficult. We are committed to creating a leaner and simpler to understand company with realistic growth opportunities."

* * * *

**For further information:**

Ms Christine Bowen
Head of External Relations
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ALLCO™

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29 August 2008

The Manager
Company Announcements
ASX Limited
20 Bridge Street
Sydney NSW 2000

Dear Sir,

**Allco Finance Group Limited – Preliminary Final Report (Appendix 4E) for the year ended 30 June 2008**

The Directors of Allco Finance Group Limited ("Allco") announce the audited results of the Company for the year ended 30 June 2008 as follows:

**2008 final results for announcement to the market:**

| Extracted from 2008 Annual Report | % change | $A'000 |
|---|---|---|
| Revenue from ordinary activities | Down 9% | 1,180,715 |
| (Loss)/profit after tax | Down 894% | (1,740,344) |
| (Loss)/profit after tax attributable to members | Down 918% | (1,731,561) |

**Dividends for the year ended 30 June 2008:**
Given the Company's current financial commitments, the Directors have recommended that no dividend be paid.

**Net Tangible Assets per share**

| | 30 June 2008 $ per share | 30 June 2007 $ per share |
|---|---|---|
| Net Tangible Assets | $0.06 | $3.13 |

The remainder of the information requiring disclosure to comply with ASX Listing Rule 4.3A is contained in the Earnings Announcement and 2008 Financial Report, which have been released to the ASX today.

Further information regarding Allco Finance Group Limited and its business activities can be obtained by visiting the Company's website at www.allco.com.au.

Yours faithfully,

Ray Fleming

Ray Fleming
Chief Financial Officer
Allco Finance Group Limited

# Allco Finance Group Limited

## ABN: 53 077 721 129

## Financial Report
## 30 June 2008

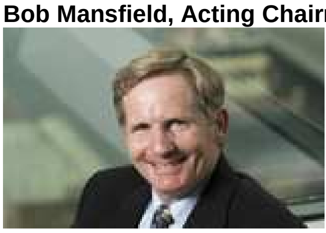
# Table of contents

The Directors present their report together with the financial report of Allco Finance Group Limited ("Allco" or "the Company") and of the Consolidated Entity ("the Group"), being the Company and the entities it controlled as at the end of, or during, the year ended 30 June 2008, and the Auditor's Report thereon.

## Directors

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

**Bob Mansfield, Acting Chairman and Independent Director, AO FCPA**



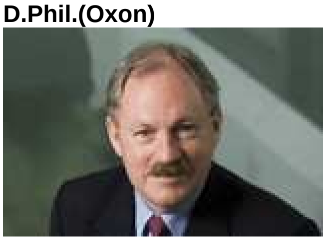
Appointed as a Director in 2006. Bob's varied business career includes a wide range of industries and he has held the Chief Executive Officer position with McDonalds Australia Limited, Wormald International Limited, Optus Communications and John Fairfax. Bob has also undertaken a number of consultancy roles for the Australian Federal Government. In 1996 he reviewed the operating charter of the Australian Broadcasting Corporation; in 1997 he was a consultant to the Prime Minister as major projects facilitator and then strategic investment co-ordinator completing these roles in 1999. In January 2000, Bob was honoured with an Order of Australia award in recognition of his contribution to Australian business and economic development and to the telecommunications industry.

He chairs the Human Resources and Remuneration Committee and Related Party Committee. He is also a member of the Nominations Committee and Risk Committee.

Listed company directorships held during the past three financial years:

- Chairman, Staging Connections Group Limited (current)
- Records Funds Management Limited as responsible entity of Record Realty Trust (from 2007 to 2008)

**Rod Eddington, Independent Director, B.Eng.(Hons)(UWA), M.Eng.Sci.(UWA), Hon.LLD(UWA), D.Phil.(Oxon)**



Appointed as a Director in 2006. Rod was the Chief Executive Officer of British Airways Plc from 2000 until he retired on 30 September 2005. Prior to joining British Airways, Rod served as Chairman of Ansett Holdings Limited and as a Director of Ansett Australia Limited and Ansett Australia Holdings Limited from 1997 until 2000. Rod worked for the Swire Group in Hong Kong, Korea and Japan from 1979 to 1996, seconded to Cathay Pacific Airways. He was Chief Executive Officer of Cathay Pacific from 1992 to 1996. He was a director of Cathay Pacific Airways Limited, Swire Pacific Limited and Hong Kong Aircraft Engineering Company Ltd from 1988 to 1996.

He is a member of the Audit and Compliance Committee, Nominations Committee, Related Party Committee, Human Resources and Remuneration Committee and Risk Committee.

Listed company directorships held during the past three financial years:

- Director of Rio Tinto Limited (current)
- News Corporation Inc (current)
- John Swire & Sons Pty Limited (current)
- British Airways plc (from 2000 to 2005).

**Neil Lewis, Independent Director**

Appointed as a Director in 2006. Neil has had an extensive career in commerce, merchant banking and financial markets in Australia and overseas which spans more than 30 years. Neil was the first Australian-based principal of international investment bank Babcock & Brown and after retiring from Babcock & Brown formed his own boutique merchant banking firm with a business partner, which he jointly ran for some years. His present interests include business financial advisory, sustainable energy, energy storage and assisting not for profit organisations.

He chairs the Audit and Compliance Committee. He is also a member of the Nominations Committee, Human Resources and Remuneration Committee and Risk Committee.

Listed company directorships held during the past three financial years:

- Chairman, Allco HIT Limited (current)

**David Clarke, Managing Director and Chief Executive Officer, LLB**

David Clarke is the Chief Executive Officer and Managing Director of Allco Finance Group Limited. He was appointed to the position in April 2007. Prior to joining Allco, David was the Chairman of Bluestone Group Pty Limited, following five years at Westpac Banking Corporation where he held a number of senior roles, including Chief Executive of the Wealth Management Business, BT Financial Group. David has 25 years experience in investment banking, funds management, property and retail banking. He was previously employed at Lend Lease Corporation Limited where he was an Executive Director, and was also Chief Executive of Lloyds Merchant Bank in London.

He is a member of the Nominations Committee and Risk Committee.

Listed company directorships held during the past three financial years:

- AMP Limited (current)
- Allco Equity Partners Limited (current)

## Director resignations

The following Directors resigned during the year or prior to the signing of this report:

| Name | Position | Resigned |
|---|---|---|
| Barbara Ward | Independent Director | 25-Jan-08 |
| David Coe | Executive Chairman | 03-Mar-08 |
| Gordon Fell | Executive Director | 03-Mar-08 |
| David Turnbull | Executive Director | 03-Mar-08 |
| Michael Stefanovski | Executive Director | 04-Aug-08 |

## Company Secretary

The Company Secretary is Tom Lennox, LLB, B.Com, BCL, LLM. Tom was appointed to the position of Company Secretary on 9 June 2006 and also holds the position of General Counsel of the Group. Before joining the Group in 2005, he was a partner for 15 years with Mallesons Stephen Jacques and has worked in private legal practice in Sydney, London and Hong Kong.

## Meeting of Directors

In addition to scheduled meetings of the Board, the Company has established a number of sub-committees. Further details of the purpose and responsibilities of each of these committees are set out in the Corporate Governance Statement.

The numbers of meetings of the Board of Directors and of each Committee held during the year ended 30 June 2008, and the attendance by each Director were:

| | Board Meeting | | Audit and Compliance Committee | | Risk Committee [4] | | Human Resources and Remuneration Committee | | Related Party Committee | | Nominations Committee [5] | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | A | B | A | B | A | B | A | B | A | B | A | B |
| Bob Mansfield | 48 | 46 | - | - | 1 | 1 | 7 | 7 | 12 | 12 | - | - |
| Rod Eddington | 48 | 39 | 7 | 7 | 1 | 1 | 3 | 3 | 12 | 11 | - | - |
| Neil Lewis | 48 | 46 | 7 | 7 | 1 | 1 | 3 | 3 | - | - | - | - |
| David Clarke | 48 | 48 | - | - | 1 | 1 | - | - | - | - | - | - |
| Michael Stefanovski [1] | 48 | 47 | - | - | 1 | 1 | - | - | - | - | - | - |
| Gordon Fell [2] | 29 | 26 | - | - | 1 | 1 | 3 | 2 | - | - | - | - |
| David Coe [2] | 29 | 28 | - | - | 1 | 1 | 4 | 3 | - | - | - | - |
| David Turnbull [2] | 34 | 31 | - | - | 1 | 1 | - | - | - | - | - | - |
| Barbara Ward [3] | 20 | 19 | 3 | 3 | - | - | - | - | 6 | 6 | - | - |

*A) Number of meetings held during the time the Director held office during the year*

*B) Number of meetings attended*

*1) Resigned 4 August 2008*

*2) Resigned 3 March 2008*

*3) Resigned 25 January 2008*

*4) The Board also considered Risk Committee issues during the Board meetings*

*5) No separate meetings convened as function was assumed by the Board*

## Principal Activities

The principal activities of the Group during the year were:

- Origination, structuring and management of asset based financing transactions for clients and for Group sponsored specialised funds;
- Creation of funds management vehicles in the Group's core asset classes;
- Provision of asset and funds management services to specialised funds; and
- Direct investments in discrete opportunities and co-investments in specialised funds.

## Review of operations and results

For the year ended 30 June 2008, the Group delivered a consolidated net loss after income tax attributable to ordinary equity holders of $1,731.6m (30 June 2007: profit of $211.7m), a decrease of $1,943.3m on the prior year.

In addition, the 30 June 2008 result includes the following significant items:

- An after tax gain of $34.4m relating to the adoption of equity accounting in respect of the Group's investment in Allco Equity Partners Limited acquired during the period and previously held as available-for-sale financial assets;

- An after tax loss of $50.5m relating to the disposal of equity interests in the following listed real estate funds: Rubicon America (11.4%), Rubicon Japan (12.2%) and Rubicon Europe (9.4%). These investments were acquired as part of the acquisition of Rubicon Holdings (Aust.) Limited. At the time of the acquisition, a margin lending facility of $70.0m supported the Group's equity investment. These interests were sold as a result of the margin lender exercising its rights under the margin lending facility;

- An after tax gain of $110.7m relating to the sale of the Tehachapi US-based wind development project;

- Impairment expenses of $1,428.6m (after tax) including the following:
  - The write-down of goodwill of $885.1m (after tax) in respect of various acquisitions made by the Group since 1 July 2006. Refer to Note 22 for further details;
  - The write-down of fund management rights of $102.2m (after tax) in respect of various listed and unlisted Allco managed funds. The impairment is based on the on-going viability of generating recurring management fees from these managed funds. Refer to Note 21 for further details;
  - The write-down of the carrying value of equity accounted investments of $80.6m (after tax). This was based on the Group's proportionate share of impaired losses recognised by the various associates, and fair value adjustments in respect of equity investments that are earmarked for sale. Refer to Note 16 for further details; and
  - The write-down of loans carried at amortised cost of $247.3m (after tax). The write-down reflects the deterioration in asset quality of the outstanding loan book and fair value adjustments in respect of loans that are earmarked for sale. Refer to Note 13 for further details.
- Restructuring costs of $42.8m after tax associated with exiting of the Infrastructure, Financial Assets and Real Estate businesses which has resulted in global office closures and reduction in the number of employees;
- Contractual break costs in respect of the disposal of the Group's interest in the Consolidated Edison portfolio of power stations ($38.7m after tax) and the abandonment of plans to launch a European real estate fund ($8.7m after tax); and
- Unrecognised deferred tax assets of $225.4m. This was determined after considering the composition of earnings over a 5 year period and the nature and source of taxable profits. Refer to Note 20(d) for further details.

Basic (loss)/earnings per share were (485.5) cents, a decrease of 549.4 cents from 63.9 cents in the prior year.

## Significant changes in the state of affairs

***Current operating environment***

During the financial year, the rapid and unanticipated dislocation in global credit markets and associated volatility in equity markets had a significant impact on the operations, financial position and outlook for the Group, which had been positioned for continued growth. These changes resulted in concerns from investors in supporting the Group's products and the consequential reduction in fund inflows. While the Group has continued to receive solid demand from operating clients in its core asset classes which is core to Allco's funds management model, the reduced access to investor funding has slowed continued profitable growth opportunities.

The significant decrease in the Company's share price triggered a review period consequent to a review event arising from the banking facilities market capitalisation clause. The review period meant prolonged negotiations with the Group's senior banking syndicate. At the same time, the Group faced approaching dates for repaying or refinancing debt facilities and financial commitments on major investments.

To respond prudently, a strategic business review was conducted to reposition the Group to a less capital intensive and more sustainable business model. Key outcomes of this review include:

- The adoption of a new strategic business plan, that increases the Group's focus on its core competencies in the asset classes of Aviation, Shipping, and Private Equity where the Group has deep asset expertise and proven competitive advantage. The resultant business model, once fully developed, will be less capital and resource intensive and will continue to have at its core the creation of funds management vehicles to enable investor clients to access investment opportunities in Aviation, Shipping, and Private Equity;

- Divestment of the Group's Infrastructure business, which comprised a number of energy infrastructure projects which were predominantly under development. Although profitable, the capital intensive nature of the business drove the Group's decision to commence an orderly program to realise its capital investment through the sale and wind-back of its involvement in these activities. Significant divestment has been achieved with the majority of the infrastructure asset sales completed, including the sale of European wind assets on 30 April 2008 and the Tehachapi US-based wind development project on 16 July 2008. In addition, the Group disposed of its interest in the Consolidated Edison portfolio of power stations;

- The Group has withdrawn from, and is winding down its exposure to the Financial Assets business, which includes mortgage origination, principal finance activities and securitisation, in an orderly manner. The Group continues dialogue with a number of parties interested in the acquisition of loan assets held through securitised and warehoused programs;

- The reduction of corporate borrowings to a more sustainable level. The Group implemented a range of measures to manage debt reduction and ongoing funding needs. A key measure consistent with the new strategic plan has been, and continues to be, the targeted sale of non-core assets. To date, sale proceeds have been applied to reduce corporate borrowings and for working capital purposes;

- Changes to the organisational structure to reflect the new, substantially simplified business model that requires fewer resources, globally. As the Group transitions, and exits Infrastructure, Financial Assets, Rail and Real Estate, the number of employees has, and will continue to, reduce. At 30 June 2008 employees globally totalled 484, a decrease of 137 from 31 December 2007 (Dec 2007: 621). Reflective of these changes, the current plan is to reduce the number of international offices;

- External advisers have been engaged to assist with the sourcing of external debt and/or equity sufficient to satisfy the Group's capital requirements. The Group is in active and continuing dialogue with a number of parties in order to refinance or supplement its access to capital to ensure the continued orderly conduct of business; and

- The Group has received a number of approaches from, and commenced dialogue with, parties seeking to acquire the Group's businesses, business units or to provide a recapitalisation of the business. Although the dialogue with these parties is proceeding and constructive, no firm proposal has been received.

***Banking facilities***

The rapid change in the market conditions resulted in a sharp decline in the Company's share price, which triggered a review event and provided the Group's syndicate banks with the opportunity to renegotiate the terms and conditions of the Group's senior banking facility.

On 21 August 2008, the Group signed a new senior debt facility with its syndicate bankers. The new facility will be available for draw down once certain conditions precedent of an administrative nature are satisfied. The Group anticipates that these conditions will be satisfied by 31 August 2008.

The new senior debt facility replaces the three existing senior debt facilities and matches the outstanding drawings at the time. Key terms of the revised facility are as follows:

- The facility maturity date expires on 30 September 2009 and contains no market capitalisation review clause;

- An agreed repayment schedule paying down senior debt to $400.0m by June 2009;

- A margin above the relevant currency borrowing reference rate that reduces as the level of senior debt facility is reduced, provided that the Group's gearing levels based on the value of its assets is not greater than certain target amounts;

- The facility is secured by guarantees and security provided by numerous subsidiaries including those which are already guarantors under the existing debt facilities;

- Apart from the debt repayment schedule, the new facility contains no events of default tied to gearing, interest coverage, debt service or other financial ratios;

- A review events will arise under the new facility if:
  a) The Company enters into a merger or consolidation;
  b) The Company becomes controlled by a person or group of persons acting together, with a relevant interest of at least 35% voting shares;
  c) The Company's shares are suspended from trading on the ASX for more than five consecutive days; or
  d) if two or more of more of the Acting Chairman and certain senior executives of the company leave within a twelve month period and a replacement is not appointed within ninety days.

  If a review event described in (a) or (b) were to occur, the Company must notify the bank syndicate, and will have four business days to repay each member of the syndicate its share of outstanding debt and other financial exposures (including hedges etc), unless the relevant bank syndicate member elects not to require that debt repayment acceleration.

  If a review event described in (c) or (d) were to occur, the Company must notify the bank syndicate, at which point the bank syndicate has twenty business days to inform the Company whether the review event is unacceptable or acceptable subject to revised finance terms. If the review event is unacceptable to either party, the Company would be required to repay the entires outstanding facility within ninety days.

Further details are set out in Note 26 to the financial statements.

***Goodwill and intangible management rights***
Since 1 July 2006, the Group, through various business acquisitions, acquired goodwill and intangible management rights valued at $1,316.0m and $179.6m respectively. However, due to the impact of the global markets and the implementation of a revised strategic business plan, it is not appropriate to carry the purchased goodwill and intangible management rights at acquired values. This has arisen as result of the:

- Strategic business decision to exit the Infrastructure, Financial Assets, Rail and Real Estate businesses;

- Increased cost of funding and reduced access to credit and equity markets;

- Underperformance of currently listed Allco managed funds, including listed real estate trusts; and

- Reduction in expected levels of business activity in respect of on-going businesses as the Group repositions itself over time.

Further details are set out in Notes 21 and 22 to the financial statements.

***Going Concern***

As confirmed in the Directors' Declaration on page 143 the Directors have reached the conclusion that, based on all relevant facts and information currently available, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable and is a going concern.

In reaching this conclusion the Directors have had regard to, amongst other things, the following:

- The successful negotiation of a new senior debt facility on 21 August 2008;
- The development and implementation of the new strategic business plan, which demonstrates an ability to release capital funding and transition to a less capital intensive and more sustainable business model, and indicates that the level of debt can be reduced;
- The strategic business plan includes the realisation of significant capital amounts from the sale of non-core assets currently held on the Group's balance sheet. The business has demonstrated its ability to realise non-core assets which has been applied to contribute to the reduction of corporate borrowings to $704.1m as at 25 August 2008;
- Short and medium term cashflow forecasts, combined with the Group's asset sale program, indicate that the Company can satisfy its known funding requirements including the debt reduction program agreed with the senior banking syndicate. The cashflow forecasts includes sufficient contingencies to cover for unexpected shortfalls or delays arising from the sale of non core assets;
- The successful transition to the new business model which is expected to enable the refinancing of the remaining corporate debt in September 2009;
- Embedded value in core asset classes; and
- During the year, the Group received a number of approaches from parties interested in acquiring the business, specific assets and business lines, or entering into joint venture arrangements with the Group. Engagement with some of these parties continue.

The Directors acknowledge that some uncertainty remains over the ability of the Group to meet its funding requirements and to refinance or repay the $400m of corporate borrowings at 30 September 2009. However, as highlighted above, the Financial Report has been prepared on a going concern basis. If for any reason the Group is unable to operate as a going concern, there would be an associated impact on its ability to realise assets at their recognised values, in particular, goodwill, intangible assets and investments in associates.

***Business acquisitions***

During the year, the Group made two significant business acquisitions:

*Acquisition of Allco Equity Partners Management Trust ("AEPM") and additional investment in Allco Equity Partners Limited ("AEPL")*

On 25 July 2007, the Group acquired the remaining 60.8% interest that it did not already own in AEPM, the management company of AEPL. As part of the transaction, the Group also increased its direct equity investment in AEPL, taking its economic interest to 11.8%. In addition, the Group entered into a series of put and call options with a shareholder of AEPL to acquire a further 23.2% of the capital in AEPL (exercisable up to 31 December 2009), taking the Group's beneficial interest to 35.0%. As a result of the Group's increased equity stake in AEPL, a gain on acquisition of $49.2m pre-tax ($34.4m after tax) was recognised (refer note 16).

*Acquisition of Rubicon Holdings (Aust.) Limited ("Rubicon")*

On 12 December 2007, the shareholders approved the acquisition of the remaining 79.6% interest in real estate fund manager, Rubicon. The purchase was completed on 19 December 2007 comprising consideration, including transaction costs, of $69.5m in cash, the issue of 19.7 million of the Company's shares and the issue of 10 million Convertible Redeemable Preference Shares. These Convertible Redeemable Preference Shares are automatically converted into the Company's ordinary shares if specific targets for growth in real estate assets under management are met post-completion of the transaction (refer to Note 30 for further details). Based on the prevailing share price upon issue, the total purchase price was $230.4m.

## Dividends

Dividends paid to members during the financial year were as follows:

| | 2008<br>$ | 2007<br>$ |
|---|---|---|
| Final ordinary dividend for the year ended 30 June 2007 of 24.0 cents, franked to 16.9 cents (2006 – 21.0 cents, fully franked) per ordinary share. | 83,192,118 | 42,322,710 |
| Interim ordinary dividend for the year ended 30 June 2008 of Nil cents (2007 – 20.0 cents, franked 14.6 cents) per ordinary share. | - | 69,096,107 |
| | 83,192,118 | 111,418,817 |

The Directors have recommended that no final dividend be paid (2007: 24.0 cents per ordinary share).

## Matters subsequent to the end of the financial year

*Sale of part of the Singaporean Real Estate business*

On 8 July 2008, the Group sold its interest in 17.7% in the Allco Commercial REIT (Allco REIT), a listed property trust on the Singaporean Exchange for $79.9m and 100% interest in Allco (Singapore) Limited, the manager of Allco REIT for $58.1m resulting in total proceeds of $138.0m. The sale was completed on 14 August 2008. This will have nil impact on the results for the period ending 30 June 2009.

*Sale of Australian Wind Business*

On 23 July 2008, the Group sold its Australian wind energy business for $12.5m. The sale proceeds will be recognised in the results of the next financial year. The sale was completed on 1 August 2008. An after tax profit of $8.5m will be recognised in the results for the period ending 30 June 2009.

*Sale of interest in* Industria Petroli Meridionale Srl (IPEM)

On 9 July 2008, the Group completed the sale of its 50% equity investment in IPEM. The sale resulted in proceeds of $25.9m. This will have nil impact on the results for the period ending 30 June 2009.

*Call option on Re Leasing Shares*

On 1 May 2006, the Company entered into an Option Deed with Redshift Pty Limited ("Redshift"), pursuant to which it granted the Company an irrevocable option to acquire its 67% interest in Re Leasing Limited ("Re Leasing"), which the Company holds a 33% interest. The option is exercisable from 1 July 2008 to 1 July 2026. The option will lapse if not exercised at the end of the exercise period.

The Option effectively enables the Company to control the financial and operating policies of Re Leasing Limited. Under current Australian Accounting Standards, the Company is required to consolidate the financial results and financial position of Re Leasing from 1 July 2008.

*Repayment of corporate borrowings*

In accordance with the revised senior banking agreement, the Group has continued to make repayments to ensure corporate borrowings are reduced to $400.0m by 30 June 2009. As at 25 August 2008, the Group has made further repayments since reporting date reducing corporate borrowings to $704.1m.

*Grant of Options under the EORP*
On 20 August 2008, the HRRC approved the grant of up to 69 million options to retain and incentivise select executives who have direct responsibility for setting and executing the business strategy to stabilise and rebuild the business, and for creating longer value for the benefit of shareholders. The options are to be granted under the Executive Options and Rights Plan (EORP) over a two year period (49 million options to be granted in financial year 2009, and 20 million options in financial year 2010).

The proposed allocation represents 18.5% of Company shares currently on issue. The Board recognises that the proposed direction of aggressive utilisation of equity is atypical and further impacts shareholders through an initial dilution of shareholder wealth. In developing this framework, the Board have reviewed a number of alternative solutions and believe that the strategy of delivering of a significant portion of total remuneration in the form of long term equity creates the highest probability of restoring shareholder value and retaining those senior executives with a strong influence on long term performance, within the short term economics of the business.

The grant is subject to shareholder approval, which will be sought at the AGM in October. While the terms of the grant are in final development, and will be presented in full in the Explanatory Memorandum, it is intended they will include a performance and service condition for vesting to ensure the ongoing alignment of executive interests with the restoration of shareholder value. The cost is anticipated to be no more than $17.25 million over five year period FY09 – FY13.

## Environmental Regulation

The Group has policies and procedures in place that are designed to ensure that, where operations are subject to any particular and significant environmental regulations under a law of the Commonwealth, State or Territory, or Internationally in countries in which Allco has operations, those obligations are identified and appropriately addressed. The Directors have determined there has not been any material breach of those obligations during the financial year.

## Likely developments and expected results of operations

The Group is expected to focus on identifying opportunities in its core activities, being Aviation, Shipping, and Private Equity. The Group also has a focus on the development of new unlisted wholesale funds management vehicles to enable investments from external parties in its core activities.

In the opinion of the Directors, disclosure of any further information on future developments and results beyond that which is already disclosed in this report or the financial statements would be unreasonably prejudicial to the interests of the Group.

## Insurance of Officers and Directors

During the financial year, the Company paid a premium to insure the Directors and Officers of the Company, and its related entities, against particular liabilities that could occur in their capacity as Directors and Officers of the Company. Disclosure of the total amount of the premium and the nature of the potential liabilities in respect of the policy is explicitly prohibited by the policy.

## Corporate Governance

The Australian Securities Exchange's ("ASX") Corporate Governance Council has developed a second edition of the "Corporate Governance Principles and Recommendations" to provide companies with a reference point for their corporate governance structures and practices. The ASX Principles and Recommendations define corporate governance as the framework of rules, relationships, systems and processes within and by which authority is exercised and controlled in corporations.

Allco Finance Group ("Allco") and its Board are fully committed to achieving and demonstrating the highest standards of accountability and transparency in their reporting and see the continued development of a cohesive set of corporate governance policies and practices as fundamental to its successful growth.

Corporate governance influences the way in which Allco sets and achieves its objectives whilst continually monitoring and assessing the risks involved. Allco and its Board are focused on developing corporate governance structures that are transparent, accountable, create value and promote innovation and the exploration of new ideas.

This Corporate Governance statement outlines Allco's corporate governance policies and practices, which mirror those recommended by the ASX in the recently released second edition.

## ASX Corporate Governance Council recommendations

**Principle 1: Lay solid foundations for management and oversight**

**Role of the Board**

The Board is responsible for overall corporate governance. As such, the Board has adopted a formal charter that clearly defines the roles, responsibilities and authorities of the Board both individually and collectively, and for the Executives of the Company in setting the direction and control of Allco.

The Directors are responsible to the shareholders for the performance of Allco and seek to balance sometimes competing objectives in the best interests of the Company as a whole. Their focus is to represent the interests of shareholders and other key stakeholders and to ensure that Allco is managed effectively.

It is a Director's responsibility, in all decisions he or she is called upon to make concerning Allco's affairs, to conscientiously weigh the interests of shareholders in light of the circumstances and to consider the effects of such decisions on the interests of all shareholders.

The Board has a written Charter setting out its role and responsibilities, composition, structure, membership, reporting and administration requirements.

As outlined in the Board Charter, the role of the Board is to direct management with a view to optimising performance by:

- Providing strategic direction;
- Adopting a corporate strategy;
- Enhancing and protecting the reputation of the organisation;
- Adopting a corporate policy to ensure that an appropriate culture, incorporating the highest standard of ethical values, is enforced in dealing with customers, suppliers and employees;
- Monitoring the:
  - Performance of Allco;
  - Performance of the Executive Committee;
  - Communication with stakeholders;
  - Effectiveness of internal control in managing risks; and
  - Compliance with key policies, laws and regulations.
- Appointment and appraisal of management.

The Board Charter is available in the Corporate Governance section of the Allco website at www.allco.com.au

**Board committees**

The Board has established a number of committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Committees of the Board that met during the year are the Audit and Compliance, Risk, Related Party, and the Human Resources and Remuneration and Nominations Committees.

Each Committee, which comprise a majority of independent Non-Executive Directors, has its own written Charter setting out its role and responsibilities, composition, structure, membership, reporting and administration requirements. The structure and membership of each Committee is reviewed on an annual basis.

**Role of Management**

The Board has delegated to the Executive Committee ("Exco") broad management responsibility for the operating performance of Allco. The Exco, under the chairmanship of the Chief Executive Officer, performs the following roles:

- Developing and implementing the strategic direction;
- Overseeing the performance of Allco in accordance with approved plans and policies;
- Investing capital in accordance with Allco's risk management policy;
- Maintaining an effective risk management framework and keeping the Board fully informed about material risks;
- Ensuring that financial and other reporting mechanisms result in adequate, accurate and timely information being provided to the Board;
- Taking steps to ensure that shareholders and the market are fully informed of all material developments; and
- Managing day-to-day operations of the company.

**Process for evaluating the performance of senior executives**

Allco's remuneration policies are designed to align the performance of the Company's senior executives with the performance of the business. Remuneration payments are closely linked to business performance and to the achievement of individual objectives, which are relevant to meeting overall objectives.

The performance and remuneration of senior executives is reviewed annually by the Human Resources and Remuneration Committee, having regard to the performance goals set at the beginning of the year, results of the annual appraisal process, external market conditions, relevant comparative information and independent expert advice on market compensation levels.

For the 2008 financial year, the approach to evaluating and rewarding executive performance has needed to change to respond to the commercial realities of the current operating environment in order to be effective. In particular, the focus has been on ensuring that those executives who have proven essential in executing the Group's strategy to restore shareholder value and rebuild the business for the long term are sufficiently remunerated to ensure their continued retention and motivation.

**Principle 2: Structure the board to add value**

The Board currently comprises four Directors: three non-executive Directors and one executive Director. The members of Board as at the date of this report are:

| Name | Date Appointed | Position |
|---|---|---|
| Bob Mansfield | 09-Jun-06 | Acting Chairman, Lead Independent Director |
| David Clarke | 10-Apr-07 | Chief Executive Officer and Managing Director |
| Rod Eddington | 09-Jun-06 | Independent Director |
| Neil Lewis | 16-Aug-06 | Independent Director |

Details of the respective Directors' qualifications, directorships, skills and experience are set out on pages 3 to 4 of the Directors Report.

Recommendation 2.1 of the ASX Corporate Governance Council requires that a majority of the Board should be independent directors. Currently, Allco has three independent directors comprising a majority of the Board. The Board did not have a majority of independent directors for the full financial year but the resignations listed below meant that the Board comprised a majority of independent Directors from 3 March 2008 onwards.

| Name | Position | Resigned |
|---|---|---|
| Barbara Ward | Independent Director | 25-Jan-08 |
| David Coe | Executive Chairman | 03-Mar-08 |
| Gordon Fell | Executive Director | 03-Mar-08 |
| David Turnbull | Executive Director | 03-Mar-08 |
| Michael Stefanovski | Executive Director | 04-Aug-08 |

The Board Charter details the composition and responsibilities of the Board. It also outlines that the Board is to be constituted with a majority of individuals who qualify as unrelated or independent directors ensuring that the Board can bring, and be perceived to bring, quality judgements, free of bias, to all issues. An unrelated or independent director is one who is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act with a view to the best interests of Allco. In particular, an independent director is one who:

- is not a member of management;
- is not a substantial shareholder of Allco or an officer of, or otherwise associated directly or indirectly with a substantial shareholder of Allco;
- has not within the last three years been employed in an executive capacity by Allco or another group member or been a Director after ceasing to hold any such employment;
- is not a principal of a professional adviser to Allco or another group member;
- is not a significant customer of Allco or another group member other than as a Director of Allco; and
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of Allco.

Recommendation 2.2 of the ASX Corporate Governance Council Principles states that: "The chair should be an independent director". On 9 June 2006, Mr Coe was appointed Executive Chairman of Allco and held this position until his resignation on 3 March 2008. Mr Coe is an Executive of Allco and, through associated interests, a substantial holder of shares in Allco. As such, Allco did not have an independent Chairman and did not comply with ASX recommendation 2.2 up until March 2008. The Board previously held the view that it was in the best interests of Allco that Mr Coe be the Executive Chairman given his skills, expertise, reputation and client relationships. Following the resignation of Mr Coe as Executive Chairman, Allco is in compliance with Recommendation 2.2, with Mr Mansfield as Acting Chairman.

Recommendation 2.3 of the ASX Corporate Governance Council Principles states that: "The roles of chair and Chief Executive Officer should not be exercised by the same individual". In line with Recommendation 2.3, Mr David Clarke was appointed the Chief Executive Officer on 10 April 2007 incorporating a clear division of responsibility from that of the Chair. Following Mr Coe's resignation as Executive Chairman, Mr Mansfield as Acting Chairman is chairing Board meetings until a new Independent Chairman is appointed. The Chairman has responsibility for leading the Board, ensuring that Board activities are organised and conducted efficiently and for ensuring Directors are briefed appropriately. The Chief Executive Officer has responsibility for implementing Allco's strategies and policies and for the day-to-day functions of the Company and that of its senior executives.

The Board believes that its current composition has strengthened the company's corporate governance framework and the ability of the Board to make decisions that are in the best interests of all its shareholders.

With respect to related party dealings, Allco has established a Related Party Committee comprised solely of Directors independent of Allco. Allco undertakes a number of transactions with its managed funds, where it also has a fiduciary obligation to third parties. The role of the Related Party Committee is to review contracts, transactions and other dealings between Allco and any related party to ensure that the terms are at arms length, consistent with a normal business relationship, and comply with regulatory requirements in relation to related party dealings.

The members of the Related Party Committee are:

- Bob Mansfield – Chair; and
- Rod Eddington.

On 25 January 2008, Barbara Ward resigned from the Board and consequently as a member of the Related Party Committee.

Recommendation 2.4 of the ASX Corporate Governance Council Principles suggests that the Board should establish a Nominations Committee. The Allco Nominations Committee consists of all the Board's Directors. The main responsibility of the Committee is to review the membership of the Board having regard to the present and future needs of Allco and to make recommendations on Board composition and appointments. The Nominations Committee has a charter that clearly sets out its role and responsibilities, composition, structure and membership requirements.

It is Allco's practice to allow its Executive Directors to accept appointments outside the company, with the prior approval of the Board.

Prior to an appointment or being submitted for re-election, each Non-Executive Director is required to specifically acknowledge that they have, and will continue to have, the time available to discharge their responsibilities to Allco.

**Term of office**

Allco's Director Tenure Policy specifies that Directors should formally tender their resignations after six years, no later than 90 days prior to the AGM at which they are to be re-elected. The Nominations Committee will consider at that time whether resigning Directors will be put up for re-election. The Chairman will decide whether a Director's resignation will be accepted, taking into account the recommendation of the Nominations Committee and any other factors considered relevant. Directors that are re-elected after their initial six year term should automatically retender their resignation after a total of nine years of service.

The ASX Listing Rules include a 3 year rotation rule. The ASX Council Guidelines recommend that non-executive directors be appointed for a specific term subject to re-election and subject to the ASX Listing Rules and Corporations Act provisions concerning removal of a Director. Reappointment of Directors should not be automatic. Details of other Directorships and positions, which involve significant time commitments held by candidates, are disclosed to shareholders prior to election.

**Independent professional advice**

Directors and Board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the company's expense.

**Board performance**

Recommendation 2.5 of the ASX Corporate Governance Council Principles requires Allco to disclose its process for evaluating the performance of the Board, its committees and individual Directors.

The Nominations Committee are responsible for the review of the performance of individual Directors, Board Committees and the Board as a whole. The Chair of each Board Committee referred to above also has the primary responsibility for ensuring the continuous performance review of the effectiveness and efficiency of each Board Committee.

**Principle 3: Promote ethical decision making**

**Code of Conduct**

Allco has developed a Code of Conduct which has been endorsed by the Board and applies to the Company and all its Directors and employees. The Code of Conduct requires that, at all times, all personnel act with the utmost integrity, objectivity and in compliance with the letter and the spirit of both the law and Company policies. Allco will communicate openly, honestly and on a timely basis with all of its stakeholders, the financial markets generally, and with the broader community.

The Code of Conduct contains the underlying principles and values which set out Allco's ethical objectives. It provides a guide on how responsible decisions should be made, particularly where there are conflicting interests or factors at play.

The Board has a commitment to transparency which is reflected in the ethical aspects of its internal corporate governance. This code of ethics, and company values, is incorporated into the organisation's management processes. They are part of the planning process, the mission statements, performance measurement and internal control systems for both management and the Board. These codes and policies are firmly entrenched in all training and development programs at every level in the organisation.

Allco recognises its legal obligations and the reasonable expectations of its stakeholders to promote ethical and responsible decision making. Allco also ensures that responsibility and accountability for reporting and investigating reports of unethical practices is recognised and understood by the organisation. The Code of Conduct requires all of Allco's Directors and employees to report any fraud, error, actual or potential breach of the law or concealed practice and to actively support adherence to the Company's policies.

Allco also has a Whistleblower policy, which encourages the reporting of unethical practices, has established protocols for dealing with any such reports, and provides for the protection of whistleblowers against reprisal.

**Staff Dealing Policy (Share Dealing Policy)**

The Staff Financial Products Dealing Policy provides protection to Allco, its related parties and its employees by restricting dealings by employees in Financial Products during certain times, or when employees are in possession of certain types of information. It is also designed to preserve the reputation of Allco, its related parties and its employees in public markets, and is designed to be consistent with best practice in this area. This policy applies to all employees, officers and Directors including Non-Executive Directors and external committee members, and to all Financial Products traded in any financial market, both in Australia and overseas.

Allco expects its employees to act with integrity and honesty at all times. It is crucial that each employee recognises their responsibilities as set out in this Policy. Adherence to this Policy is a key component of Allco's risk management process.

A summary of the Staff Financial Products Dealing Policy is available on the Allco website under the Corporate Governance section at www.allco.com.au.

The purchase and sale of Allco securities by employees is only permitted during the calendar month from the release of the relevant half year and annual financial results to the market, following the AGM, and on the issue of a disclosure document by Allco or one of its group entities. Staff trading is not permitted if employees are in possession of inside information in relation to the relevant security.

The Directors are satisfied that the Company has complied with its policies on ethical standards, including trading in securities.

**Principle 4: Safeguard integrity in financial reporting**

In accordance with Recommendation 4.1 of the ASX Corporate Governance Council Principles the Board has established an Audit Committee. The Board is committed to four basic principles:

- That the financial reports of Allco present a true and fair view;
- That the accounting methods used by Allco are comprehensive and relevant, and comply with applicable accounting rules and policies;
- That the external auditor is independent and serves shareholders' interests by ensuring that shareholders know Allco's true financial position; and
- That Australian and international developments are monitored and practices reviewed accordingly.

**Audit and Compliance Committee**

The Audit and Compliance Committee established by the Board consists entirely of:

- Non-Executive Directors;
- A majority of independent Directors; and
- An independent Chairman who is not Chair of the Board.

The current Committee members are:

- Neil Lewis – Chair; and
- Rod Eddington.

On 25 January 2008, Barbara Ward resigned from the Board and as Chair of the Audit and Compliance Committee. As a result, Allco's Audit and Compliance Committee did not comply with Recommendation 4.2 of the ASX Corporate Governance Council Principles in not having at least three members from this date. Allco is currently seeking to recruit additional independent non-executive Directors to address this situation.

Further attendees, by invitation, include the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer and a representative of the Company's Auditor, KPMG. Members of the Committee also meet directly with KPMG from time to time.

The Committee's role is to independently verify and safeguard the integrity of the Company's financial reporting by reviewing a range of matters, including the financial reporting and performance of the Company, systems of internal control, and issues arising out of external audits.

The Committee's role and responsibilities as well as its composition, structure and membership requirements are set out in a formal charter. A summary of the Committee charter is available on the Allco website under the Corporate Governance section at www.allco.com.au The Committee's prime responsibilities under its charter are:

- Overseeing group accounting, tax and compliance policies, practices and disclosures;
- The integrity of financial statements and reports;
- The scope, quality and independence of external audit arrangements;
- Monitoring compliance with the risk management framework;
- The adequacy of Allco's insurance cover;
- Overseeing compliance of managed investments, investment schemes and funds;
- Overseeing compliance with delegations issued by other Board committees; and
- Monitoring compliance with licensing requirements, legal obligations and exchange listing rules.

**External auditor**

Allco's policy is to appoint an external auditor who clearly demonstrates quality and independence. The performance of the external auditor is reviewed annually.

An analysis of fees paid to the external auditor, including a break-down of fees for non-audit services, is provided in note 7(c) to the financial statements. It is the policy of the external auditor to provide to the Audit and Compliance Committee an annual declaration of its independence. A copy of the auditor's independence declaration is set out on page 44 of this Financial Report.

**Principle 5: Make timely and balanced disclosure**

**Continuous Disclosure**

Allco has adopted a policy to ensure that all the Group's listed controlled entities comply with their continuous disclosure obligations under the ASX Listing Rules, ASX Corporate Governance Council's Principle 5 and the Corporations Act.

The Company Secretary is responsible for the general management of this policy including all communications with the ASX. The Company Secretary is assisted by the External Relations function in overseeing and co-ordinating disclosure of information to the ASX, shareholders, analysts and brokers and in educating Directors and employees on Allco's disclosure policies and procedures.

Allco has put in place mechanisms ensuring compliance with ASX Listing Rules such that all investors have equal and timely access to material and price-sensitive information unless it falls within the scope of the limited exemptions contained in Listing Rule 3.1A.

Allco immediately notifies the market via an announcement to the ASX of any information concerning Allco that has, or that a reasonable person would expect to have, a material effect on the price or value of any of Allco's securities. That is, Allco publicly releases all price sensitive information through the ASX before disclosing it elsewhere.

All external communications by Allco are reviewed before issue to ensure:

- factual accuracy;
- no omissions of material information; and
- they are timely and expressed in a clear and objective manner.

Throughout the year, Allco and its controlled entities follow a calendar of regular disclosures to the market on their financial and operational results. Allco's senior management interacts regularly with the market in a variety of ways, including results briefings, market announcements, one-on-one briefings, meetings and educational sessions.

In addition, Allco provides background and technical information to institutional investors and stockbroking analysts to support major announcements made to the ASX and minor announcements made about Allco's on-going business activities.

At all times when interacting with external individuals, investors, stockbroking analysts, the media and market participants, Allco Directors and employees must adhere to the principles set out in this policy.

A summary of the Continuous Disclosure Policy can be obtained on the Allco website at www.allco.com.au.

**Principle 6: Respect the rights of shareholders**

**Promote effective communication**

Allco encourages and promotes effective communication with its shareholders as prescribed under Recommendation 6.1 of the ASX Corporate Governance Council Principles and promotes active participation at General Meetings.

Allco exists because of its shareholders and investors in its managed funds. Allco will communicate openly, honestly and on a timely basis with its shareholders and the financial markets generally. Financial disclosure to shareholders and other investors is based on best practice applicable to the markets in which the relevant securities are issued and will comply with all relevant laws, regulations and rules.

Allco's mission is to build long term value creating partnerships with its clients, through the knowledge, innovation and commitment of our talented employees and to generate superior returns for its shareholders.

Allco has an External Communications Policy, which together with the Continuous Disclosure Policy (referred to in Principle 5), sets out how Allco deals with potentially price sensitive information and communications with external stakeholders in order to ensure that the Company meets its obligations under the ASX Listing Rules, Corporations Act and other regulatory requirements.

A summary of the External Communications Policy can be obtained on the Allco website at www.allco.com.au

The ASX Corporate Governance Council Principles also contain suggestions on improving shareholder participation through electronic means and guidelines for notices of meetings. Allco has established a communication strategy to ensure effective communication with shareholders. The Company Secretary has been appointed as the person responsible for communications with ASX. This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

All shareholders can elect to receive a copy of Allco's annual reports. In addition, Allco seeks to provide opportunities for shareholders to access corporate information through electronic means. Allco utilises its website to complement the official release of material information to the market. Company announcements, media briefings, details of company meetings, press releases and financial reports are available on Allco's website at www.allco.com.au

The external auditor also attends the annual general meeting to answer shareholder questions in relations to the audit report and the conduct of the audit. Shareholders are able to submit questions to the auditor prior to the meeting.

**Principle 7: Recognise and manage risk**

The Board has overall responsibility for ensuring that there is a sound system of risk management and internal control across the business and has established a Risk Committee to focus appropriate attention on the Group's risk management framework.

The Board has responsibility for reviewing the Company's policies on risk oversight, establishing the risk appetite of the Group and ensuring that these are implemented and adhered to by management. The Board also has the primary approval discretion over each investment made by the company. The Risk Committee is a sub-committee of the Board comprising all the Board's Directors.

The role of the Risk Committee is to ensure that the risk management framework is in place including establishing policies for the control of market, liquidity, credit, operational, regulatory and reputational risks affecting the Group. The Risk Committee is also responsible for reviewing information on the overall Allco risk profile, breaches of the policy framework and external developments which may have an impact on the effectiveness of the risk management framework.

The Risk Committee reviews the framework for the management of the Allco's transactional risks, including concentration exposures, documentary and settlement risks as well as the manner in which transaction based decisions are made.

The Risk Committee assesses the Allco risk management framework against the expectations of the Australian Securities and Investments Commission and other regulators as well as reviewing and approving significant changes to risk management policies and the framework itself.

**Allco Risk Management Framework**

Allco's approach to risk management is outlined in some detail in Allco's Risk Management Policy. A copy of the Risk Management Policy is available under the Corporate Governance section on the Allco website at www.allco.com.au

Allco's material business risks, including strategic, reputational, operational, financial, market, legal and compliance risks are required to be regularly identified, assessed, managed, monitored and reported. Allco has adopted a risk management framework which is consistent with the Australian/New Zealand Standard (ie AS/NZS 4360:2004) and which clearly defines the responsibilities for managing risk under Allco's risk management process.

Allco has specifically recognised the following major risk areas:

- market risks, being the potential for losses arising from changes in economic and market conditions, adverse movements in the level and volatility of market rates, including interest rates and exchange rates;
- asset risks, being the risk of a deterioration in asset values as a result of changes in market dynamics such as demand and supply, competition, input costs and economic conditions;
- operational risks, being the risk of inadequate or failed internal processes, people and systems or from external events;
- compliance risks, being the risk of failure to comply with all applicable legal and regulatory requirements;
- debt financing risks, being the risk of failure to refinance debt at rates equal or better than the current rate or the risk of debt covenants being breached; and
- liquidity risks, being the risk that, as a result of Allco's operational, financial, debt or hedging liquidity requirements, Allco:
  - will not have sufficient funds to settle a transaction on a due date; or
  - will be forced to sell an asset at a value, which is less than what a willing but not anxious seller might receive.

Pursuant to Recommendation 7.2, the Board's objective is to ensure that accountability is taken for the design and implementation of the risk management and internal control system to manage Allco's material business risks.

Primary responsibility for risk management and internal control across the group rests with management through the Chief Executive Officer while the Board through its Audit and Compliance Committee and Risk Committee retains ultimate responsibility for managing the Group's risks.

The Allco Risk Function under the guidance of the Chief Risk Officer is pivotal in developing, implementing and reporting on an integrated risk management strategy and operational process. This assists the business to identify risks and to execute strategy to mitigate these risks.

Employees, in the context of their roles, are responsible for identifying the risks surrounding their work, implementing suitable controls over those risks and communicating freely with management in areas they believe are of concern.

Recommendation 7.2 of the ASX Corporate Governance Council Principles requires Allco's management to report to the Board on whether the Company's material business risks are being managed effectively. The process for reporting to the Board on the effectiveness of the management of Allco's broader material business risks has not been established and is to be formalised during 2008 as part of Allco's new corporate governance regime. As a result, Allco is not in full compliance with Recommendation 7.2 for the year ended 30 June 2008. However, it should be noted that Allco's management formally reports to the Board on the effectiveness of its financial reporting risks as required by Recommendation 7.3 (refer below).

**Chief Executive Officer Assurance**

The Chief Executive Officer has provided the Board with written confirmation that:

- the statement to the Board on the integrity of Allco's financial statements in accordance with section 295A of the Corporations Act, is founded on a sound system of risk management and internal control; and
- Allco's risk management and internal control system is operating effectively in all material respects in relation to financial reporting risks.

The Chief Financial Officer has not provided a declaration as the previous Chief Financial Officer resigned prior to 30 June 2008 and the incumbent commenced employment post 30 June 2008.

**Principle 8: Remunerate fairly and responsibly**

**Remuneration Committee**

Under Recommendation 8.1 of the ASX Corporate Governance Council Principles, Allco has a Human Resources and Remuneration Committee which has a formal Charter that outlines its roles and responsibilities, composition, structure and membership requirements.

The current Human Resources and Remuneration Committee established by the Board:

- Consists entirely of independent Non-Executive Directors;
- Is Chaired by an independent Chairman who is Acting Chair of the Board; and
- Has at least three members.

The Human Resources and Remuneration Committee consists of the following members:

- Robert Mansfield - Chairman;
- Neil Lewis; and
- Rod Eddington.

The Human Resources and Remuneration Committee has responsibility for:

- Approving Allco's remuneration policy;
- Approving the terms of the share plan offers and participant eligibility criteria;
- Approving Allco's results and relevant profit share pool(s) created for the purpose of short term incentive plan payments;
- Determining the remuneration arrangements of Executive Directors for approval by the Board/shareholders;
- Approving the remuneration arrangements for the other executive committee members and any other individual or class of employee as requested by the Board;
- Being informed of and monitoring the remuneration arrangements of other senior executives or class of employee as requested by the Board; and
- Providing guidance to the Board on evaluating the performance of Executive Committee members.

**Executive Director's remuneration**

Allco's approach to remuneration is designed to align employee and shareholder interests as well as to optimise short and long term shareholder returns. The remuneration policy has three components:

- Base or fixed remuneration;
- Short term, annual incentive or performance aligned pay (STI); and
- Long term equity-based incentives (LTI).

Allco has established two LTI Plans: the Allco Deferred Share Plan and an Executive Options and Rights Plan. The Company prohibits executives from entering into hedging arrangements in relation to Allco securities.

Each member of the senior executive team has entered into a formal employment contract covering their base salary, entitlement to participate in the STI and LTI and setting out their duties, rights and responsibilities.

In keeping with the Corporations Act, the detail of Directors' remuneration is prepared under a separate Remuneration report in the Directors' Report.

**Non-Executive Directors' remuneration**

Non-Executive Directors are paid an annual fee for their service on the Board and Board committees, which is determined and approved by the Board. Non-Executive Directors do not receive retirement benefits (other than statutory superannuation), options or bonuses.

## Remuneration Report (audited)

The Remuneration Report covers the remuneration strategy and arrangements for Key Management Personnel including Non-Executive Directors, Executive Directors, and Group Executives for the year ended 30 June 2008. For the purposes of this Report, Group Executives are those executives who have the greatest authority for setting the strategic direction and managing the operations of the Group and who are direct reports of the Chief Executive Officer and Managing Director.

## Key Management Personnel

**Non-Executive Directors:**

| | | |
|---|---|---|
| Rod Eddington | Independent Director | |
| Neil Lewis | Independent Director | |
| Bob Mansfield | Acting Chairman, Independent Director | acting from 3 March 2008 |
| Barbara Ward | Independent Director | resigned 25 January 2008 |

**Executive Directors:**

| | | |
|---|---|---|
| David Clarke | Chief Executive Officer and Managing Director | |
| Michael Stefanovski | Deputy Managing Director | resigned as a Director on 4 August 2008 |
| David Turnbull | Regional Chairman, Asia | resigned as a Director on 3 March 2008 |

**Group Executives:**

| | | |
|---|---|---|
| David Veal | Head of Aviation | |
| John Love | Head of Shipping | |
| Mark Worrall | Head of Rail | |
| Rob Moran | Head of Private Equity and Corporate Finance | |
| Neil Brown | Head of Funds Management | appointed 10 September 2007 |
| Gordon Fell | Executive Chairman Real Estate | appointed 19 December 2007(resigned as Director on 3 March 2008) |
| Ray Fleming | Chief Financial Officer | appointed 21 July 2008 |
| Tim Dodd | Chief Financial Officer | resigned 12 June 2008 |
| Tom Lennox | General Counsel and Company Secretary | from 17 March 2008 |
| Tony Stocks | Chief Risk Officer | from 17 March 2008 |
| Belinda Castine | Head of Human Resources | from 17 March 2008 |
| Christine Bowen | Head of External Relations | from 17 March 2008 |

**Former Group Executives:**

The following Executives ceased to be members of key management personnel during the financial year ended 30 June 2008 but remained employed by the Group:

**Executive Directors:**

| | | |
|---|---|---|
| David Coe | Executive Advisor | resigned as a Director on 3 March 2008 |

**Group Executives:**

| | | |
|---|---|---|
| Timothy Rich | Country Head, Singapore | from 19 December 2007 |
| Nick Bain | Head of Infrastructure | from 17 March 2008 |
| Justin Lewis | Head of Product Development | from 17 March 2008 |
| Jim Hope Murray | Head of Financial Assets | from 17 March 2008 |
| Chris West | Co-Head of Corporate Finance | from 17 March 2008 |

## Remuneration Governance

The Board has delegated oversight of the Group's human resource and remuneration policies and practices to the Human Resources and Remuneration Committee ("HRRC"). The responsibilities and membership of the HRRC are set out in the Corporate Governance Statement.

Executive remuneration and other terms of employment are reviewed annually by the HRRC, having regard to Company and individual performance, relevant external comparative information for the regions, industries and professions in which the Group operates and competes, and independent expert advice on market compensation levels.

As part of its ongoing responsibility for reviewing the remuneration framework, this financial year the HRRC has overseen the:

- refinement of performance conditions and allocation of awards under the Group's long term incentive schemes for the 2007 financial year;
- development of HR redundancy guidelines and retention strategies to enable the implementation of the Group's restructuring program; and
- independent review of the Group's remuneration framework, to determine the most effective structure to retain and incentivise employees to rebuild value in the business, during a difficult period of sustained uncertainty, and in a manner that is in the best interests of shareholders.

## Executive Remuneration

### Executive Remuneration Philosophy

The objectives of the Group's executive remuneration are to:

- Promote close alignment of executive interests with shareholders and investor clients
- Attract, motivate and retain the talent and capability to lead the Group's operations and execute its strategy
- Focus Executives on the outcomes and behaviours required to deliver business results
- Pay for performance and value contribution
- Create a sense of ownership in Allco and its funds, with a focus on building long term value.

The principles guiding the remuneration framework to deliver these objectives are:

- Total remuneration (fixed and "at risk") is market competitive
- Remuneration is differentiated for performance
- Proportion of remuneration "at risk" increases with impact on strategic direction and business results
- Remuneration policies are flexible, simple, relevant and transparent.

The objectives and guiding principles for executive remuneration have remained unchanged throughout the 2008 financial year.

The close alignment of the interests of our executive team and other employees with the interests of our shareholders continues to underpin the Group's executive remuneration strategy. To this end, the composition of our executive's remuneration evolved with the implementation of the Group's long term incentive schemes in 2007 to drive a greater emphasis on long term outcomes.

In addition, the alignment of the interests of our investment professionals with the interests of investors in our funds is recognised as paramount for the successful execution of the Group's global funds management strategy.

The remuneration strategy aims to ensure executive remuneration is structured in a manner that focuses and reinforces effort on the delivery of our business strategy. The HRRC recognises that it is only through the attraction, retention and commitment of talented executives and employees that the Group is able to realise its strategy and achieve sustained long term improvement in performance for the benefit of both its shareholders and investor clients.

As the 2008 financial year has seen a prolonged period of uncertainty and radical change, the remuneration policies have needed to respond to the realities of the current operating environment to continue to be effective. In particular, the remuneration policies have focused on ensuring that those managers and executives who have proven essential in executing the Group's strategy to restore shareholder value and rebuild the business for the long term are sufficiently remunerated (short and long term) to secure their continued retention and motivation.

**Executive Remuneration Structure**

The Group's remuneration policies are achieved through a combination of three core elements, which when combined form an employee's Total Compensation:

- Fixed remuneration (base salary, superannuation and other benefits)
- Short term incentives (combination of cash and deferred equity arrangements)
- Long term incentives (typically equity based).

Both short and long term incentives are performance-linked or "at risk" remuneration and are designed to deliver the majority of a senior executive's potential total remuneration opportunity in line with business and individual results.

<u>Fixed Remuneration</u>

Fixed remuneration consists of base remuneration, calculated on a total cost-to-company basis including any fringe benefit tax charges related to non-financial employee benefits, and employer contributions to superannuation funds or pension funds.

Base remuneration is reviewed annually, with adjustments taking effect from 1 July each year.  The amount of base remuneration takes into consideration an executive's role, experience, accountability and performance, as well as industry conditions and market practice for roles of similar scope.

<u>Performance Linked (or "at risk") Remuneration</u>

Fundamental to the Group's remuneration philosophy is the principle that a significant amount of an executive's remuneration is at risk and focused on the long term.

The HRRC believes that in order to deliver the principle of aligning executive interests with the interests of shareholders and investors, it is essential that a significant proportion of the executive team's remuneration continues to be dependent upon the Group's performance (or in the case of investment professionals, fund performance), as well as the individual's relative performance and contribution to these outcomes.

To this end, the combination of short term and long term incentives is designed to not only reward executives for meeting or exceeding their financial and non-financial objectives, but also to encourage a focus on shareholder and investor value creation (not just short term profit generation).

Short Term Incentives (STIs)

Allco operates two annual discretionary bonus schemes to attract and retain talent through the delivery of market competitive remuneration, and to reward performance in line with the achievement of business results:

- A profit-sharing scheme (***Bonus Pool***) for senior executives with significant ability to influence performance and strategic direction, where the size of the pool and maximum bonus opportunity is uncapped and determined each year with regard to Group performance against plan, and other industry and market benchmarks. This aims to encourage superior performance and close alignment with shareholders' interests.
- A general bonus scheme (***Incentive Bonus***) for executives in non-revenue generating, operational and group services roles, where the maximum bonus opportunity is calculated as a percentage range of base remuneration, benchmarked against market.

Payment of bonuses has historically been subject to overall Group performance, relative divisional performance, and individual achievement of agreed objectives set at the beginning of the performance year.

Long Term Incentives (LTIs)

LTI plans serve as the most important mechanism to align the long term interests of executives with shareholders, and to facilitate the retention of key executives. The HRRC approved two long term incentive plans in 2006 under which LTIs may be issued in the form of shares, options or rights:

- Deferred Share Plan (DSP)
  Allco granted 6.7 million deferred shares to senior executives (valued between $5.44 and $10.77 at time of grant) during the 2008 financial year.

  Deferred shares vest on the third anniversary from the date of their issue without performance conditions, but continue to be subject to disposal restrictions until the earlier of either 10 years from the date of grant or six months after the executive has ceased employment with the Group (provided certain disqualifying events have not occurred).

  The executive is the beneficial owner of the shares, with full dividend participation from grant date.

  In order for the beneficial interest in the shares to be transferred, the executive must remain an employee of the Group until the end of the vesting period unless the Board exercises its discretion to waive this condition.

  In accordance with the rules of the Plan, the Board exercised its discretion this financial year to vest unvested deferred shares held by those participants whose positions were made redundant as a result of the Group's current Restructuring Program.

- Executive Options and Rights Plan (EORP)
  At the beginning of the 2008 financial year the HRRC changed the performance hurdles for options granted to executives under the EORP for the 2007 financial year to supplement the existing Total Shareholder Return (TSR) performance hurdle with an additional performance measure of absolute Earnings Per Share (EPS). The use of dual performance hurdles was considered consistent with market practice and provided employees with a clearer line of sight and sense of influence over the outcome of the LTIs, through the combination of an internal (EPS) and external (TSR) measure.

  The hurdles are applied 50:50 over the number of options awarded under the Plan. While either portion can vest independently, both performance measures must be met in full in order for the entire award to vest.

The structure and details of options granted for the 2007 financial year are summarised below:

| | |
|---|---|
| Nature | Each AFGL executive remuneration option or right grant entitles the participant to one share in the Company upon vesting subject to payment of an exercise price. Rights have no exercise price |
| Grant frequency | Annual grant (subject to HRRC approval); ad-hoc on commencement of employment for select senior executives |
| Eligibility criteria | Selected senior executives, broadly in line with past contribution and future potential |
| Exercise price | 5-day VWAP preceding grant date |
| Performance hurdles | **Earnings Per Share ("EPS")** (50% of options)<br>Based on the average annual compound EPS growth over a three year measurement period:<br>▪ Below 15% compound EPS: no vesting<br>▪ At 15% compound EPS (threshold): 50% of awards will vest<br>▪ 25% and above compound EPS: 100% of awards will vest<br>▪ Between 15% and 25%: Pro-rata straight line vesting<br>▪ No retesting<br><br>**Total Shareholder Return ("TSR")** (50% of options)<br>Based on relative TSR performance over a three year measurement period from grant date:<br>▪ Below 50th percentile of comparator group: no vesting<br>▪ 50th percentile of comparator group (threshold): 50% of awards will vest<br>▪ 75th percentile of comparator group (stretch): 100% of awards will vest<br>▪ Between 50th and 75th percentile: Pro-rata straight line vesting<br>▪ Comparator group: S&P/ASX 200, excluding the resources and property trusts sectors at grant date [1]<br>▪ Retesting: performance on unvested component of any award will be retested after 42 months and one final time after 48 months from grant date |
| Vesting period | Three years from grant date |
| Exercise period and expiry | Exercisable upon vesting and lapse 6 years after grant date |
| Rights to Dividends | No dividend rights until exercised |

*[1] For future issues, the Board reserves the right to review the composition of the peer group from time to time to ensure it is appropriate as a relative measure of performance of the Group.*

The Company prohibits executives from entering into hedging arrangements in relation to Allco securities.

Allco granted 10.9 million options to select executives under the EORP on 12 September 2007 (valued at $1.88 and $2.06 at time of grant in equal amounts). As these options were issued at an exercise price of $7.83, they are now considered to be "out of the money" following the significant decline in the Company's share price. Consistent with its commitment to ensure alignment of executive and shareholder wealth creation, the HRRC has decided that it will not alter the terms of this Plan, to reprice these options or restructure the performance hurdles, to make them more beneficial for executives. As a result, our executives have experienced a significant reduction in the value of their potential remuneration in light of the current value of the options and deferred shares granted for the 2007 financial year.

In accordance with the rules of the Plan, the Board exercised its discretion this financial year to lapse those options held by participants whose positions were made redundant as a result of the Group's current Restructuring Program.

Legacy Share Scheme

The Allco Finance (Australia) Limited ("AFAL") employee share scheme ("ESS") was established prior to the creation of the merged entity in July 2006 to recognise past loyalty and service, provide eligible employees with an opportunity to share in the Company's growth and to encourage them to improve the longer-term performance of the Company and its returns to shareholders. When established, the Plan was considered a key strategy in retaining business critical executives within the business post-merger.

The vesting date of the shares under the ESS was 30 June 2008. The vesting was subject to service conditions and, for certain executives, subject to the achievement of individual goal-based performance conditions that were assessed over the course of the 2006 and 2007 financial years. Additionally, for some senior participants to obtain their shares on vesting under this Scheme, they are required to pay $1.49 for each share within 30 days after the vesting date, or they forfeit their award.

To enable the Company to appropriately assess all of its incentive schemes as part of a broader review of the Company's executive remuneration framework, and in order to retain these key executives during the 2008 calendar year, Allco modified the vesting terms of the share grants under the ESS by extending the original term for these participants to 30 September 2008, from 30 June 2008. The change only applies to participants who are required to pay consideration for the shares under the Plan.

All other terms of the plan remain unchanged. The fair value of this modification is immaterial. The ESS Plan will be terminated once all shares have vested or been forfeited.

Other Specific Arrangements

*Private Equity Carried Interest*

The Company, through its wholly owned subsidiary Allco Equity Partners Management ("AEPM"), earns performance fees related to its underlying investments, usually payable at the time of exit. The AEPM team members participate in these performance fees, net of actual transaction expenses, as and when they are earned (referred to as "Carry"). The carry arrangements for the team may be reviewed and altered over time in line with changes to the management fee arrangements for AEPM, the size of funds under management, and/or to further align the interests of the management team with the investors in the fund.

*Business Start-Up Arrangements*

Allco has historically established arrangements for select businesses globally that were in an early stage of development and where up-front 'investment' was required to enable the business to grow. Subject to the achievement of predefined performance targets in the relevant business, under these arrangements participants were entitled to receive a capped percentage of the annual profits of the relevant business over a defined period. At the end of the period, these arrangements may entitle the participants to a minority economic interest in the relevant business, which may be exchanged for a payment in cash or shares, at the discretion of the Board.

The participants are typically not eligible to participate in the Group's STI and LTI schemes while the special arrangements are in place.

**Approach to Executive Remuneration in the 2008 Financial Year**

The executive remuneration structure has had to evolve in the 2008 financial year out of necessity, in response to the rapid and unanticipated deterioration in global credit markets and the resultant changing economics of the business. The impact to our business has been catastrophic, and the Board and management have progressed through a series of challenges to aggressively restructure the business platform and stabilise the business during a period of prolonged uncertainty; a process which could not be achieved without the commitment and retention of key employees.

Our capacity to retain and appropriately remunerate the core team required to realise the potential within our business model, as we work through a difficult and lengthy period of business transformation, has been key. As a result, the fundamental changes to our business have been supported by remuneration elements which are both market competitive and appropriate to the commercial realities faced by the Group through the 2008 financial year.

Responding to the 2nd half of the 2008 Financial Year

*Retention Initiatives*

In recognition of the organisational and personal uncertainty created as a result of the restructure of the business, and delays in finalising the Group's banking facilities, the Board approved a provisional pool for the 2008 financial year for use primarily as a retention mechanism to lock in the business critical executives needed to manage the asset sales, deliver the restructuring program and retain the core value in the business recognised as being necessary to rebuild the business.

The creation of this pool was an essential first step in the program to restore shareholder value as the retention of a dedicated team of executives who understood the business ensured the Group remained in business during an exceptionally difficult period and allowed the Group to create, implement and begin to execute its strategy to stabilise the company through the restructuring program during this period. In reaching this position the Group's senior banks were appraised of the proposed approach including the total quantum, as a necessary requirement for business recovery.

Retention awards were made to select executives critical to the sustainability of the business where it was believed that the Company and its shareholders would gain from incentivising them to remain with the Group. As an incentive to remain with the Company, a degree of certainty regarding the value to be delivered to the individual at the end of the retention period was required. Therefore as is accepted practice, performance conditions were not applied to the retention award, the only pre-requisite being continued service until September 2008.

*Performance Payments*

In recognition of the outcomes delivered by employees and their continuing loyalty as we rebuild Allco, the Board approved targeted individual performance based payments in 2008 which will, in the view of the Board, significantly improve the stability of the Company and the prospects for the future. Individual participation has been differentiated based on relative divisional and individual performance, contribution and value to the business. The performance payments were funded from the provision pool and applied across two categories being:

1. Asset sales

Performance based payments were introduced for key executives coordinating the sale of select assets and whose tenure was not assured after the date of settlement. The recipients of potential performance payments were those individuals who had a capacity to materially influence the commercial outcomes of asset sales for the benefit of shareholders and were employees who were vulnerable to approach by competitors before transactions had been completed. Performance payments were structured such that they were aligned to the delivery of a maximum sale outcome and were funded from the sale proceeds once finalised.

2. Business/Individual performance

Financial results delivered by executives in certain segments of the business were in the view of management and the Board worthy of recognition by way of a performance based incentive. That is, regardless of the difficulty in accessing capital globally, areas of the business continued to deliver a pipeline of profitable transactions triggering a performance incentive. It is the view of the Board that to deny a market competitive outcome for these individuals would be to place their continued employment at risk and vulnerable to approach by competitors.

At the completion of the financial year, a core group of corporate and operational employees were also deemed critical to the business, having contributed both to the survival of Allco during the months when the business challenges emerged, as well as managing through the various phases of consolidation including laying the groundwork for rebuilding. The commitment of staff across the business has been exemplary in not only dealing with the immediate business challenges but also in responding to the regulatory and disclosure requirements.

The retention initiatives and performance based payments recognise that without the continuing commitment of key staff the capacity of the Company to move forward into the phase of rebuilding would be compromised. The payments are moderate compared to market, were based on relative performance, value and contribution, and considered the amounts necessary to secure the team necessary to turn the Company around and restore shareholder value.

All retention and performance based awards were cash-based to provide a level of certainty.

It is noted that retention rates amongst the key executives who were the subject of the retention and incentive programs have remained high. This is despite these individuals being offered opportunities and greater job security from both local and international competitors who recognise their talent and the value that they generate.

Equity Based Incentives 2008

No performance/incentive based equity allocations were made under the Executive Options and Rights Plan (EORP) or the Deferred Share Plan (DSP) in relation to the 2008 remuneration period (Financial Year).

## Relationship with Company Performance

The rapid deterioration and turmoil in global credit markets over the past year has had a considerable impact on the Group's business, which has impacted performance and resulted in a substantial loss of value for shareholders.

**Year-on-year performance**

| | **2008** | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|
| Net profit after tax attributable to ordinary equityholders ($m) | (1,731.6) | 211.7 | 96.9 | 61.8 | 25.9 |
| Dividend: interim and final (cents per share) | - | 44.0 | 41.0 | 30.6 | 18.3 |
| Share price at 30 June ($) | 0.40 | 10.64 | 12.35 | 5.86 | 4.00 |

Despite significant change during the financial year, and a difficult and uncertain operating environment, the HRRC believes the remuneration framework has been effective in achieving its objectives of focusing executives on the priorities critical to delivering the business strategy, aligning executive and shareholder interests, and retaining business critical employees.

<u>Refocusing to Restore Value</u>

Allco's management team responded to the deteriorating and very challenging environment in the second half of the 2008 financial year by developing a new business model, and undertaking an aggressive restructuring of the business and asset realisation program in order to achieve rapid reduction in our corporate debt levels.

The changes Allco made to the remuneration strategy to address these challenges were driven by the need to create the most effective structure to retain, motivate and appropriately remunerate employees to stabilise and ultimately rebuild value in the business, in a manner that was in the best interest of shareholders.

During a period of prolonged uncertainty and under the pressure of an aggressive change program, executives and employees have delivered:

- Significant and rapid asset sales across all non–core businesses and other selected assets to reduce debt and provide essential working capital to restructure and rebuild the business. In total these sales have raised net proceeds of $603.4m, allowing the Group to substantially reduce its corporate debt since April 2008. In addition, following the infrastructure asset sales, the Group was released from all its remaining contingent commitments owed to the senior banks. At 25 August 2008, we have achieved a total reduction in senior debt of $333.3m to $704.1m and contingent commitments of $53.6m.
- A dramatic reduction in our headcount from 639 in February 2008 to 484 at 30 June 2008; and the shrinkage of our geographic footprint with the closure of 30% of our offices internationally.
- Renegotiated and signed an agreement for a new financing agreement which excludes a market capitalisation review clause.
- Developed and commenced the implementation of a strategy to refocus on our key strengths of Aviation, Shipping and Private Equity.

At the same time, key employees in our underlying core businesses have been incentivised to deliver on revised business outcomes despite the difficult market conditions and the distractions created by the issues that have impacted the company at a Group level.

## Future Direction of Executive Remuneration

Johnson Associates Inc., a New York based international specialist advisory firm in the investment, funds management and private equity sectors, was engaged by the HRRC in May 2008 to assist in the development of the executive remuneration structure, with the aim that the framework will:

- Realign remuneration to support a funds management business model, moving away from near term remuneration for transactions to longer term incentives for out performance;
- Retain and motivate business critical executives to rebuild value in the business;
- Deliver competitive compensation for performance and contribution to the strategy within the business economics; and
- Align executive interests with those of the Group's shareholders and investors (short and longer term).

The remuneration framework for executives supports the evolution of the business.

Stabilise and Rebuild the Business Platform

The HRRC and management will continue to review the Group's remuneration structure in the 2009 financial year to ensure that the emerging business has the capacity to engage the required talent in the competitive marketplace.

Total remuneration will remain at levels considered fair, reasonable and consistent with market practice, and will continue to be driven by individual performance and contribution.

However, in order to fund remuneration within the economics of the business short term, the composition of total remuneration for those senior executives with a strong influence on long term performance will be restructured to deliver a larger proportion of total remuneration in the form of long term equity. This will also work to ensure the ongoing alignment of executive interests with the restoration of shareholder value.

Shareholders will be asked to vote on a resolution at the Annual General Meeting to issue options to those select senior executives directly responsible for setting and executing the strategy, and creating long term value in the business. While the offer details are in final development and will be presented in full in the Explanatory Memorandum, it is intended that the equity allocations will have the capacity to act as an additional retention mechanism, enhancing the effectiveness of the cash based payments delivered in the 2008 financial year (referred to in section "Approach to Executive Remuneration in the 2008 Financial Year").

It is proposed that the initial grant of equity for the 2009 financial year will be of sufficient scale to retain and incentivise the senior management team and key individuals to rebuild value in the Company. Future and more modest grants will progressively form a deferral of the executives' short term incentive awards in line with market practice.

The Board recognises that the proposed direction of aggressive utilisation of equity is atypical and further impacts shareholders through an initial dilution of shareholder wealth. In developing this framework, the Board have reviewed a number of alternative solutions (such as cash retention grants and deferred shares) and believe that the proposed direction for remuneration creates the highest probability of restoring shareholder value, greater alignment of interests, and is also practical given the short term economics of the business.

Grow the Funds Management Platform

As the business returns to profitability, performance-related pay will be funded and directly linked to Group performance, and relative divisional and individual contribution.

A large proportion of total remuneration will continue to be at risk, with LTIs driving retention and alignment of executive and shareholder interests. A proportion of an executives short term incentive will ultimately be deferred into Company shares in line with market practice.

Investment Professionals

As part of the Group's strategy to be a global manager of alternative assets, the remuneration structure for investment professionals is being reviewed to ensure retention of key investment professionals and alignment with investors' interests. In particular, the remuneration structure aims to deliver:

- Competitive total remuneration, in line with industry best practice, and consistent with competitor practices in the markets in which Allco competes; and

- A larger proportion of total remuneration oriented towards longer term incentives reflecting fund performance and varying with the magnitude of investors' returns.

## Executive Remuneration Details and Other Disclosures

Executive Directors and Group Executives Contractual Entitlements and Termination Arrangements

Remuneration and other terms of employment for all key management personnel are formalised in employment service agreements. As well as a base salary, remuneration arrangements include superannuation, termination entitlements and fringe benefits. Unless the Agreement has provisions to the contrary, key management personnel are eligible to participate in short term (bonus) and long term (equity) incentive schemes. Other major provisions of the agreements of Executive Directors and other Group Executives relating to remuneration are set out below:

| Name | Term of Agreement | FY08 Base Remuneration (effective 1 July 2007)[1] | Special Incentive Arrangements | Termination of Employment[2] |
|---|---|---|---|---|
| **David Clarke**<br>Chief Executive and Managing Director[3] | Open ended, commencing 10 April 2007 | $1,000,000 (reduced by fees received as a non executive director of any external board during the year) | • Annual bonus target opportunity of $1,000,000 up to a maximum of $1,500,000 based on achievement of objectives set by the HRRC<br>• 126,259 AFGL shares were granted on commencement of employment ("unlatching payment") vesting in equal thirds in 2008, 2009 and 2010. The first tranche of 42,086 shares vested on 10 April 2008<br>• Long term incentive bonus payment of up to $3,500,000 p.a. for FY08 and FY09 as Allco share rights and/or options. The FY08 LTI was granted in the form of 1,223,776, options approved at the 2007 AGM.<br>• Review of the fixed remuneration and incentive bonus arrangements at the conclusion of the 2009 financial year | • Three months notice by either party<br>• Except for termination for cause, a termination payment of:<br>– 1 x gross annual base remuneration<br>– Pro-rata STI for financial year of termination<br>– Pro-rata LTI (current and prior year's) subject to certain conditions<br>– Vesting of unvested deferred shares<br>– Unpaid tranche of unlatching payment<br>• Upon termination by employee:<br>– Statutory entitlements<br>– Vested deferred shares in relation to unlatching payment<br>– LTI at Board discretion<br>• Retirement arrangements in the event of retirement after 5 years as CEO and MD, relating to ongoing vesting of unvested equity in line with Plan rules, subject to Board approval |
| **Michael Stefanovski**<br>Deputy Managing DIrector[3] | Open ended, commencing 1 July 2005. Resigned and will leave Allco effective 30 September 2008[4] | $450,000 | • Contractual obligation to grant AFGL deferred shares vesting in equal thirds in FY08, FY09 and FY10 based on achievement of performance hurdles<br>• 1,510,748 shares granted under the legacy Allco Employee Share Scheme to vest 30 September 2008. | • Three months notice by either party<br>• Except for termination for cause, a termination payment of:<br>– 6 months' total remuneration<br>– Automatic vesting of first tranche of 200,000 unvested deferred shares for financial year 2008<br>– Lapsing of remaining 400,000 unvested deferred shares for FY09 and FY10 |
| **Gordon Fell**<br>Executive Chairman, Real Estate | Three year fixed term contract commencing 1 February 2008 and ending 1 February 2011 | $650,000 | Not eligible to participate in the STI or LTI schemes | • Three months notice by either party effective on or after the end of the initial term of the fixed term contract<br>• Deed of Restraint, restraining post employment activities for a period of three years |
| **Robert Moran**<br>Head of Private Equity and Corporate Finance[5] | Fixed term contract commencing 1 January 2003 and ending 1 July 2009 | $350,000, from 5 May 2008 $450,000 | 20% "carried" interest in the net performance fees received by Allco in relation to the management of the underlying investments in Allco Equity Partners Limited | |
| **David Veal**<br>Head of Aviation | | $350,000 | | |
| **Mark Worrall**<br>Head of Rail | | $350,000 | | |
| **John Love**<br>Head of Shipping | | GBP146,000 | | |
| **Neil Brown**<br>Head of Funds Management | Open ended, commencing 10 September 2007 | $400,000 | • Minimum guaranteed bonus of $750,000 for the 2008 financial year<br>• Grant of options or rights to the value of $1,250,000 under the Executive Options and Rights Plan at time of LTI awards in 2008 | • Three months notice by either party<br>• Company may elect to pay three months' fixed remuneration in lieu of notice<br>• Standard post employment restraint up to 12 months |
| **Tim Dodd**<br>Chief Financial Officer | Open ended, commencing 1 August 2006.<br>Ended 12 June 2008 on resignation of employment | $425,000 | Grant of 64,032 options in FY08 under the Executive Options and Rights Plan (subsequently lapsed on resignation) | • One months notice by either party<br>• Company may elect to pay one months' fixed remuneration in lieu of notice<br>• Standard post employment restraint up to 12 months |
| **Tom Lennox**<br>General Counsel and Company Secretary | Open ended, commencing 1 November 2005 | $410,000 | 685 shares granted under the legacy Allco Employee Share Scheme which vested 30 June 2008 | |
| **Tony Stocks**<br>Chief Risk Manager | Open ended, commencing 15 August 2005 | $335,000 | | |
| **Belinda Castine**<br>Head of Human Resources | Open ended, commencing 5 November 2007 | $300,000 | • Deferred shares to the value of $30,000 were granted on commencement of employment vesting in 2010 | |
| **Christine Bowen**<br>Head of External Relations | Open ended, commencing 9 January 2006 | $280,000 | | |

Notes:
1. Annualised base remuneration in respect of the 12 months ending 30 June 2008. Fixed base remuneration is inclusive of superannuation for Australian based employees.
2. Where termination occurs as a result of misconduct or breach of contract, no notice is required.
3. Member of the Board of Directors.
4. As a result of the significant changes in the scale and scope of Allco's business, Mr Stefanovski has elected to leave Allco on 30 September 2008 and has also resigned from his executive role and from the board effective 4 August 2008. Pursuant to his contract of employment, in light of the material changes to his role, Michael Stefanovski will receive payments as outlined in above table.
5. Managing Director and Member of the Board of Directors of Allco Equity Partners Limited (AEPL).

## Remuneration of Executive Directors and other Group Executives

| Name | | Short-term | | | | Share-based payments (equity settled) [(1)] | | | Post-employment | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Base salary and fees | Cash bonus [10] | Retention & other incentives | Non-monetary benefits | Shares | Options & rights | Termination benefits | Super-annuation [9] | Other post-employment benefits | Total | Proportion of remuneration performance related | Proportion of remuneration that consists of options & rights |
| | | $ | $ | $ | $ | $ | $ | $ | | | $ | % | % |
| **Executive Directors** | | | | | | | | | | | | | |
| David Clarke [2] | 2008 | 814,106 | - | - | - | 848,692 | 319,542 | - | 13,129 | - | 1,995,469 | 58.54 | 16.01 |
| | 2007 | 184,243 | 250,000 | - | - | 141,640 | - | - | 3,172 | - | 579,055 | 67.63 | 0.00 |
| Michael Stefanovski [3] | 2008 | 436,871 | - | - | - | 3,781,366 | (82,731) | - | 13,129 | 750,000 | 4,898,635 | 75.50 | 0.00 |
| | 2007 | 387,132 | 600,000 | - | 9,900 | 2,019,366 | 82,731 | - | 12,686 | - | 3,111,815 | 86.83 | 2.66 |
| **Executives** | | | | | | | | | | | | | |
| David Veal | 2008 | 375,885 | - | 750,000 [12] | - | - | (13,757) | - | 13,129 | - | 1,125,257 | 65.43 | 0.00 |
| | 2007 | 298,745 | - | - | 9,900 | - | 82,731 | - | 12,686 | - | 404,062 | 20.47 | 20.47 |
| John Love [4] | 2008 | 326,277 | - | 800,000 [12] | - | - | 27,608 | - | - | - | 1,153,885 | 71.72 | 2.39 |
| | 2007 | 356,577 | 1,000,000 | - | - | - | - | - | - | - | 1,356,577 | 73.71 | 0.00 |
| Mark Worrall | 2008 | 336,871 | - | 500,000 [12] | - | - | (13,757) | - | 13,129 | - | 836,243 | 58.15 | 0.00 |
| | 2007 | 287,314 | 500,000 | - | 9,900 | - | 82,731 | - | 12,686 | - | 892,631 | 65.28 | 9.27 |
| Rob Moran | 2008 | 352,780 | - | 650,000 [12] | - | - | (13,757) | - | 13,129 | - | 1,002,152 | 63.49 | 0.00 |
| | 2007 | 287,314 | 500,000 | - | 9,900 | - | 82,731 | - | 12,686 | - | 892,631 | 65.28 | 9.27 |
| Neil Brown [5] | 2008 | 314,332 | - | 1,000,000 [11] | - | - | 114,122 | - | 10,941 | - | 1,439,395 | 7.93 | 7.93 |
| Gordon Fell [6] | 2008 | 337,698 | - | - | - | - | - | - | 10,516 | - | 348,214 | 0.00 | 0.00 |
| Tim Dodd [7] | 2008 | 392,258 | - | - | - | (17,728) | (140,410) | - | 13,129 | - | 247,249 | 0.00 | 0.00 |
| | 2007 | 334,204 | 450,000 | - | - | 17,728 | 140,410 | - | 12,686 | - | 955,028 | 63.68 | 14.70 |
| Tom Lennox [8] | 2008 | 116,541 | - | 525,000 [11] | - | 9,777 | 5,752 | - | 3,855 | - | 660,925 | 2.35 | 0.87 |
| Tony Stocks [8] | 2008 | 94,518 | - | 300,000 [11] | - | 9,777 | 5,752 | - | 3,855 | - | 413,902 | 3.75 | 1.39 |
| Belinda Castine [8] | 2008 | 84,240 | - | 150,000 [11] | - | 1,402 | - | - | 3,855 | - | 239,497 | 0.59 | 0.00 |
| Christine Bowen [8] | 2008 | 78,367 | - | 120,000 [12] | - | - | 3,287 | - | 3,855 | - | 205,509 | 59.99 | 1.60 |

(1) Equity compensation has been calculated on the basis as described in Note 3 (o) Employee benefits to the 2008 Financial Report. The fair value of equity grants for each individual are measured at the grant dates and recognised evenly over the vesting period. The expense recognised in the Income Statement and disclosed in the remuneration tables is not adjusted in the event the equity grants do not vest due to failure to meet a market condition. Similarly, the amount is not reversed to reflect the ultimate value (if any) provided to KMP. However, if it is considered probable that a KMP will not meet a service condition, the expense is adjusted. In the case of a number of KMP who have left the Group, this has resulted in a reversal of all previous expense reported. Management has made an assessment of probability and has deemed it no longer probable that EPS hurdled options will vest; the reversal of prior year expense reflects that on a cumulative basis the remuneration with EPS hurdled option amounts to zero.
Given the significant decline in the share price during the year, the current value of the options and shares grants is considerably less than anticipated when granted. As a result, the accounting expense included in the table is therefore significantly higher than the value of the equity received by the KMP.

(2) David Clarke was appointed as Managing Director and Chief Executive Officer on 10 April 2007. His comparative remuneration reflects the pro rata of benefits provided from the date of commencement.

(3) Michael Stefanovski has resigned from his executive role and elected to leave Allco on 30 September 2008 and has also resigned from the Board effective 4 August 2008. As a result of his resignation he did not participate in the 2008 incentive scheme. Although his benefits are included in the 2008 post-employment benefits, they are to be paid in the 2009 financial year. Included in share-based payments is an amount of $1,762,000 which reflects the vesting of 200,000 deferred shares, valued initially at grant date at $8.81 per grant. In the comparative period, an adjustment has been made for Michael Stefanovski for his pro rata equity entitlement under the legacy Employee Share Scheme.

(4) Remuneration of John Love is translated into AUD equivalents using the average GBP exchange rate for the service period.

(5) Neil Brown, Head of Funds Management, became a member of key management personnel as of 10 September 2007 when he joined the Group.

(6) Gordon Fell became Executive Chairman Real Estate on 19 December 2007 and stepped down as a Director of the Board as of 3 March 2008. His remuneration as an Executive Director is included in this table, but his remuneration as a non-executive Director has been disclosed under the Non-Executive Directors Section of the Remuneration Report.

(7) Tim Dodd resigned as Chief Financial Officer effective 12 June 2008.

(8) Executive became a member of key management personnel effective 17 March 2008 when the restructuring of executive management was announced. Their remuneration reflects their entitlements from this date.

(9) Superannuation is the 9% guaranteed defined contribution or the maximum amount that is compulsory under Australian legislation.

(10) Payments awarded under Allco's annual discretionary bonus scheme (STI), funded from the Bonus Pool and based on Group performance, relative divisional performance and individual achievement of agreed objectives set at the beginning of the performance year.

(11) As a result of the Restructuring Program, retention awards were made to select executives critical to the stabilisation and sustainability of the business. Awards were granted in March 2008 and are payable in the form of cash on 3 September 2008.

(12) At the end of the 2008 financial year, the Board approved targeted individual performance payments to select executives in recognition of the financial results delivered in certain segments and the contribution to the stabilisation and rebuild of the Company. These payments are payable on 3 September 2008 in the form of cash.

## Remuneration of Executive Directors and other Group Executives (cont.)

| | | Short-term | | | | Share-based payments (equity settled) (1) | | | Post-employment | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Base salary and fees | Cash bonus [7] | Retention & other incentives | Non-monetary benefits | Shares | Options & rights | Termination benefits | Super-annuation [6] | Other post-employment benefits | Total | Proportion of remuneration performance related | Proportion of remuneration that consists of options & rights |
| **Name** | | $ | $ | $ | $ | $ | $ | $ | | | $ | % | % |
| *Ceased to be a KMP during the year:* | | | | | | | | | | | | | |
| **Executive Directors** | | | | | | | | | | | | | |
| David Coe [2] | 2008 | 264,494 | - | - | - | - | (15,802) | - | 8,808 | - | 257,500 | 0.00 | 0.00 |
| | 2007 | 298,745 | - | - | 9,900 | - | 82,731 | - | 12,686 | - | 404,062 | 20.47 | 20.47 |
| David Turnbull [3] | 2008 | 225,411 | | - | 195,055 | - | (82,731) | 187,099 | - | - | 524,834 | 0.00 | 0.00 |
| | 2007 | 359,043 | 300,000 | - | 359,946 | - | 82,731 | - | - | - | 1,101,720 | 34.74 | 7.51 |
| **Executives** | | | | | | | | | | | | | |
| Timothy Rich [4, 5] | 2008 | 201,264 | - | - | - | 75,563 | (28,712) | - | 6,096 | - | 254,211 | 18.43 | 0.00 |
| | 2007 | 301,032 | 500,000 | - | 10,250 | 161,549 | 82,731 | - | 12,686 | - | 1,068,248 | 69.67 | 7.74 |
| Nick Bain [4] | 2008 | 276,962 | - | - | - | - | (21,809) | - | 9,274 | - | 264,427 | 0.00 | 0.00 |
| | 2007 | 298,745 | - | - | 9,900 | - | 82,731 | - | 12,686 | - | 404,062 | 20.47 | 20.47 |
| Justin Lewis [4, 5] | 2008 | 257,523 | - | - | - | 245,283 | (21,809) | - | 9,274 | - | 490,271 | 45.58 | 0.00 |
| | 2007 | 287,314 | 500,000 | - | 9,900 | 344,322 | 82,731 | - | 12,686 | - | 1,236,953 | 74.95 | 6.69 |
| Jim Hope Murray [4] | 2008 | 282,808 | - | - | - | - | (21,809) | - | 9,274 | - | 270,273 | 0.00 | 0.00 |
| | 2007 | 301,032 | 400,000 | - | 9,900 | - | 82,731 | - | 12,686 | - | 806,349 | 59.87 | 10.26 |
| Chris West [4] | 2008 | 276,962 | - | - | - | - | (21,809) | - | 9,274 | - | 264,427 | 0.00 | 0.00 |
| | 2007 | 298,745 | - | - | 9,900 | - | 82,731 | - | 12,686 | - | 404,062 | 20.47 | 20.47 |

(1) Equity compensation has been calculated on the basis as described in Note 3 (o) Employee benefits to the 2008 Financial Report. The fair value of equity grants for each individual are measured at the grant dates and recognised evenly over the vesting period. The expense recognised in the Income Statement and disclosed in the remuneration tables is not adjusted in the event the equity grants do not vest due to failure to meet a market condition. Similarly, the amount is not reversed to reflect the ultimate value (if any) provided to KMP. However, if it is considered probable that a KMP will not meet a service condition, the expense is adjusted. In the case of a number of KMP who have left the Group, this has resulted in a reversal of all previous expense reported. Management has made an assessment of probability and has deemed it no longer probable that EPS hurdled options will vest; the reversal of prior year expense reflects that on a cumulative basis the remuneration with EPS hurdled option amounts to zero.
Given the significant decline in the share price during the year, the current value of the options and shares grants is considerably less than anticipated when granted. As a result, the accounting expense included in the table is therefore significantly higher than the value of the equity received by the KMP.

(2) David Coe resigned as Director as of 3 March 2008 and remains with the Group in his capacity of Executive Advisor to the Group.

(3) David Turnbull resigned as Director as of 3 March 2008 and ceased to be an Executive at 31 March 2008. Remuneration is translated into AUD equivalents using the average HKD exchange rate for the service period. His termination benefits are non-performance related.

(4) Executive ceased as a member of key management personnel effective 17 March 2008 when the restructuring of executive management was announced; Timothy Rich ceased as a member of key management personnel effective 19 December 2007.

(5) In the comparative period, an adjustment has been made for Justin Lewis and Tim Rich for their pro rata equity entitlement under the legacy Employee Share Scheme.

(6) Superannuation is the 9% guaranteed defined contribution or the maximum amount that is compulsory under Australian legislation.

(7) Payments awarded under Allco's annual discretionary bonus scheme (STI), funded from the Bonus Pool and based on Group performance, relative divisional performance and individual achievement of agreed objectives set at the beginning of the performance year.

## Equity Based Compensation of Executive Directors and other Group Executives

| | Grant date | Balance of unvested shares at the start of the year | Granted as compensation during the year | Forfeited during the year | Vested during the year | Transfer out during the year [3] | Balance of unvested shares at the end of the year | Fair value [4] of unvested shares at the end of the year $ |
|---|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | | |
| David Clarke [1] | 10 Apr 2007 [5] | 126,259 | - | - | (42,086) | - | 84,173 | 33,669 |
| | 28 Aug 2007 [1] | - | 27,071 | - | (27,071) | - | - | - |
| Michael Stefanovski [2] | 1 Mar 2006 [6] | 1,510,748 | - | - | - | - | 1,510,748 | - |
| | 12 Sep 2007 [5] | - | 600,000 | (400,000) | (200,000) | - | - | - |
| **Executives** | | | | | | | | |
| Tim Dodd [7] | 12 Sep 2007 [5] | - | 25,528 | (25,528) | - | - | - | - |
| Tom Lennox | 1 Mar 2006 [6] | 685 | - | - | (685) | - | - | |
| | 12 Sep 2007 [5] | - | 25,528 | - | - | - | 25,528 | 10,211 |
| Tony Stocks | 12 Sep 2007 [5] | - | 25,528 | - | - | - | 25,528 | 10,211 |
| Belinda Castine | 12 Sep 2007 [5] | - | 2,823 | - | - | - | 2,823 | 1,129 |
| *Ceased to be a KMP during the year:* | | | | | | | | |
| **Executives** | | | | | | | | |
| Timothy Rich | 1 Mar 2006 [6] | 161,146 | - | - | - | (161,146) | - | - |
| Justin Lewis | 1 Mar 2006 [6] | 343,463 | - | - | - | (343,463) | - | - |
| | | 2,142,301 | 706,478 | (425,528) | (269,842) | (504,609) | 1,648,800 | 55,220 |

(1) The grant of 126,259 shares for David Clarke, being a Director of Allco, was approved at the AGM on 25 October 2007. David Clarke allocated all of his 2007 cash bonus to acquire 27,071 AFGL shares at a VWAP of $9.23, which are now held under the Deferred Share Plan; these shares were subject to 6 months vesting period and have vested.

(2) Michael Stefanovski's arrangements include the vesting of 200,000 shares and the lapsing of 400,000 shares granted under the Deferred Share Plan. It is expected that 1,510,748 shares granted under the ESS will vest on 30 September 2008; these grants are subject to payment of a consideration of $1.49 per share.

(3) Shares have been transferred out because Executives have ceased to be KMP's during the period, not because shares have vested.

(4) Fair value is determined with reference to the share price at 30 June 2008.

(5) The service criteria for these grants is that the executive remains employed with the Group for three years from grant date, except for David Clarke. His remaining shares vest in two equal tranches on 12 April 2009 and 2010. There are no performance conditions.

(6) The service criteria for all grants is that the executive remains employed with the Group to 30 June 2008. Except for Tom Lennox, personal non-market performance conditions have been agreed in addition to the service condition. These were also assessed in 2006 and 2007 and met. The vesting date was extended on 27 June 2008 to 30 September 2008; the fair value of this modification is immaterial.

(7) On 12 September 2007, Tim Dodd was granted 25,528 shares under the Deferred Share Plan. Upon his resignation as of 12 June 2008, his entitlement was forfeited. In the prior year, an amount was included that represented the expected amount of shares to be granted; this has been updated to reflect the actual amount issued during the year.

Executives that have no deferred shares are not included in this table.

## Option holdings of Executive Directors and other Group Executives

| | Grant date [9] | Hurdle type [8] | Grant date fair value [7] per option ($) | Option exercise price ($) | Balance of options at the start of the year | Granted during the year | Lapsed or forfeited during the year | Transfer out during the year [6] | Balance of options at the end of the year |
|---|---|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | | | |
| David Clarke [1] | 12 Sep 2007 | TSR | 1.88 | 7.83 | - | 611,888 | - | - | 611,888 |
| | 12 Sep 2007 | EPS | 2.06 | 7.83 | - | 611,888 | - | - | 611,888 |
| Michael Stefanovski [1, 2] | 12 Sep 2007 | TSR | 1.88 | 7.83 | 61,189 | - | (61,189) | - | - |
| | 12 Sep 2007 | EPS | 2.06 | 7.83 | 61,189 | - | (61,189) | - | - |
| **Executives** | | | | | | | | | |
| David Veal | 12 Sep 2007 | TSR | 1.88 | 7.83 | 61,189 | - | - | - | 61,189 |
| | 12 Sep 2007 | EPS | 2.06 | 7.83 | 61,189 | - | - | - | 61,189 |
| John Love | 12 Sep 2007 | TSR | 1.88 | 7.83 | 61,189 | - | - | - | 61,189 |
| | 12 Sep 2007 | EPS | 2.06 | 7.83 | 61,189 | - | - | - | 61,189 |
| Mark Worrall | 12 Sep 2007 | TSR | 1.88 | 7.83 | 61,189 | - | - | - | 61,189 |
| | 12 Sep 2007 | EPS | 2.06 | 7.83 | 61,189 | - | - | - | 61,189 |
| Rob Moran | 12 Sep 2007 | TSR | 1.88 | 7.83 | 61,189 | - | - | - | 61,189 |
| | 12 Sep 2007 | EPS | 2.06 | 7.83 | 61,189 | - | - | - | 61,189 |
| Neil Brown | 12 Sep 2007 | TSR | 1.88 | 7.83 | - | 218,532 | - | - | 218,532 |
| | 12 Sep 2007 | EPS | 2.06 | 7.83 | - | 218,532 | - | - | 218,532 |
| Gordon Fell [3] | - | | - | - | - | - | - | - | - |
| Tim Dodd [4] | 12 Sep 2007 | TSR | 1.88 | 7.83 | 61,189 | - | (61,189) | - | - |
| | 12 Sep 2007 | EPS | 2.06 | 7.83 | 61,189 | - | (61,189) | - | - |
| | 4 May 2007 | TSR | 3.36 | 10.91 | 64,032 | - | (64,032) | - | - |
| Tom Lennox | 12 Sep 2007 | TSR | 1.88 | 7.83 | 61,189 | - | - | - | 61,189 |
| | 12 Sep 2007 | EPS | 2.06 | 7.83 | 61,189 | - | - | - | 61,189 |
| Tony Stocks | 12 Sep 2007 | TSR | 1.88 | 7.83 | 61,189 | - | - | - | 61,189 |
| | 12 Sep 2007 | EPS | 2.06 | 7.83 | 61,189 | - | - | - | 61,189 |
| Belinda Castine | - | | | | | | | | |
| Christine Bowen | 12 Sep 2007 | TSR | 1.88 | 7.83 | 34,965 | - | - | - | 34,965 |
| | 12 Sep 2007 | EPS | 2.06 | 7.83 | 34,965 | - | - | - | 34,965 |
| *Ceased to be a KMP during the year:* | | | | | | | | | |
| **Executive Directors** | | | | | | | | | |
| David Coe [1] | 12 Sep 2007 | TSR | 1.88 | 7.83 | 61,189 | - | - | - | 61,189 |
| | 12 Sep 2007 | EPS | 2.06 | 7.83 | 61,189 | - | - | - | 61,189 |
| David Turnbull [1,5] | 12 Sep 2007 | TSR | 1.88 | 7.83 | 61,189 | - | (61,189) | - | - |
| | 12 Sep 2007 | EPS | 2.06 | 7.83 | 61,189 | - | (61,189) | - | - |
| **Executives** | | | | | | | | | |
| Timothy Rich | 12 Sep 2007 | TSR | 1.88 | 7.83 | 61,189 | - | - | (61,189) | - |
| | 12 Sep 2007 | EPS | 2.06 | 7.83 | 61,189 | - | - | (61,189) | - |
| Nick Bain | 12 Sep 2007 | TSR | 1.88 | 7.83 | 61,189 | - | - | (61,189) | - |
| | 12 Sep 2007 | EPS | 2.06 | 7.83 | 61,189 | - | - | (61,189) | - |
| Justin Lewis | 12 Sep 2007 | TSR | 1.88 | 7.83 | 61,189 | - | - | (61,189) | - |
| | 12 Sep 2007 | EPS | 2.06 | 7.83 | 61,189 | - | - | (61,189) | - |
| Jim Hope Murray | 12 Sep 2007 | TSR | 1.88 | 7.83 | 61,189 | - | - | (61,189) | - |
| | 12 Sep 2007 | EPS | 2.06 | 7.83 | 61,189 | - | - | (61,189) | - |
| Christopher West | 12 Sep 2007 | TSR | 1.88 | 7.83 | 61,189 | - | - | (61,189) | - |
| | 12 Sep 2007 | EPS | 2.06 | 7.83 | 61,189 | - | - | (61,189) | - |
| | | | | | 1,969,632 | 1,660,840 | (431,166) | (611,890) | 2,587,416 |

(1) The grant of options for David Coe, David Clarke, Michael Stefanovski and David Turnbull, being Directors of Allco, were approved by the AGM on 25 October 2007.

(2) Michael Stefanovski has resigned from his executive role and elected to leave Allco on 30 September 2008 and has also resigned from the Board effective 4 August 2008. As a consequence 100% of his granted options will lapse.

(3) Gordon Fell is not eligible to participate in Allco's STI and LTI schemes as determined by the Rubicon Share Acquisition Agreement.

(4) Tim Dodd resigned as Chief Financial Officer as of 12 June 2008. As a consequence 100% of his options have lapsed.

(5) David Turnbull resigned as Director as of 3 March 2008 and ceased to be an Executive at 31 March 2008. As a consequence, 100% of his options have lapsed.

(6) Transfer out for individuals who ceased to be KMP do not confirm that arrangements have vested, were forfeited or lapsed.

(7) Fair value of TSR options is determined at $1.88 for 12 Sep 2007 grants and $3.36 for 4 May 2007 grant. Fair value of EPS options is determined at $2.06.

(8) For performance hurdles, refer structure and details of options in earlier section of this Remuneration Report.

(9) The service criteria for all grants is that the executive remains employed with the Group for three years from grant date.

During the reporting period, only options were granted but no rights. There were no options exercised during the year and no options vested during the year. All options are unvested/non-exercisable at the reporting date. The first date options outstanding at the reporting date can be exercised is 12 September 2010. All options outstanding at the reporting date expire on 12 September 2013. Management has assessed the fair value of options at the reporting date was close to zero.

## Vested Shareholdings and Other Debt and Equity Interests of Executive Directors and other Group Executives

| | Balance at the start of the year | Reduction through sale by API [6] | In consideration of acquisition of Rubicon [4] | Acquired during the year | Disposed during the year | Other changes (incl DRP) during the year | Transfer out during the year [5] | Balance at the end of the year [8] | Balance at 29 Aug 2008 |
|---|---|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | | | |
| David Clarke [1] | - | - | - | - | - | 69,157 | - | 69,157 | 69,157 |
| Michael Stefanovski [2] | - | - | - | 159,027 | (159,027) | - | - | - | - |
| **Executives** | | | | | | | | | |
| David Veal [7] | 11,350,350 | (1,153,333) | - | - | - | - | - | 10,197,017 | 10,197,017 |
| John Love [7] | 2,749,666 | - | - | - | (6,319) | - | - | 2,743,347 | 2,743,347 |
| Mark Worrall [7] | 4,170,990 | (1,100,000) | - | - | (618,841) | - | - | 2,452,149 | 2,452,149 |
| Rob Moran [7] | 3,428,647 | (224,444) | - | - | - | - | - | 3,204,203 | 3,204,203 |
| Neil Brown | - | - | - | - | - | - | - | - | - |
| Gordon Fell [3] | 192,342 | - | 11,118,992 | - | - | - | - | 11,311,334 | 11,311,334 |
| Tim Dodd | - | - | - | - | - | - | - | - | - |
| Tom Lennox | - | - | - | - | - | - | - | - | - |
| Tony Stocks | - | - | - | - | - | - | - | - | - |
| Belinda Castine | - | - | - | - | - | - | - | - | - |
| Christine Bowen | 4,011 | - | - | - | (4,011) | - | - | - | - |
| *Ceased to be a KMP during the year:* | | | | | | | | | |
| **Executive Directors** | | | | | | | | | |
| David Coe [3, 7] | 34,701,765 | (13,449,542) | 4,932,086 | - | (1,225,972) | - | - | 24,958,337 | 24,958,337 |
| David Turnbull | - | - | - | - | - | - | - | - | - |
| **Executives** | | | | | | | | | |
| Timothy Rich [7] | 814,182 | (187,778) | - | - | (205,464) | - | (420,940) | - | - |
| Nick Bain [7] | 11,752,563 | (1,773,333) | - | - | - | - | (9,979,230) | - | - |
| Justin Lewis [7] | 1,039,329 | (412,222) | - | - | (206,401) | - | (420,706) | - | - |
| Jim Hope Murray [7] | 4,290,600 | (1,100,000) | - | - | (712,260) | - | (2,478,340) | - | - |
| Christopher West [7] | 10,427,457 | (825,000) | - | - | - | - | (9,602,457) | - | - |
| | 84,921,902 | (20,225,652) | 16,051,078 | 159,027 | (3,138,295) | 69,157 | (22,901,673) | 54,935,544 | 54,935,544 |

(1) David Clarke allocated all of his 2007 cash bonus to AFG shares (27,071) which had a 6 months vesting period. These shares had vested before the reporting date and are included in this amount.

(2) Michael Stefanovski's arrangements include the vesting of 200,000 shares granted under the Deferred Share Plan which will be transferred on or after 30 September 2008.

(3) David Coe received 2,500,003 convertible redeemable preference shares (CRPS) as part of consideration for the acquisition of Rubicon. He disposed of 621,428 CRPS during the reporting period to a charitable trust which is not a related party to David Coe and continues to hold 1,878,575 CRPS at the reporting date. Gordon Fell received 5,636,056 CRPS as part of consideration for the acquisition of Rubicon, which he continues to hold at the reporting date. CRPS are automatically reclassified as new Allco Finance Group Limited shares if the combined Real Estate division assets under management (AUM) at 31 December 2008 is at least 20% higher than at 1 January 2008. If the threshold is not satisfied, the next retesting date is 31 December 2010 if the combined Real Estate division reports a compound annual growth of at least 20%. If the threshold is not received they are automatically redeemed at $0.0001 per CRPS.

(4) Shares issued in consideration for the Acquisition of Rubicon are subject to a three year escrow period starting 19 December 2007 with release of 3 equal installments per annum.

(5) Transfer out for individuals who ceased to be KMP does not confirm that holdings have been sold.

(6) Beneficial interest for KMP as at 1 July 2007 includes interest indirectly held by Allco Record Unit Trust (ARUT). ARUT held 11 million Allco shares and have been added in direct proportion to their beneficial interest in ARUT to interest held directly and by close members of their family and their other related parties. All shares held by ARUT were transferred to Allco Principals Investments Pty Ltd, a subsidiary of Allco PrincipalsTrust (APT) and sold during the year.

For David Coe additional beneficial interest as at 1 July 2007 indirectly held by Redshift Corporation Pty Ltd and APT has been included in the above table for comparison purposes. By virtue of his beneficial equityholder interest in APT and Redshift being both over 20%, his additional beneficial interest amounts to 11.7 million shares at 1 July 2007. APT's entire shareholding in Allco shares amounted to 45 million at 1 July 2007. All shares held by APT were sold during the year.

(7) The opening balance at 1 July 2007 includes a total of 61,001,258 ordinary shares, which were issued in consideration for the acquisition of Allco Finance (Australia) Limited on 1 July 2006, and are subject to voluntary escrow. The escrow period for one third of those shares ended on 22 October 2007. The escrow period for another third of those shares ends on 30 September 2008. The escrow period for the remaining third of those shares ends on 30 September 2009. The ending balance at 30 June 2008 includes a total of 40,640,789 ordinary shares subject to escrow.

(8) During the year, members of key management personnel pledged a total of 17,938,818 shares to BOSI as follows: David Veal 3,200,969; Mark Worrall 404,822; Rob Moran 1,014,664; David Coe 6,339,074;Timothy Rich 132,711; Nick Bain 3,209,743; Justin Lewis 44,613; Jim Hope Murray 391,403; Chris West 3,200,819. These shares have not been sold and are included in the closing balance of shares.

During the reporting and comparative period, no options were exercisable. During the reporting period, no unvested shares vested, except where otherwise noted.

There were no fully paid Allco notes of the Group held during the year by executive Directors and Executives including their related parties, except for Tom Lennox, who held 7,500 continuously during the year. The interest rate on the notes from 1 July to 14 November 2007 was 6.56% + 2.10%, from 15 November to 14 May 2008 was 7.3083% + 2.10% and from 15 May to 30 June 08 was 7.94% + 2.10% (2007: 6.56% + 2.10%).

Loans to Executive Directors and other Group Executives

The Group did not provide loans, guaranteed or secured by any entity in the Group to key management personnel and their related parties at any time during the reporting period (2007: nil).

Other transactions with Executive Directors and other Group Executives

In connection with the creation in 2006 of an employee share plan for the benefit of Allco employees, a private entity of David Veal, a member of Key Management Personnel (KMP) and private entities of David Coe, Nick Bain and Chris West, former members of Key Management Personnel entered into an arrangement to pay to a related party of Allco, being the Allco Employee Share Trust No.1 (the Trust), an amount equal to any shortfall in relation to shares that are forfeited by participants in the share plan in connection with a $6,089,999 loan owed by the Trust to the Group. This right of the Trust is against the private entities of the current or former key management personnel and there is no contractual recourse to the key management personnel as individuals.

The assets of the Trust comprise:

- shares in AFGL held under the share plan; and
- a right under the arrangement described in the above paragraph.

During the year, the Group recognised a provision of $4,495,000 ($1,123,750 per private entity of each KMP) in respect of the loan to the Trust based on the Directors' view of the current value of the assets of the trust.

Other transactions with Executive Directors and Group Executives (including their related parties) are set out in notes 39 and 40 of the financial report. These transactions were conducted on an at arm's-length basis in the ordinary course of business and under normal terms and conditions for customers and employees.

## Non-Executive Director Remuneration Framework

The remuneration arrangements for Non-Executive Directors aims to attract and retain suitably qualified Non-Executive Directors, and appropriately reward them for their role and commitment in providing sound governance and representing the interests of shareholders.

The Non-Executive Director remuneration framework comprises Director fees paid in cash or sacrificed to purchase Company shares, and statutory superannuation contributions.

In order to maintain their independence and impartiality, the remuneration of the Non-Executive Directors is not linked to the performance of the Group. As a result they do not receive any performance related bonus or participate in any short or long term incentive scheme.

Allco does not provide termination benefits or operate a retirement scheme for Non-Executive Directors other than compulsory superannuation contributions comprising part of their remuneration.

### Director Fees

Non-Executive Directors receive annual fees that are reviewed periodically by the Board taking into account:

- Advice from independent external remuneration advisors on competitive market practice;
- The experience and responsibilities of the Directors and the Board committees; and
- The demands placed on Non-Executive Directors in light of the size and complexity of the Company.

Fees are set within an aggregate maximum pool determined by Shareholders. At the extraordinary general meeting held on 9 June 2006, shareholders approved a maximum aggregate compensation for Non-Executive Directors of $1,500,000 per annum.

The schedule of fees, including superannuation, for the Board and Board Committees for the 2008 financial year were as follows:

| | Board | Board Risk Committee | Board Audit & Compliance Committee | Board Human Resource & Remuneration Committee | Board Related Party Committee | Board Nominations Committee |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| **Chairman** | - | - | 30,000 | - | - | - |
| **Deputy Chairman [1]** | 225,000 | - | - | - | - | - |
| **Member** | 150,000 | - | 15,000 | 10,000 | - | - |

(1) Deputy Chairman fee is inclusive of all committee fees.
All fees are inclusive of superannuation.

### Non Executive Directors' Share Plan

To facilitate and encourage Directors to sacrifice a portion of their fees to acquire shares, and thus further align their interests with those of shareholders, the Non-Executive Directors' Share Plan was approved at the EGM held on 9 June 2006.

Subscriptions are made at the same time each quarter, with shares acquired on market at the prevailing market prices at the time. Under the Plan, there are a number of conditions governing the disposal of, or granting of security interests over shares acquired under the Plan.

From 1 July 2007, Rod Eddington, Neil Lewis and Barbara Ward (resigned 25 January 2008) participated in this plan, sacrificing a minimum of 25% of their base Director's fees to purchase Allco shares.

In light of the Restructuring Program which has been ongoing since February 2008, the Board decided to suspend operation of the Non-Executive Director Share Plan. The Plan and the timing for its reinstatement are currently under review.

**Non-Executive Directors Remuneration and other Disclosures**

Contractual Entitlements and Termination Arrangements

Remuneration and other terms of employment for Non-Executive Directors are formalised in service agreements. The remuneration is viewed as a total package, comprising fees paid in cash or the cost of shares acquired under the Non-Executive Directors' Share Plan in lieu of cash, and statutory superannuation contributions. Superannuation is the 9% guaranteed defined contribution or the maximum amount that is compulsory under Australian legislation.

None of these agreements provide for the provision of performance-related cash bonuses or termination payments. Directors must formally tender their resignations after six years, no later than 90 days prior to the AGM at which they are to be re-elected. Other major provisions of the agreements of Non-Executive Directors relating to remuneration are set out below.

Remuneration Details of Non-Executive Directors

| | | | **Short-term** | **Share-based payments (equity settled)** | **Post- employment** | |
|---|---|---|---|---|---|---|
| **Name** | | | **Base salary and fees** $ | **Shares** $ | **Super-annuation** | **Total** $ |
| **Non-Executive Directors** | | | | | | |
| Rod Eddington | From 9 Jun 2006 | 2008 | 142,371 | 9,500 | 13,129 | 165,000 |
| | | 2007 | 152,314 | - | 12,686 | 165,000 |
| Gordon Fell [1] | From 28 May 2001 | 2008 | 85,712 | - | 7,659 | 93,371 |
| | to 3 March 2008 | 2007 | 147,314 | - | 12,686 | 160,000 |
| Neil Lewis | From 16 Aug 2006 | 2008 | 136,203 | 13,168 | 13,129 | 162,500 |
| | | 2007 | 145,624 | - | 11,290 | 156,914 |
| Bob Mansfield [2] | From 9 Jun 2006 | 2008 | 313,803 | - | 13,129 | 326,932 |
| | | 2007 | 268,414 | - | 12,686 | 281,100 |
| Barbara Ward | From 25 Apr 2005 | 2008 | 86,903 | 10,438 | 7,659 | 105,000 |
| | to 25 Jan 2008 | 2007 | 167,314 | - | 12,686 | 180,000 |

(1) Gordon Fell became an Executive Director of the Board and Executive Chairman Real Estate on 19 December 2007. He subsequently stepped down as a Director of the Board as of 3 March 2008. His remuneration as an Executive has been disclosed under Executives.

(2) In the current period, Bob Mansfield received $101,932 for services rendered as Chairman of the Board of Record Funds Management Limited, responsible entity for Record Realty Trust. In the prior period, Bob Mansfield received $56,100 for services rendered in relation to his role as Chairman of Airline Partners Australia.

Equity Based compensation of Non-Executive Directors

| Non-Executive Directors | Balance of restricted shares at the start of the year | Granted as compensation during the year | Vested during the year | Balance of restricted shares at the end of the year |
|---|---|---|---|---|
| Rod Eddington | - | 1,375 | - | 1,375 |
| Gordon Fell [2] | - | - | - | - |
| Bob Mansfield | - | - | - | - |
| Neil Lewis | - | 1,906 | - | 1,906 |
| Barbara Ward [1] | - | 1,511 | (1,511) | - |
| | - | 4,792 | (1,511) | 3,281 |

Non-Executive Director Shareholdings and Other Debt or Equity Interests

| Non-Executive Directors | Balance at the start of the year | Vested shares and DRP from the NED Share Plan | Other changes (incl DRP) during the year | Transfer out during the year | Balance at the end of the year | Balance at 29 August 2008 |
|---|---|---|---|---|---|---|
| Rod Eddington | - | - | - | - | - | - |
| Neil Lewis | 70,000 | - | 40,000 | - | 110,000 | 110,000 |
| Bob Mansfield | 44,212 | - | - | - | 44,212 | 44,212 |
| Barbara Ward [1] | 3,680 | 1,511 | - | (5,191) | - | - |
| | 117,892 | 1,511 | 40,000 | (5,191) | 154,212 | 154,212 |

(1) Barbara Ward resigned as of 25 January 2008. 1,511 NEDPS shares vested on resignation. Transfer out for Barbara Ward do not confirm that holdings have been sold.

(2) Gordon Fell became an Executive Director of the Board as of 19 December 2007. His relevant interest has been disclosed under Executives.

During the comparison period, there were no unvested NEDSP shares. In neither the reporting period or the comparison period, the non-executive Directors received any vested shares or DRP from the NEDSP, except where noted otherwise.

On 21 June 2007, the Group's listed notes started trading on the ASX. Neil Lewis subscribed to 2,000 Allco notes in the comparison period which he continued to hold at the reporting date. He acquired 13,000 further notes and holds 15,000 notes at 30 June 2008. The interest rate on the notes from 1 July to 14 November 2007 was 6.56% + 2.10%, from 15 November to 14 May 2008 was 7.3083% + 2.10% and from 15 May to 30 June 08 was 7.94% + 2.10% (2007: 6.56% + 2.10%).

Other transactions with Non-Executive Directors (including their related parties) are set out in notes 39 and 40 of the financial report. These transactions were conducted on an at arm's-length basis in the ordinary course of business and under normal terms and conditions for customers and employees.

## Chief Executive Officer's Declaration

The Chief Executive Officer has declared in writing to the Board, in accordance with section 295A of the Corporations Act 2001, that the Group's financial statements for the financial year have been properly maintained, comply with relevant accounting standards and present a true and fair view of the Group's financial condition and operational results. The statement is required annually.

As the result of the previous Chief Financial Officer resigning prior to 30 June 2008 and the incumbent having commenced employment post 30 June 2008, a declaration from the Chief Financial Officer was not provided to the Board.

The declarations made to the Board regarding the integrity of the financial statements, are founded on the existing systems of risk management and internal compliance and control systems of the Company during the year ended 30 June 2008. The Audit and Compliance Committee of the Board has adopted a Risk Management Policy which is consistent with best practice of risk management as described in Recommendation 7.2 of the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations.

## Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the year are outlined in Note 7(c) to the financial statements.

The Board of Directors has considered the position and, in accordance with advice received from the Audit and Compliance Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as disclosed in Note 7(c) to the financial statements, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- All non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit and Compliance Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- None of the 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 a decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and rewards.

A copy of the auditor's independence declaration, as required under section 307C of the *Corporations Act 2001*, is set out on page 44.

## Rounding off

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

This Report is made in accordance with a resolution of Directors.

**Bob Mansfield**
Acting Chairman
Sydney, 29 August 2008

**David Clarke**
Chief Executive Officer and Managing Director

KPMG

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

To: the directors of Allco Finance Group 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.

KPMG

KPMG

C. Whittingham

Chris Whittingham
*Partner*

Sydney, 29 August 2008

| | | Consolidated | | The Company | |
|---|---|---|---|---|---|
| | *Note* | **2008 $'000** | **2007 $'000** | **2008 $'000** | **2007 $'000** |
| Revenue and other income | *6* | 1,270,548 | 1,232,430 | 117,557 | 236,601 |
| Equity accounted earnings | *16* | | | | |
| - Gain on acquisition of investments in associates | | 49,198 | 14,825 | - | - |
| - Share of (loss)/profit of equity accounted investments | | (139,031) | 54,986 | - | - |
| Expenses (excluding financing costs) | *7(a)* | (2,435,099) | (577,157) | (1,678,921) | (68,219) |
| Financing costs | *7(b)* | (511,343) | (417,498) | (63,740) | (39,101) |
| **(Loss)/profit before income tax** | | (1,765,727) | 307,586 | (1,625,104) | 129,281 |
| Income tax benefit/(expense) | *8(a)* | 25,393 | (88,422) | (5,456) | 8,958 |
| **(Loss)/profit for the year** | | **(1,740,334)** | **219,164** | **(1,630,560)** | **138,239** |
| **Attributable to:** | | | | | |
| Equity holders of the Company | *31* | (1,731,561) | 211,701 | (1,630,560) | 138,239 |
| Minority interest | *32* | (8,773) | 7,463 | - | - |
| **(Loss)/profit for the year** | | **(1,740,334)** | **219,164** | **(1,630,560)** | **138,239** |

| | | | |
|---|---|---|---|
| **(Loss)/earnings per share** | | ***Cents*** | ***Cents*** |
| Basic (loss)/earnings per share attributable to ordinary equity holders | *9* | *(485.5)* | *63.9* |
| Diluted (loss)/earnings per share attributable to ordinary equity holders | *9* | *(485.5)* | *63.9* |

The above Income Statements should be read in conjunction with the accompanying notes.

| | | Consolidated | | The Company | |
|---|---|---|---|---|---|
| | *Note* | **2008 $'000** | **2007 $'000** | **2008 $'000** | **2007 $'000** |
| **Assets** | | | | | |
| Cash and cash equivalents | *10* | 350,705 | 444,848 | 19,337 | 113,849 |
| Trade and other receivables | *11* | 323,069 | 145,019 | 2,223 | 3,098 |
| Derivative financial instruments | *12(a)* | 59,881 | 50,262 | 30,537 | 4,862 |
| Assets and disposal groups classified as held for sale | *15* | 2,412,946 | 107,923 | 41,712 | - |
| Available-for-sale financial assets | *14* | 41,883 | 32,818 | - | - |
| Loan assets held at amortised cost | *13* | 1,731,760 | 4,024,937 | 1,032,925 | 1,230,053 |
| Current tax assets | *20(a)* | - | - | - | 11,159 |
| Equity accounted investments | *16(a)* | 298,251 | 501,484 | - | - |
| Other financial assets | *23* | 138 | 1,515 | 553,398 | 1,338,107 |
| Transportation equipment | *17* | 1,723,591 | 1,940,841 | - | - |
| Infrastructure assets | *18* | - | 134,488 | - | - |
| Property, plant and equipment | *19* | 9,432 | 14,992 | - | - |
| Deferred tax assets | *20(b)* | 118,856 | 52,432 | 86,897 | 27,323 |
| Other assets | *24* | 10,097 | 14,354 | - | - |
| Intangible assets - management rights | *21* | 29,305 | 49,295 | - | - |
| Goodwill | *22* | 368,847 | 1,068,452 | - | - |
| **Total assets** | | 7,478,761 | 8,583,660 | 1,767,029 | 2,728,451 |
| **Liabilities** | | | | | |
| Trade and other payables | *25* | 218,135 | 136,532 | 29,808 | 22,123 |
| Derivative financial instruments | *12(b)* | 46,724 | 1,784 | 22,058 | - |
| Current tax liabilities | *20(a)* | 23,573 | 18,259 | - | - |
| Liabilities of disposal groups classified as held for sale | *15(f)* | 2,012,670 | - | - | - |
| Interest-bearing loans and borrowings | *26* | 4,480,440 | 6,115,302 | 1,168,323 | 550,109 |
| Deferred income | *27* | 35,689 | 34,906 | - | - |
| Employee benefits | *28* | 51,060 | 54,264 | - | 3,656 |
| Provisions | *29* | 40,317 | - | - | - |
| Deferred tax liabilities | *20(c)* | 24,873 | 20,332 | - | - |
| **Total liabilities** | | 6,933,481 | 6,381,379 | 1,220,189 | 575,888 |
| **Net assets** | | 545,280 | 2,202,281 | 546,840 | 2,152,563 |
| **Equity** | | | | | |
| *Issued capital* | | | | | |
| - Ordinary share capital | *30(b)* | 2,231,743 | 2,107,176 | 2,231,743 | 2,107,176 |
| - Treasury shares | *30(f)* | (21,228) | (4,198) | (21,228) | (4,198) |
| Reserves | *34* | (13,830) | (54,429) | 1,033 | 541 |
| Retained earnings | *31* | (1,683,614) | 130,791 | (1,664,708) | 49,044 |
| **Total equity attributable to equity holders of the parent** | | 513,071 | 2,179,340 | 546,840 | 2,152,563 |
| Minority interests | *32* | 32,209 | 22,941 | - | - |
| **Total equity** | | 545,280 | 2,202,281 | 546,840 | 2,152,563 |

The above Balance Sheets should be read in conjunction with the accompanying notes.

| | Note | Consolidated 2008 $'000 | Consolidated 2007 $'000 | The Company 2008 $'000 | The Company 2007 $'000 |
|---|---|---|---|---|---|
| **Total equity at the beginning of the year** | | 2,202,281 | 604,135 | 2,152,563 | 561,651 |
| Available-for-sale financial assets, net of tax | 34 | 14,977 | 406 | - | - |
| Foreign exchange translation differences, net of tax | 34 | 9,472 | (79,371) | - | - |
| Cash flow hedging reserve, net of tax | 34 | (14,354) | (3,629) | 492 | 951 |
| Share of associates' reserves | 34 | (5,408) | 11,437 | - | - |
| Share-based payment reserve | 34 | 35,912 | 13,378 | - | - |
| Adjustments on business combinations | 31 | 348 | (30,439) | - | - |
| **Net income/(expense) recognised directly in equity** | | 40,947 | (88,218) | 492 | 951 |
| **(Loss)/profit for the year** | | (1,740,334) | 219,164 | (1,630,560) | 138,239 |
| **Total recognised income and expense for the year** | | (1,699,387) | 130,946 | (1,630,068) | 139,190 |
| **Transactions with equity holders in their capacity as equity holders** | | | | | |
| Contributions of equity, net of transaction costs and tax | 30(b) | 124,567 | 1,567,339 | 124,567 | 1,567,339 |
| Treasury shares | 30(f) | (17,030) | (4,198) | (17,030) | (4,198) |
| Dividends provided for or paid | 33 | (83,192) | (111,419) | (83,192) | (111,419) |
| Minority Interests - on consolidation | 32 | 18,041 | 15,478 | - | - |
| | | 42,386 | 1,467,200 | 24,345 | 1,451,722 |
| **Total equity at the end of the year** | | 545,280 | 2,202,281 | 546,840 | 2,152,563 |
| **Attributable to:** | | | | | |
| Equity holders of the Company | | 513,071 | 2,179,340 | 546,840 | 2,152,563 |
| Minority interest | 32 | 32,209 | 22,941 | - | - |
| **Total equity at the end of the year** | | 545,280 | 2,202,281 | 546,840 | 2,152,563 |

The above Statements of Changes in Equity should be read in conjunction with the accompanying notes.

| | Note | Consolidated 2008 $'000 | Consolidated 2007 $'000 | The Company 2008 $'000 | The Company 2007 $'000 |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Interest income received | | 391,456 | 285,840 | 4,661 | 21,635 |
| Rental & charter income | | 354,482 | 538,950 | - | - |
| Fees and other non-interest income received | | 126,576 | 120,211 | - | 1,475 |
| Payments to suppliers and employees | | (422,482) | (284,695) | (15,875) | (15,579) |
| Dividends received | | 24,840 | 9,143 | 75,906 | 130,570 |
| Financing costs paid | | (483,466) | (393,050) | (70,402) | (46,736) |
| Income taxes paid | | (20,774) | (39,214) | (2,641) | (35,960) |
| **Net cash from operating activities** [1] | 46 | (29,368) | 237,185 | (8,351) | 55,405 |
| **Cash flows from investing activities** | | | | | |
| ***Investment assets*** | | | | | |
| Payments for property, plant and equipment | | (3,630) | (10,822) | - | - |
| Payments for infrastructure assets | | (87,348) | (39,829) | - | - |
| Payments for investment properties | | (41,215) | (6,137) | - | - |
| Payments for transportation equipment | | (1,406,068) | (1,103,910) | - | - |
| Proceeds from sale of infrastructure assets | | - | 65,862 | - | - |
| Proceeds from sale of transportation equipment | | 1,356,198 | 1,468,221 | - | - |
| Proceeds from sale of investment properties | | 98,971 | - | - | - |
| Contractual breakcosts | | (84,842) | - | (3,730) | - |
| ***Financial assets*** | | | | | |
| Payments for available-for-sale financial assets | | (26,068) | - | - | - |
| Proceeds from sale of available-for-sale financial assets | | 16,647 | 15,373 | - | - |
| ***Loan assets*** | | | | | |
| Loan assets granted | | (925,044) | (1,463,743) | (420,292) | (219,095) |
| Loan repayments received | | 927,899 | 855,567 | 67,807 | 162,555 |
| ***Subsidiaries and associates*** | | | | | |
| Payments for associates | | (121,519) | (195,148) | - | (103,277) |
| Proceeds from sale of associates | | 137,087 | - | - | - |
| Net cash (outflow)/inflow from the acquisition of controlled entities | | (96,182) | 201,767 | (282,410) | (108,155) |
| Net cash inflow/(outflow) from the disposal of controlled entities | | 86,286 | (31,121) | - | - |
| Payment of accrued dividend of acquired entities | | - | (19,635) | - | - |
| **Net cash from investing activities** | | (168,828) | (263,555) | (638,625) | (267,972) |
| **Cash flows from financing activities** | | | | | |
| Proceeds from the issue of share capital | | - | 504,917 | - | 504,917 |
| Share issue transaction costs | | (74) | (27,098) | (74) | (27,098) |
| Proceeds from borrowings | | 2,750,419 | 3,306,060 | 1,035,440 | 350,000 |
| Finance raising costs | | - | (8,018) | - | (7,700) |
| Repayment of borrowings | | (2,506,592) | (3,215,718) | (396,432) | (409,642) |
| Dividends paid | | (72,397) | (89,973) | (72,397) | (89,973) |
| Payments for share allocation plan | | (14,073) | (4,198) | (14,073) | (4,198) |
| Minority interest capital distributions | | (3,275) | (958) | - | - |
| **Net cash from financing activities** | | 154,008 | 465,014 | 552,464 | 316,306 |
| **Net (decrease)/increase in cash and cash equivalents** | | (44,188) | 438,644 | (94,512) | 103,739 |
| Cash and cash equivalents at 1 July | | 444,848 | 10,255 | 113,849 | 10,110 |
| Effect of exchange rate fluctuations on cash and cash equivalents | | (9,203) | (4,051) | - | - |
| **Cash and cash equivalents at 30 June** | 10 | 391,457 | 444,848 | 19,337 | 113,849 |

*1) In the ordinary course of business, the Group's operating activities include the purchase and sale of transportation, infrastructure and real estate investments, as well as the Company's subsidiaries and associates that hold these assets. However, net cash from operating activities excludes net gains on assets sold which are disclosed as part of cash flows from investing activities as required by Accounting Standards.*

The above Statements of Cashflows should be read in conjunction with the accompanying notes.

## 1. Reporting Entity

Allco Finance Group Limited (the "Company") is a company domiciled in Australia. The address of the Company's registered office is 1 Macquarie Place, Sydney. The consolidated financial statements of the Company as at and for the year ended 30 June 2008 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in associates and jointly controlled entities.

The general purpose financial report was approved by the Board of Directors on 29 August 2008.

## 2. Basis of preparation

### (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 Accounting Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial report of the Group and the financial report of the Company comply with the International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board.

### (b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following:

- derivative financial instruments are measured at fair value
- financial instruments at fair value through profit or loss are measured at fair value
- available-for-sale financial assets are measured at fair value
- non-current assets held for sale are measured at the lower of fair value less selling costs and carrying value.

The methods used to measure fair values are discussed further in notes 3(h) and (i).

The balance sheet is prepared using the liquidity format in which assets and liabilities are presented broadly in order of liquidity. The assets and liabilities comprise both current amounts (expected to be recovered or settled within twelve months after the reporting date) and non-current amounts (expected to be recovered or settled more than twelve months after the reporting date). For those assets and liabilities that comprise both current and non-current amounts, information regarding the amount of the item that is expected to be outstanding longer than twelve months is included within the relevant note to the financial statements.

### (c) Functional and presentation currency

These financial statements are presented in Australian dollars, which is the Company's functional currency and the functional currency of the majority of the Group.

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

### (d) Use of estimates and judgements

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. Judgements made by management in the application of Australian Accounting Standards that have significant effect on the financial report and estimates with a significant risk of material adjustment in the next period are discussed in note 4.

These accounting policies have been consistently applied by each entity in the Consolidated Entity.

**(e) Going concern**

The financial statements are prepared on the basis of a going concern. In reaching this conclusion the Directors have had regard to, amongst other things, the following:

- The successful negotiation of a new senior debt facility on 21 August 2008;
- The development and implementation of the new strategic business plan, which demonstrates an ability to release capital funding and transition to a less capital intensive and more sustainable business model, and indicates that the level of debt can be reduced;
- The strategic business plan includes the realisation of significant capital amounts from the sale of non-core assets currently held on the Group's balance sheet. The business has demonstrated its ability to realise non-core assets which has been applied to contribute to the reduction of corporate borrowings to $704.1m as at 25 August 2008;
- The successful transition to the new business model which is expected to enable the refinancing of the remaining corporate debt in September 2009;
- Embedded value in core asset classes; and
- During the year, the Group received a number of approaches from parties interested in acquiring the business, specific assets and business lines, or entering into joint venture arrangements with the Group. Engagement with some of these parties continue.

The Directors acknowledge that some uncertainty remains over the ability of the Group to meet its funding requirements and to refinance or repay the $400m of corporate borrowings at 30 September 2009. However, as highlighted above, the Financial Report has been prepared on a going concern basis. If for any reason the Group is unable to operate as a going concern, there would be an associated impact on its ability to realise assets at their recognised values, in particular, goodwill, intangible assets and investments in associates.

## 3. Summary of significant accounting policies

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

Certain comparative amounts have been reclassified to conform with the current year's presentation.

**(a) Principles of consolidation**

*Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by the Company as at reporting date and the results of all controlled entities during the year then ended. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

Where control of an entity is obtained during a financial year, its results are included in the consolidated income statement from the date on which control commences. Where control of an entity ceased during a financial year its results are included for that part of the year during which control existed.

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

The Group has established a number of special purpose entities (SPEs) for trading and investment purposes. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE.

*Associates & joint ventures*
Associates are those entities in which the Group has significant influence, but not control, over their financial and operating policies. Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement, and requiring unanimous consent for strategic financial and operating decisions. Associates and joint ventures, including partnerships, are accounted for using the equity method (equity accounted investees).

The consolidated financial statements include the Group's share of the total recognised income and expenses of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences, or joint control commences, until the date significant influence ceases, or joint control ceases. When the Group's share of losses exceeds its interest in an associate, the Group's carrying value amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

Investments in associates and joint ventures are carried at cost in the Company's financial statements.

*Transactions eliminated on consolidation*
All intercompany balances, unrealised income and expenses arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity with adjustments made to "Investment in associates" and "share of associate's net profit" accounts.

**(b) Foreign currency transactions and balances**

*Foreign currency transactions*
Transactions in foreign currencies are initially translated into the respective functional currency of Group entities using the exchange rates prevailing at the date of the transaction. Foreign currency monetary assets and liabilities that are outstanding at reporting date are translated at the foreign exchange rate prevailing at that date.

Foreign exchange gains and losses arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the exchange rates prevailing at the dates the fair value was determined.

*Financial statements of foreign operations*
The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Australian dollars at foreign exchange rates ruling at the reporting date. The income and expenses of foreign operations are translated to Australian dollars at exchange rates at the transaction date. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity (Foreign Currency Translation Reserve "FCTR"). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in the FCTR.

*Hedge of net investment in foreign operation*

Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in foreign operation are recognised directly in equity, in the FCTR, to the extent the hedge is effective. To the extent that the hedge is ineffective, such differences are recognised in the Income Statement. When the hedged net investment is disposed of, the cumulative amount in equity is transferred to the Income Statement.

**(c) Revenue**

Revenue is recognised at the fair value of the consideration received or receivable. It is recognised when it is probable that future economic benefits will flow to the entity and these benefits can be measured reliably.

*Fee income*

Arrangement fees charged on lending transactions are deferred and recognised on a basis that represents an effective interest method. Fees for the provision of financing facilities to clients are recognised on a straight-line basis over the period the service is provided, being the expected life of the facility.

Transaction fees represent income for structuring deals with which the Group has no on-going involvement and, accordingly, are recognised in earnings when the service has been performed and contractual obligations fulfilled.

Investment and asset management fees are recognised in the income statement on an accruals basis as the service to which they relate is performed.

Asset realisation fees are generated from the sale of assets in associated investment vehicles and are recognised as income upon the execution of a binding sales agreement.

*Interest income*

Interest income is recognised in the income statement on an accruals basis, using the effective interest rate method. Upfront loan fee income is amortised over the expected life of the loan on a basis that represents an effective interest rate. Accrued coupons, amortisation of premiums and accretion of discounts are brought to account as interest income on a yield-to-maturity basis in accordance with the terms of the security.

*Rental income*

Rental income from investment properties, aircraft, ships and other leased assets is recognised in the income statement on a straight-line basis over the term of the lease (excluding contingent rent). Lease incentives granted are recognised as an integral part of the total rental income and recognised on the same basis.

*Dividends and distributions*

Dividend income is recognised in the income statement when the entity's right to receive payment is established.

**(d) Financing costs**

Finance costs comprise interest expense on borrowings calculated using the effective interest rate method, foreign exchange gains and losses on foreign currency borrowings, unwinding of the discount on provisions and gains and losses on hedging instruments that are recognised in the income statement. Borrowing costs are expensed as incurred unless they relate to a qualifying asset.

Foreign currency gain and losses are reported on a net basis.

**(e) Operating leases**

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

**(f) Income tax**

Income tax expense or income on the profit or loss for the year comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the current period's taxable income, using tax rates enacted or substantially enacted at the balance sheet date. Current tax also includes any adjustment to tax payable in respect of previous years.

Deferred tax is measured using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and income tax purposes. The amount of deferred tax recognised is based on the expected manner of realisation or settlement of the underlying items and the tax rates which are enacted or substantively enacted at the balance sheet date and expected to apply when the assets are recovered or liabilities are settled. The following temporary differences are not provided for: initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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 assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

*Tax consolidation*

The Company and its wholly-owned Australian controlled entities formed a tax consolidated Group on 1 July 2003, with Allco Finance Group Limited as the head entity.

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

Any current tax liabilities or assets and deferred tax assets arising from unused tax losses of subsidiaries is assumed by the head entity in the tax-consolidated Group and recognised as amounts payable/receivable to/from other entities in the tax consolidated Group. Any difference between these amounts is recognised by the Company as an equity contribution or distribution.

The Company recognises deferred tax assets arising from unused tax losses of the tax consolidated Group to the extent that it is probable that future taxable profits of the tax consolidated Group will be available against which the asset can be utilised. Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recovery is recognised by the head entity only.

Members of the tax consolidated Group have entered into a tax funding agreement which sets out the funding obligations of members of the tax consolidated Group. Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The members of the tax-consolidated Group have also entered into a valid Tax Sharing Agreement under the tax consolidation legislation which sets out the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations and the treatment of entities leaving the tax consolidated Group.

**(g) Goods and services tax**

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

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from or payable to, the tax authority is recognised as a receivable or creditor, as appropriate.

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

**(h) Financial instruments (Non-derivative)**

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

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

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

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, and other investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management strategy are reported within liabilities in the balance sheet, but included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Purchases and sales of investments are recognised on trade-date, being the date on which the Group unconditionally commits to purchase or sell the asset. Financial assets are de-recognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

The Company and Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables at amortised cost, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

- *Financial assets at fair value through profit or loss*
  The category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss on initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. The policy of management is to designate a financial asset if there exists the expectation that it will be sold in the short term or the asset is subject to frequent changes in fair value. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments that are "fair value through profit or loss" are measured at fair value, and changes therein are recognised in profit or loss.

- *Loans and receivables*
  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Consolidated Entity provides money, goods or services directly to a debtor with no intention of selling the receivable. Loans and receivables are included in receivables in the balance sheet. Loans and receivables are carried at amortised cost using the effective interest method.

- *Available-for-sale financial assets*
  Other financial assets held by the Consolidated Entity are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss being recognised directly in equity, except for impairment losses and foreign exchange gains and losses on available-for-sale monetary items (refer note (3b)). When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss. Where these investments are interest bearing, interest calculated using the effective interest method is recognised in the income statement.

- *Non-current assets and disposal groups classified as held for sale*
  This includes controlled entities and interest in associates whose carrying amount will be recovered principally through a sale transaction rather than continuing use. The policy of management is to classify these assets as held for sale when it is highly probable that the asset will be sold within the twelve months subsequent to being classified as such.

  Assets and liabilities, including those within a disposal group, classified as held for sale are each presented separately on the face of the balance sheet. The revenue and expenses from disposal groups are presented within the Income Statement and notes to the financial statements.

  Assets classified as held for sale, or included within a disposal group that is classified as held for sale, are not depreciated.

<u>*Fair Values*</u>

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (as for unlisted securities), the Group establishes fair value by using valuation techniques. These include reference to the fair values of recent arm's length transactions, involving the same instruments or other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

*Impairment*

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or group of borrowers are experiencing significant financial difficulty, default or delinquency in interest or principal payments.

- Loans and advances

  For loans and advances carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

- Available-for-sale financial investments

  For available-for-sale financial investments, the Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

  In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered in determining whether the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss – is removed from equity and recognised in the income statement.

- *Non-current assets and disposal groups classified as held for sale*

  An impairment loss is recognised for any initial or subsequent write-down of the assets to fair value less cost to sell. A gain would be recognised for any subsequent increase in fair value less cost to sell, limited by the previous cumulative impairment loss recognised. A gain or loss not previously recognised by the date of sale would be recognised at the date of the sale.

**(i) Derivative financial instruments**

The Group holds derivative financial instruments including forward currency contracts , interest rate swaps and cross currency swaps to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are recognised initially at fair value; attributable transactions costs are recognised in profit and loss when incurred. Subsequent to initial recognition, derivative financial instruments are measured at fair value, and changes therein are accounted for as described below.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objectives and strategies for undertaking various hedge transactions. The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the entity will assess the hedging instruments effectiveness in offsetting the exposure to changes in the hedged items fair values or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in offsetting changes in fair values or cash flows of hedged items and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated. A hedge is regarded as highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are offset in a range of 80% to 125%. For situations where that hedged item is a forecast transaction, the Group assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the income statement.

*Fair value hedges*

Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognised in the Income Statement. Movements in the fair value of hedged item are also stated at fair value in respect of the risk being hedged, with any gain and loss being recognised in the Income Statement.

*Cash flow hedges*

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity. To the extent that the hedge is ineffective, changes in fair value are recognised in the Income Statement.

Amounts accumulated in equity are transferred to the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place).

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to profit and loss.

*Hedges of a net investment*

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a similar way to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in equity while gains and losses relating to the ineffective portion are recognised in profit or loss. On disposal of the foreign operation, the cumulative value of such gains and losses recognised in equity is transferred to profit or loss.

*Fair Values*

The fair value of derivative financial instruments is the estimated amount that the Group would receive or pay to terminate the derivative financial instruments at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the difference between quoted market forward price and contracted forward price with the same remaining period to maturity.

**(j) Investment properties**

Property (including land & buildings) held for long-term rental yields or for capital appreciation, or both, is classified as investment property. Land and buildings (including integral plant and equipment) that comprise investment property are not depreciated. The carrying amount includes components relating to lease incentives and assets relating to fixed increases in operating lease rentals in future periods.

Investment properties are carried at fair value. Fair value is based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion, as determined by independent valuers, adjusted for any difference in the nature, location or condition of the specific asset or, where this is not available, an appropriate valuation method which may include discounted cash flow projections and the capitalisation method. The fair value reflects, among other things, rental income from leases and assumptions about rental income from future leases in light of current market conditions. It also reflects any cash outflows (excluding those relating to future capital expenditure) that could be expected in respect of the property. Future changes in the fair value of properties will be brought to account as gains and losses in the income statement as they occur.

It is the current policy to obtain independent or management valuations for each investment property at each reporting date.

Subsequent expenditure (including the cost of acquisition, additions, refurbishment, redevelopment, borrowing costs and fees incurred) is capitalised in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be reliably measured.

**(k) Property, plant and equipment**

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (refer note 3(q)). The carrying amount of an item of property, plant & equipment includes the cost of replacing part of such an item when that cost is incurred, if it is probable that future economic benefits embodied within the item will eventuate and the cost of the item can be measured reliably. All other repairs and maintenance expenses are recognised in the income statement, as incurred.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives in the current and comparative periods are as follows:

- office equipment — 3 to 5 years
- furniture and fittings — 5 to 10 years
- leasehold improvements — shorter of lease term or useful life

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

**(l) Transportation equipment**

Transportation equipment consists of commercial passenger/freighter aircraft, commercial shipping vessels, locomotives and railcars.

Depreciable amounts of these assets are depreciated on a straight-line basis over the asset's remaining useful life.

Commercial aircraft are typically depreciated using a useful life of 20-25 years, to assessed residual values ranging between 0% and 25%. On occasion this policy may be modified to ensure the written down value of the asset does not exceed the recoverable amount at the end of the lease term.

Shipping vessels are typically depreciated straight line to their assessed residual value over their useful life of 25 years.

Railcars and locomotives ("Rail") are typically depreciated using a useful life of 20-37 years, to assessed residual values.

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

**(m) Infrastructure assets**

Infrastructure assets are stated at cost less accumulated depreciation. The carrying amount of an item in infrastructure assets includes the cost of replacing part of such an item when that cost is incurred if it is probable that future economic benefits embodied within the item will eventuate and the cost of the item can be measured reliably.

Depreciation is charged to the income statement on a straight line basis so as to write off the net cost of each asset over its expected useful life of 25 years to its estimated residual value.

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

**(n) Intangible assets**

*Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities of the acquiree at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets, while goodwill on acquisitions of associates is included in investments in associates. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill acquired in a business combination is allocated to each of the Group's cash-generating units or Groups of cash generating units that are expected to benefit from the synergies of the combination and is tested for impairment at least annually, or more frequently if events or changes in circumstances indicate that it might be impaired. Each unit or group of units to which goodwill is so allocated:

- Represents the lowest level within the Group at which goodwill is monitored for internal management purposes; and
- Is not larger than a segment based on either the Group's primary or secondary reporting format determined in accordance with AASB 114 Segment Reporting.

Impairment is determined by assessing the recoverable amount of the cash generating unit (group of cash generating units), to which the goodwill relates. When the recoverable amount of the cash generating unit (group of cash generating units) is less than the carrying amount, an impairment loss is recognised.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Impairment losses recognised for goodwill are not subsequently reversed.

*Other intangible assets*

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation (refer below) and impairment losses (refer note 3(q)).

Other intangibles with indefinite lives are recorded at fair value on acquisition and are subject to annual impairment testing, or more frequently if events indicate that there may be an impairment.

*Amortisation*

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets, unless such lives are indefinite. Other intangible assets are amortised from the date they are available for use. The useful lives of intangible assets are reviewed, and adjusted if appropriate, at each reporting date.

**(o) Employee benefits**

*Defined contribution superannuation funds*

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

*Wages and salaries and annual leave*

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

*Long service leave*

The Group's net obligation for long service leave is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on government bonds that have maturity dates approximating to the terms of the Group's obligations.

*Termination benefits*

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

*Share based payments*

The Group operates employee incentive share schemes in which both Executives, Non-Executive Directors and other employees can participate. All incentive share plans are settled in shares.

The Group recognises a remuneration expense over the period of service, together with a corresponding increase in an equity reserve for all employee incentive schemes. The fair value of the grant is determined, initially, and not subsequently adjusted at the reporting date until the end of the vesting period. The Group operates an Executive Options and Rights Plan. The fair value of options and rights is determined initially at the grant date using valuation techniques, taking into account the terms and conditions on which the award was granted, including performance hurdles.

**(p) Provisions**

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

Restructuring

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

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the lower of the expected cost of terminating the contract and the expected cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

**(q) Impairment of non-financial assets**

Assets that have an indefinite useful life are not subject to amortisation but are tested annually for impairment. Assets that have a definite useful life and are subject to amortisation are reviewed for impairment at least annually if an indicator of impairment exists and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. An impairment loss is recognised in the income statement unless the asset has previously been re-valued, in which case the loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the income statement.

**(r) Issued capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are accounted for as a deduction from equity, net of any related income tax benefit.

**(s) Dividends**

A liability is recognised for the amount of any dividend declared on or before the end of the year but not distributed at reporting date.

**(t) Insurance business related accounting policies**

The Group includes a mortgage insurance company ("The Mortgage Insurance Company"). The material specific insurance accounting policies are described immediately below, otherwise the activities of this company are accounted for in accordance with the policies set out in the remainder of this note.

*Premium Revenue*

Premium revenue comprises amounts charged to policyholders and excludes stamp duties, goods and services tax ("GST") and other amounts collected on behalf of third parties. Premium revenue is earned in the income statement from the date of attachment of risk.

Premium revenue is recognised over a period of eleven years, in accordance with the pattern of risk. The proportion of premium received or receivable not earned in the income statement at the reporting date is held on the balance sheet as an unearned premium liability.

*Insurance claim expenses*

Claims expense and a liability for outstanding claims are recognised in respect of direct insurance. The liability covers claims reported but not yet paid and the anticipated direct and indirect costs of settling those claims. Claims outstanding are assessed by review of individual claim files and estimating changes in the ultimate cost of settling claims. Settlement costs are calculated using statistics based on past experience and trends.

The provision for outstanding claims is based on an estimate of the present value of expected future payments against claims incurred at the reporting date under general insurance contracts issued with an additional risk margin to allow for inherent uncertainty in a central estimate. A risk margin increases the probability that the net liability is adequately provided for to a 75% confidence level.

Notice of a claim may not be received for many years and claims may be outstanding for long periods before they are settled by the insurer; protracted legal proceedings may be involved to apportion liability and to establish the value of claims. The expected future payments are discounted to present value using a risk free rate.

Outstanding claims are subject to independent actuarial assessment.

*Reinsurance expense*

Premium ceded to reinsurers is recognised as an expense from the attachment date in accordance with the pattern of incidence of risk. Accordingly, a portion of the outwards reinsurance premium is treated at the balance date as a prepayment.

*Reinsurance and other recoveries receivable*

Reinsurance and other recoveries receivable on paid claims and reported claims not yet paid are recognised as revenue. Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims. Recoveries are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

**(u) Earnings per share**

*Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, by the weighted average number of ordinary shares outstanding during the year, adjusted for bonus elements in ordinary shares issued during the year.

*Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

**(v) Financial guarantee contracts**

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently measured at the higher of the amount determined in accordance with AASB *137 Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less cumulative amortisation, where appropriate.

**(w) New standards and interpretations not yet adopted**

Certain new accounting standards, amendments to standards and interpretations have been published that are not mandatory for 30 June 2008 reporting periods. The following standards and amendments are available for early adoption but have not been applied by the Group in these financial statements:

- Revised AASB 3 Business Combinations changes the application of acquisition accounting for business combinations and the accounting for non-controlling (minority) interests. Key changes include: the immediate expensing of all transaction costs; measurement of contingent consideration at acquisition date with subsequent changes through the income statement; measurement of non-controlling (minority) interests at full fair value or the proportionate share of the fair value of the underlying net assets; guidance on issues such as reacquired rights and vendor indemnities; and the inclusion of combinations by contract alone and those involving mutuals. The revised standard becomes mandatory for the first time for the 31 December 2009 financial report and is expected to be applied prospectively from 1 July 2009;
- AASB 8 Operating Segments introduces the "management approach" to segment reporting. AASB 8, which becomes mandatory for the Group's 30 June 2010 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently, the Group presents segment information in respect of its business and geographical segments;
- Revised AASB 101 Presentation of Financial Statement introduces as a financial statement (formerly "primary" statement) the "statement of comprehensive income". The revised standard does not change the recognition, measurement or disclosure of transactions and events that are required by other AASBs. The revised AASB 101 will become mandatory for the Group's 30 June 2010 financial statements;
- Revised AASB 123 Borrowing Costs removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of the asset. The revised AASB 123 will become mandatory for the Group's 30 June 2010 financial statements and will have no impact on future earnings as this is consistent with current accounting policy;
- Revised AASB 127 Consolidated and Separate Financial Statements changes the accounting for investments in subsidiaries. Key changes include: the remeasurement to fair value of any previous/retained investment when control is obtained/lost, with any resulting gain or loss being recognised in profit or loss; and the treatment of increases in ownership interest after control is obtained as transactions with equity holders in their capacity as equity holders. The revised standard will become mandatory for the Group's 30 June 2010 financial statements. The group has not yet determined the potential effect of the revised standard on the Group's financial report;
- AASB 2008-1 Amendments to Australian Accounting Standard – Share- Based Payment: Vesting Conditions and Cancellations changes the measurement of share-based payments that contain non-vesting conditions. AASB 2008-1 becomes mandatory for the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the amending standard on the Group's financial report;
- AASB 2008-5 Amendments to Australian Accounting Standards arising from the Annual Improvements Process, applicable to annual reporting periods beginning on or after 1 January 2009;
- AASB 2008-2 Amendments to Australian Accounting Standards - Puttable Financial Instruments and Obligations arising on Liquidation, which allows equity treatment where the instruments meet the definition of a financial liability but represent the residual interest in the net assets of the entity. Equity treatment also applies for entities that issue certain types of instruments which are puttable by the holder back to the entity. The amendment applies to annual periods beginning 1 January 2009; and
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation eliminates the possibility of an entity applying hedge accounting for a hedge of the foreign exchange differences between the functional currency of a foreign operation and the presentation currency of the parent's consolidated financial statements. The Interpretation is effective for annual periods beginning on, or after, 1 October 2008 and requires prospective application.

### 4. Critical accounting estimates and judgements

In the process of applying the significant accounting policies, certain critical accounting estimates and assumptions are used, and certain judgements are made. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to estimates are recognised in the period in which the estimates are revised, and future periods if relevant. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

- Consolidation of special purpose vehicles (note 3a)
- Fair value of financial instruments (note 12)
- Impairment losses on loans and advances (note 13), assets and disposal groups classified as held for sale (note 15) and investments in associates (note 16)
- Recoverability of deferred tax assets (note 20b)
- Measurement of recoverable amount of intangibles – management rights (note 21)
- Measurement of recoverable amount of goodwill (note 22)
- Restructuring provisions (note 29)
- Business combinations (note 37)
- Measurement of share based payments (note 40)

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Management believes the estimates used in preparing the financial reports are reasonable. Actual results in the future may differ from those reported.

**5. Segment reporting**

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

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

Any transfers between segments have been determined on an arms-length basis and eliminated on consolidation.

Segment results, assets and liabilities are those that are directly attributable to a segment or the relevant portion that can be allocated to a segment on a reasonable basis. Segment assets include all assets used by a segment. The carrying amount of certain assets used jointly by segments are allocated based on reasonable estimates of usage.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

Revenues are generated by asset classes as origination fees, asset management fees, realised gains and income from proprietary investments and equity accounted income from cornerstone investments in Group managed investment vehicles.

Asset classes are as follows:

- Aviation
- Shipping
- Rail
- Real Estate
- Funds Management
- Infrastructure
- Financial Assets
- Group

The secondary format, geographical regions has been determined based on where the service is provided. The operations of the Group are headquartered in Australia.

## 5. Segment reporting (cont'd)

### Asset segments

| Consolidated 30 June $'000 | Aviation 2008 | Shipping 2008 | Rail 2008 | Real Estate 2008 | Funds Management 2008 | Infrastructure 2008 | Financial Assets 2008 | Group 2008 | Total 2008 |
|---|---|---|---|---|---|---|---|---|---|
| Revenue and other income | 269,445 | 225,505 | 25,755 | 45,700 | 43,157 | 230,627 | 401,455 | 113,953 | 1,355,597 |
| Intersegmental revenue | - | - | - | - | - | - | - | (85,049) | (85,049) |
| Revenue and other income from external customers | 269,445 | 225,505 | 25,755 | 45,700 | 43,157 | 230,627 | 401,455 | 28,904 | 1,270,548 |
| Equity accounted investments | 2,630 | (6,480) | 5,243 | (16,298) | (58,738) | (1,431) | (23) | (14,736) | (89,833) |
| **Total revenue** | 272,075 | 219,025 | 30,998 | 29,402 | (15,581) | 229,196 | 401,432 | 14,168 | 1,180,715 |
| Segment result | (47,841) | (175,565) | (24,701) | (523,316) | (353,080) | (94,567) | (215,502) | (249,237) | (1,683,809) |
| Net interest expense on corporate borrowing facilities | | | | | | | | | (81,918) |
| Income tax benefit | | | | | | | | | 25,393 |
| **Profit for the period** | | | | | | | | | (1,740,334) |
| Segment assets | 1,485,445 | 895,688 | 98,257 | 400,088 | 359,568 | 263,077 | 3,737,034 | 120,748 | 7,359,905 |
| Unallocated assets | | | | | | | | | 118,856 |
| **Total assets** | | | | | | | | | 7,478,761 |
| Segment liabilities | 1,299,235 | 575,466 | 88,318 | 398,572 | 347,079 | 128,832 | 3,881,471 | 189,635 | 6,908,608 |
| Unallocated liabilities | | | | | | | | | 24,873 |
| **Total liabilities** | | | | | | | | | 6,933,481 |
| **Other segment information** | | | | | | | | | |
| Investments in associates | - | - | 6,018 | 20,846 | 271,387 | - | - | - | 298,251 |
| Capital expenditure | 1,071,487 | 205,324 | 129,257 | - | - | 88,703 | - | 3,679 | 1,498,450 |
| Acquisition of intangibles | - | - | - | 114,224 | 13,058 | - | - | - | 127,282 |
| Depreciation and amortisation expense | 66,943 | 38,971 | 912 | 448 | 800 | 2,863 | 755 | 1,325 | 113,017 |
| Impairment losses | 126,592 | 201,873 | 23,845 | 388,191 | 262,680 | 155,310 | 256,668 | 210,546 | 1,625,705 |

## 5. Segment reporting (cont'd)

| Consolidated 30 June $'000 | Aviation 2007 | Shipping 2007 | Rail 2007 | Real Estate[1] 2007 | Funds Management 2007 | Infrastructure 2007 | Financial Assets 2007 | Group 2007 | Total 2007 |
|---|---|---|---|---|---|---|---|---|---|
| Revenue and other income | 449,267 | 240,092 | 20,683 | 65,768 | 81,495 | 63,602 | 255,161 | 106,764 | 1,282,832 |
| Intersegmental revenue | - | - | - | - | - | - | - | (50,402) | (50,402) |
| Revenue and other income from external customers | 449,267 | 240,092 | 20,683 | 65,768 | 81,495 | 63,602 | 255,161 | 56,362 | 1,232,430 |
| Equity accounted investments | - | (531) | 205 | 86,702 | 1,845 | (324) | (425) | (17,661) | 69,811 |
| **Total revenue** | 449,267 | 239,561 | 20,888 | 152,470 | 83,340 | 63,278 | 254,736 | 38,701 | 1,302,241 |
| Segment result | 108,117 | 72,749 | (4,997) | 90,570 | 25,481 | 24,941 | 7,534 | 37,229 | 361,624 |
| Net interest expense on corporate borrowing facilities[1] | | | | | | | | | (54,038) |
| Income tax expense | | | | | | | | | (88,422) |
| **Profit for the period** | | | | | | | | | 219,164 |
| Segment assets | 1,773,145 | 1,013,600 | 93,391 | 528,795 | 380,528 | 337,494 | 3,909,948 | 494,327 | 8,531,228 |
| Unallocated assets | | | | | | | | | 52,432 |
| **Total assets** | | | | | | | | | 8,583,660 |
| Segment liabilities | 1,383,567 | 504,003 | 48,152 | 240,383 | 70,118 | 153,553 | 3,766,506 | 194,765 | 6,361,047 |
| Unallocated liabilities | | | | | | | | | 20,332 |
| **Total liabilities** | | | | | | | | | 6,381,379 |
| **Other segment information** | | | | | | | | | |
| Investments in associates | - | 2,291 | 12,096 | 266,758 | 136,995 | 33,092 | - | 50,252 | 501,484 |
| Capital expenditure | 3,112,833 | 851,509 | 165,216 | 91,479 | - | 138,923 | 1,493 | 9,839 | 4,371,292 |
| Acquisition of intangibles | 341,958 | 326,909 | 2,930 | 102,280 | 187,824 | 152,993 | 5,833 | - | 1,120,727 |
| Depreciation and amortisation expense | 137,035 | 34,740 | 1,913 | 599 | 2,485 | 1,155 | 589 | 2,112 | 180,628 |
| Impairment losses | - | - | - | - | - | 750 | 24,837 | 848 | 26,435 |

*1) The 2007 comparative has been restated to reflect the correction of a misclassification error in the 30 June 2007 published financial statements. Refer to Note 26 for further details.*

## 5. Segment reporting (cont'd)

### Geographical segments

| Consolidated 30 June $'000 | Asia Pacific 2008 | Asia Pacific 2007 | Europe 2008 | Europe 2007 | North America 2008 | North America 2007 | Total 2008 | Total 2007 |
|---|---|---|---|---|---|---|---|---|
| Revenue and other income from external customers | 856,248 | 980,976 | 212,339 | 199,764 | 201,961 | 51,690 | 1,270,548 | 1,232,430 |
| Total assets | 6,272,375 | 7,556,130 | 811,132 | 903,728 | 395,254 | 123,802 | 7,478,761 | 8,583,660 |
| Capital expenditure | 1,082,663 | 3,389,518 | 331,475 | 953,948 | 84,312 | 27,826 | 1,498,450 | 4,371,292 |
| Acquisition of intangibles | 127,282 | 793,818 | - | 326,909 | - | - | 127,282 | 1,120,727 |

## 6. Revenue and other income

| | Consolidated 2008 $'000 | Consolidated 2007 $'000 | The Company 2008 $'000 | The Company 2007 $'000 |
|---|---|---|---|---|
| Interest income | 452,373 | 326,142 | 45,149 | 55,795 |
| Rental and charter income | 359,725 | 542,407 | - | - |
| Origination fees | 41,902 | 66,815 | - | - |
| Asset management fees | 74,718 | 63,106 | - | 310 |
| Dividends and distributions | 743 | 828 | 43,121 | 168,165 |
| Insurance premium | 9,509 | 4,005 | - | - |
| **Total revenue** | 938,970 | 1,003,303 | 88,270 | 224,270 |
| Net gain on disposal of controlled entities | 190,389 | 7,129 | - | - |
| Net gain from sale of assets [1] | 107,325 | 164,008 | - | - |
| Net gain on sale of available-for-sale financial assets | - | 742 | - | - |
| **Total revenue (plus net gains from sale of assets)** | 1,236,684 | 1,175,182 | 88,270 | 224,270 |
| **Other Income** | | | | |
| Fair value movements on financial assets | 6 | 12,491 | - | - |
| Net gain on derivative financial instruments | 30,182 | 33,382 | 28,313 | 12,110 |
| Fair value movements in investment properties | - | 8,263 | - | - |
| Other | 3,676 | 3,112 | 974 | 221 |
| **Total other income** | 33,864 | 57,248 | 29,287 | 12,331 |
| **Total revenue and other income** | 1,270,548 | 1,232,430 | 117,557 | 236,601 |

*1) The Group continued to maintain a significant portfolio of transportation and maintained infrastructure, real estate and financial assets primarily as seed assets for Allco managed funds. During the year, some of these assets were sold to third parties and Allco managed investment vehicles, generating net gains on sale. Had these assets been originated directly into these investment vehicles, revenues would have emerged as origination fees. Net gains are calculated as gross proceeds on sale less the carrying value of assets sold.*

## 7. Expenses

### (a) Operating expenses

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| Brokerage and commission expenses | 7,512 | 3,938 | - | - |
| Claims expenses | 3,344 | 1,425 | - | - |
| Communication expenses | 9,855 | 6,652 | - | 69 |
| Contractual break cost | 84,842 | - | 3,730 | - |
| Depreciation and amortisation | 113,017 | 180,628 | - | - |
| Employment expenses | 241,790 | 148,550 | - | 6,881 |
| Impairment charges | 1,625,705 | 26,435 | 1,653,626 | 53,100 |
| Insurance expenses | 2,499 | 2,090 | 73 | 485 |
| Net foreign exchange losses | 31,529 | 22,699 | 13,636 | 885 |
| Occupancy expenses | 24,081 | 11,768 | - | 91 |
| Professional fees | 71,336 | 45,836 | 65 | 2,636 |
| Reinsurance expenses | 1,714 | 502 | - | - |
| Shipping charter expenses | 92,567 | 79,803 | - | - |
| Transaction fees | 18,727 | 19,843 | 6,991 | 35 |
| Travel expenses | 12,402 | 11,421 | - | 62 |
| Other operating expenses | 15,609 | 15,567 | 800 | 3,975 |
| **Total operating expenses** | 2,356,529 | 577,157 | 1,678,921 | 68,219 |
| **Other expenses** | | | | |
| Fair value movements in investment properties | 6,454 | - | - | - |
| Net loss on disposal of investments in associates | 72,116 | - | - | - |
| **Total other expenses** | 78,570 | - | - | - |
| **Total operating and other expenses** | 2,435,099 | 577,157 | 1,678,921 | 68,219 |

### (b) Other disclosures

| | | | | |
|---|---|---|---|---|
| ***Financing costs*** | | | | |
| Interest and finance charges paid or payable | 520,283 | 424,784 | 87,380 | 46,399 |
| Net foreign exchange (gain) on foreign currency borrowings | (8,940) | (7,286) | (23,640) | (7,298) |
| | 511,343 | 417,498 | 63,740 | 39,101 |
| Comprising of: | | | | |
| Limited recourse financing costs | 429,425 | 363,460 | - | - |
| Recourse financing costs | 52,587 | 53,208 | 34,409 | 38,271 |
| Allco notes | 29,331 | 830 | 29,331 | 830 |
| | 511,343 | 417,498 | 63,740 | 39,101 |
| ***Employment expenses*** | | | | |
| Salaries and bonuses | 131,853 | 103,113 | - | 4,603 |
| Termination benefits | 37,789 | 2,419 | - | - |
| Associated personnel expenses | 30,302 | 26,783 | - | 2,217 |
| Defined contribution superannuation contributions | 4,174 | 2,846 | - | 61 |
| Share based payments expense | 37,672 | 13,389 | - | - |
| | 241,790 | 148,550 | - | 6,881 |
| ***Rental expense relating to operating leases*** | | | | |
| Minimum lease payments | 30,038 | 29,229 | - | 89 |

**7. Expenses**

**(b) Other disclosures (cont'd)**

| | Consolidated 2008 $'000 | Consolidated 2007 $'000 | The Company 2008 $'000 | The Company 2007 $'000 |
|---|---|---|---|---|
| ***Impairment charges*** | | | | |
| Impairment of loans held at amortised cost | 352,133 | 25,276 | 470,086 | 53,100 |
| Impairment of goodwill | 885,143 | - | - | - |
| Impairment of management rights | 124,806 | - | - | - |
| Impairment of available-for-sale assets | 7,859 | - | - | - |
| Impairment of property, plant & equipment | 1,906 | - | - | - |
| Impairment of transportation equipment | 11,143 | - | - | - |
| Impairment of equity accounted investments | 113,450 | - | - | - |
| Impairment of trade and other receivables | 29,027 | - | | - |
| Impairment of investments in subsidiaries and associates | - | - | 1,182,592 | - |
| Impairment of held for sale assets | 98,940 | - | - | - |
| Other | 1,298 | 1,159 | 948 | - |
| | 1,625,705 | 26,435 | 1,653,626 | 53,100 |

**(c) Auditor remuneration**

During the year the following fees were paid or payable for services provided by KPMG, the auditor of the parent entity, its related practices and non-related audit firms:

| | Consolidated 2008 $ | Consolidated 2007 $ | The Company 2008 $ | The Company 2007 $ |
|---|---|---|---|---|
| **Audit services** | | | | |
| ***KPMG Australia*** | | | | |
| Audit and review of financial reports | 2,799,165 | 2,360,096 | - | 2,032,999 |
| Other regulatory audit services | 154,200 | 76,920 | - | - |
| ***Overseas KPMG Firms*** | | | | |
| Audit and review of financial reports | 610,850 | 673,060 | - | - |
| Other regulatory audit services | - | - | - | - |
| | 3,564,215 | 3,110,076 | - | 2,032,999 |
| **Other services** | | | | |
| ***KPMG Australia*** | | | | |
| Advisory services | | | | |
| - Financial due diligence | 231,400 | 908,942 | - | 262,099 |
| - Other | 66,538 | 367,539 | - | - |
| Taxation compliance services | 813,047 | 273,863 | - | 130,000 |
| ***Overseas KPMG Firms*** | | | | |
| Advisory services - financial due diligence | 419,688 | 1,383,231 | - | - |
| Taxation compliance services | 180,931 | 30,367 | - | - |
| | 1,711,604 | 2,963,942 | - | 392,099 |
| Total auditor remuneration | 5,275,819 | 6,074,018 | - | 2,425,098 |

*Audit fees in respect of all Australian domiciled entities are paid for by a management company and recharged to controlled entities.*

It is the Group's policy to engage KPMG on assignments additional to its statutory audit duties where KPMG's expertise and experience with the Group provides an efficient solution to the Group's professional service needs. These assignments are principally financial due diligence on acquisitions and tax compliance with any appointments being made having regard to the Group's Independence Policy and governance framework.

## 8. Income tax expense

### (a) Income tax expense recognised in the income statement

| | Consolidated 2008 $'000 | Consolidated 2007 $'000 | The Company 2008 $'000 | The Company 2007 $'000 |
|---|---|---|---|---|
| Current tax (benefit) / expense | (79,871) | 59,342 | (25,133) | 3,953 |
| Deferred tax (benefit) / expense | 48,339 | 26,645 | 29,644 | (15,619) |
| Under provision in prior years | 6,139 | 2,435 | 945 | 2,708 |
| Income tax (benefit)/expense | (25,393) | 88,422 | 5,456 | (8,958) |
| *Deferred income tax expense/(benefit) included in income tax expense comprises:* | | | | |
| (Increase)/decrease in deferred tax assets | (52,931) | (11,044) | 18,256 | (19,042) |
| Increase/(decrease) in deferred tax liabilities | 101,270 | 37,689 | 11,388 | 3,423 |
| | 48,339 | 26,645 | 29,644 | (15,619) |

### (b) Numerical reconciliation between income tax expense and pre-tax net profit

| | Consolidated 2008 $'000 | Consolidated 2007 $'000 | The Company 2008 $'000 | The Company 2007 $'000 |
|---|---|---|---|---|
| **(Loss)/profit before income tax** | (1,765,727) | 307,586 | (1,625,104) | 129,281 |
| Tax at the Australian tax rate of 30% | (529,718) | 92,276 | (487,531) | 38,784 |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income: | | | | |
| Impairment of goodwill & management rights | 280,894 | - | - | - |
| Non-deductible expenses | 4,588 | 2,076 | 133 | - |
| Unrealised foreign exchange gains | - | 1,105 | - | - |
| Share of net (profit) / loss of associates | (13,068) | 4,966 | - | - |
| Capital related expenses | - | (249) | - | - |
| Deferred tax benefits not recognised | 225,399 | 743 | 502,409 | - |
| Other | (1,688) | (588) | - | - |
| *Decrease in income tax expense due to:* | | | | |
| Differences in tax rates | 4,772 | (13,946) | - | - |
| Franked dividends / distributions | (2,711) | (396) | (10,500) | (50,450) |
| | (31,532) | 85,987 | 4,511 | (11,666) |
| Under provision in prior years | 6,139 | 2,435 | 945 | 2,708 |
| Income tax expense | (25,393) | 88,422 | 5,456 | (8,958) |

### (c) Amounts recognised directly in equity

| | Consolidated 2008 $'000 | Consolidated 2007 $'000 | The Company 2008 $'000 | The Company 2007 $'000 |
|---|---|---|---|---|
| Aggregate current and deferred tax arising in the reporting period recognised directly in equity | (18,107) | (31,814) | (2,862) | (12,067) |

## 9. Earnings per share

### (a) Reconciliation of earnings used in calculating earnings per share

| | Consolidated 2008 $'000 | 2007 $'000 |
|---|---|---|
| **Basic earnings per share** | | |
| (Loss)/profit for the year | (1,740,334) | 219,164 |
| Loss/(profit) attributable to minority interests | 8,773 | (7,463) |
| (Loss)/profit attributed to ordinary equity holders of the company used in calculating basic earnings per share | (1,731,561) | 211,701 |
| **Diluted earnings per share** | | |
| (Loss)/profit attributed to ordinary equity holders of the company used in calculating diluted earnings per share | (1,731,561) | 211,701 |

### (b) Weighted average number of shares used as the denominator

| | | Number of shares '000 | Number of shares '000 |
|---|---|---|---|
| Issued ordinary shares at 1 July | | 346,634 | 201,538 |
| Effect of shares issued | *30(b)* | 12,876 | 116,670 |
| Effect of rights issued, exercised | *30(d)* | 348 | - |
| Effect of share options exercised[1] | *30(g)* | - | 399 |
| Effect of treasury shares | *30(f)* | (3,201) | (82) |
| Effect of bonus issues[2] | *30(b)* | - | 12,822 |
| Weighted average number of ordinary shares used in the calculation of basic earnings per share | | 356,657 | 331,347 |
| Total weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share | | 356,657 | 331,347 |
| **Basic (loss)/earnings per share (cents per share)** | | (485.5) | 63.9 |
| **Diluted (loss)/earnings per share (cents per share)** | | (485.5) | 63.9 |

*1) Options outstanding as set out in note 30 are considered non dilutive.*
*2) Bonus issues reflect the adjustment factor in respect of shares issued and share options exercised at a discount to market price.*

## 10. Cash and cash equivalents

| | Consolidated 2008 $'000 | Consolidated 2007 $'000 | The Company 2008 $'000 | The Company 2007 $'000 |
|---|---|---|---|---|
| Cash at bank and on hand - corporate | 48,722 | 130,983 | 19,337 | 113,849 |
| Cash at bank and on hand - other[1] | 256,872 | 239,993 | - | - |
| Deposits at call[1] | 45,111 | 73,872 | - | - |
| Cash and cash equivalents | 350,705 | 444,848 | 19,337 | 113,849 |
| Cash at bank attributable to disposal group classified as held for sale[1] | 40,752 | - | - | - |
| Cash and cash equivalents in the cash flow statement | 391,457 | 444,848 | 19,337 | 113,849 |

*1) This represents restricted cash balances encumbered against limited recourse borrowings or against other commitments, and is not available for use by the Group.*

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 44.

## 11. Trade and other receivables

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | 2008 $'000 | 2007 $'000 | 2008 $'000 | 2007 $'000 |
| Accrued income | 44,272 | 73,506 | 1,808 | 622 |
| Trade receivables[1] | 297,082 | 52,145 | 260 | 1,222 |
| Goods and Services Tax (GST) receivables | 2,642 | 4,648 | 9 | 1,254 |
| Receivables from other related entities | 4,486 | 12,329 | 146 | - |
| Other receivables | 1,592 | 2,581 | - | - |
| | 350,074 | 145,209 | 2,223 | 3,098 |
| Less: Provision for Impairment | (27,005) | (190) | - | - |
| | 323,069 | 145,019 | 2,223 | 3,098 |
| Current | 323,069 | 132,011 | 2,223 | 3,098 |
| Non-current | - | 13,008 | - | - |
| | 323,069 | 145,019 | 2,223 | 3,098 |

*1) includes $209.6m from the sale of the Tehachapi US-based wind project which was received subsequent to reporting date.*

**Impairment provision for trade and other receivables**

| | | | | |
|---|---|---|---|---|
| Balance as at 1 July | 190 | - | - | - |
| Provided for during the year through profit or loss | 29,027 | 190 | - | - |
| Loan assets written off, previously provided for | (2,212) | - | - | - |
| Balance as at 30 June | 27,005 | 190 | - | - |

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 44.

## 12. Derivative financial instruments

**(a) Derivative assets**

| | | | | |
|---|---|---|---|---|
| Interest rate contracts | 33,195 | 22,917 | 13,582 | 4,591 |
| Foreign exchange contracts | 26,686 | 27,345 | 16,955 | 271 |
| | 59,881 | 50,262 | 30,537 | 4,862 |

**(b) Derivative liabilities**

| | | | | |
|---|---|---|---|---|
| Interest rate contracts | 30,592 | 14 | 12,111 | - |
| Foreign exchange contracts | 16,132 | 1,770 | 9,947 | - |
| | 46,724 | 1,784 | 22,058 | - |

## 13. Loan assets held at amortised cost

| | Consolidated 2008 $'000 | Consolidated 2007 $'000 | The Company 2008 $'000 | The Company 2007 $'000 |
|---|---|---|---|---|
| *Loans and advances* | | | | |
| - non-related entities | 1,748,505 | 3,653,394 | - | - |
| - related entities | 294,413 | 408,747 | 1,362,587 | 1,283,153 |
| | 2,042,918 | 4,062,141 | 1,362,587 | 1,283,153 |
| Less: specific provision for loan losses | (126,919) | (28,316) | (329,662) | (53,100) |
| Less: collective provision for loan losses | (184,239) | (8,888) | - | - |
| | 1,731,760 | 4,024,937 | 1,032,925 | 1,230,053 |
| Current | 252,543 | 1,137,530 | 37,021 | 150,235 |
| Non-current | 1,479,217 | 2,887,407 | 995,904 | 1,079,818 |
| | 1,731,760 | 4,024,937 | 1,032,925 | 1,230,053 |

**Specific provisions for loan losses**

| | Consolidated 2008 $'000 | Consolidated 2007 $'000 | The Company 2008 $'000 | The Company 2007 $'000 |
|---|---|---|---|---|
| Balance at 1 July | 28,316 | 2,200 | 53,100 | 6,767 |
| Acquired on business combination | - | 18,736 | - | - |
| Re-classifcation on business combination | - | (2,200) | - | (6,767) |
| Provided for during the year through profit or loss | 174,002 | 18,533 | 470,086 | 53,100 |
| Re-classifcation to held-for-sale | (44,302) | - | (91,569) | - |
| Loan assets written off, previously provided for | (31,097) | (8,953) | (101,955) | - |
| Balance at 30 June | 126,919 | 28,316 | 329,662 | 53,100 |

The specific provisions relate to mortgage and loan assets that have been identified as impaired and provided for.

**Collective provisions for loan losses**

| | Consolidated 2008 $'000 | Consolidated 2007 $'000 | The Company 2008 $'000 | The Company 2007 $'000 |
|---|---|---|---|---|
| Balance at 1 July | 8,888 | - | - | - |
| Acquired on business combination | - | 2,145 | - | - |
| Provided for during the year through profit or loss | 178,131 | 6,743 | - | - |
| Re-classifcation to held-for-sale | (2,780) | - | - | - |
| Balance at 30 June | 184,239 | 8,888 | - | - |

The current credit crisis being experienced throughout world financial markets has had a significant effect both on the earnings capability and overall perceived risk of mortgage loans, especially those of a non-conforming nature. As a result, the market value of both these assets and securities backed by these assets has reduced significantly in value. The Group has announced that the Financial Assets business is no longer considered a core business and as such there is a program to actively realise the portfolio. Given this intention the Collective Provision also includes an amount to reflect that expected proceeds to be received on realisation. This amount reflects management's assessment and will vary with the actual proceeds received on realisation which will be reflected in the Income Statement at the time of disposal.

## 14. Available-for-sale financial assets

| | Consolidated 2008 $'000 | Consolidated 2007 $'000 | The Company 2008 $'000 | The Company 2007 $'000 |
|---|---|---|---|---|
| Unlisted debenture securities | 41,153 | 16,647 | - | - |
| Listed equity securities | 730 | 16,171 | - | - |
| | 41,883 | 32,818 | - | - |

## 15. Assets and disposal groups classified as held for sale

| | | Consolidated | | The Company | |
|---|---|---|---|---|---|
| | *Note* | **2008 $'000** | **2007 $'000** | **2008 $'000** | **2007 $'000** |
| Loan assets held at amortised cost | *15(a)* | 61,780 | - | 41,712 | - |
| Investments in associates | *15(b)* | 230,735 | - | - | - |
| Investment properties | *15(c)* | 32,824 | 98,971 | - | - |
| Transportation equipment | *15(d)* | 26,070 | 8,952 | - | - |
| Assets of disposal groups held for sale | *15(e)* | 2,061,537 | - | - | - |
| | | 2,412,946 | 107,923 | 41,712 | - |

### (a) Loan assets held at amortised cost

This relates to loan receivables which will be recovered principally through a sale transaction. The fair value is net of an impairment expense of $93.5m, which includes an amount that reflects the expected recoverability upon disposal of the underlying investment supporting the Group's interest. The Group is currently in negotiations with interested parties for the sale of the underlying investment. There is currently a dispute as to the quantum of the Group's entitlements to the net proceeds from the sale of the underlying investment. Further disclosure of management's assessment as to the ultimate quantum the Group is likely to receive may prejudice the final settlement outcome.

### (b) Investments in associates

The Group's interest in these investments will be recovered through a sale transaction rather than use. As at 30 June 2008, these include:

- a 17.7% interest in Allco Commercial Real Estate Investment Trust. The sale of this investment was completed on 14 August 2008;
- a 50% interest in Industria Petroli Meridionale S.R.I. The sale of this investment was completed on 9 July 2008;
- a 47.1% interest in Allco Wholesale Property Fund. Management is actively marketing the sale of this investment; and
- a 25% interest in each of CITIC Allco Investments Advisory Limited, CITIC Allco Investments Limited and CITIC Allco Investments Management Limited. Management is actively marketing the sale of these investments.

The aggregated assets and liabilities of these investments are $2,943.1m and $1,611.3m respectively.

### (c) Investment properties

This investment property is located in Duisburg, Germany and is currently being marketed for sale.

### (d) Transportation equipment

These relates to Ship and Rail assets, currently being marketed for sale.

### (e) Disposal groups held for sale

The implementation of the Group's strategic plan focuses on repositioning the Group to a less capital intensive sustainable business model. The Group will, through an orderly realisation program, divest and withdraw from non-core businesses.

A summary of the disposal groups held for sale are as follows:

- Gateway Trusts

On 5 June 2008, the Group's management committed to the sale of its interest in the Gateway securitisation platform. This business comprises sixteen individual securitisation trusts in which the Group via mezzanine or subordinated loans, have a residual interest. Management has commenced active marketing of the assets which is expected to be completed by March 2009. At 30 June 2008, the disposal group comprised assets of $1,893.9m less liabilities of $1,866.9m. An impairment loss of $14.0m has been recognised in impairment expenses on re-measurement of the assets and liabilities to the lower of their carrying amount and fair value less costs to sell. The maximum exposure to the Group in the event of unsuccessful refinancing is $24.4m.

**15. Assets and disposal groups classified as held for sale (cont'd)**

- Mobius Sub-Trusts

The assets and liabilities of a number of Trusts operating under the Mobius securitisation platform are presented as held for sale following the commitment of the Group's management to a plan to sell these entities. Efforts to sell the entity have commenced, and a sale is expected by March 2009. At 30 June 2008, the disposal group comprised assets of $124.1m less liabilities of $114.0m. An impairment loss of $15.4m has been recognised in impairment expenses on re-measurement of the assets and liabilities to the lower of their carrying amount and fair value less costs to sell. The maximum exposure to the Group in the event of unsuccessful refinancing is $8.4m.

- Allco Wind Energy Investments Pty Limited

In February 2008, the Group's management committed to the sale of its Australian Wind business. This business comprises six individual entities which are 100% owned by the Group. At 30 June 2008, the disposal group comprised assets of $0.4m less liabilities of $0.2m. The sale was completed on 1 August 2008 for proceeds of $12.5m.

- Allco Wind Energy Investments NZ Pty Limited

In February 2008, the Group's management committed to the sale of its New Zealand Wind business. This business comprises six individual entities which are 100% owned by the Group. At 30 June 2008, the disposal group comprised assets of $1.0m. An impairment loss of $0.7m has been recognised in impairment expenses. Management is actively marketing the NZ business and expects the sale to be completed by December 2008.

- Allco (Singapore) Limited

On 12 April 2008, the Group commenced a formal process for the part sale of its Singapore Real Estate Business. Included in the sale is all of the units held by the Group in Allco Commercial REIT, the Group's 100% interest in Allco (Singapore) Limited (ASL) and three of its subsidiaries. At 30 June 2008, the disposal group comprised assets of $6.4m and liabilities of $3.6m. The sale was completed on 14 August 2008.

- Northlake Industrial Inv LLC

The assets and liabilities of Northlake Industrial Inv. LLC, a subsidiary acquired through the acquisition of Rubicon Holdings (Aust.) Limited are presented as held for sale following commitment of the Group's management to a plan to sell the entity. Efforts to sell the disposal group have commenced and a sale is expected during 2008. At 30 June 2008, the disposal group comprised assets of $35.8m and liabilities of $28.0m. An impairment loss of $4.7m has been recognised in impairment expenses.

**(f) Carrying amount of assets and liabilities of disposal groups held for sale**

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | 2008 $'000 | 2007 $'000 | 2008 $'000 | 2007 $'000 |
| **Assets** | | | | |
| Cash and cash equivalents | 40,752 | - | - | - |
| Trade and other receivables | 10,670 | - | - | - |
| Derivative financial instruments | 5,090 | - | - | - |
| Available-for-sale financial assets | 9,972 | - | - | - |
| Loan assets held at amortised cost | 1,958,480 | - | - | - |
| Investment properties | 33,638 | - | - | - |
| Assets under development | 1,213 | - | - | - |
| Property, plant and equipment | 80 | - | - | - |
| Deferred tax assets | 727 | - | - | - |
| Other assets | 880 | - | - | - |
| Intangible assets | 35 | - | - | - |
| **Total Assets** | **2,061,537** | **-** | **-** | **-** |
| **Liabilities** | | | | |
| Trade and other payables | 17,301 | - | - | - |
| Interest-bearing loans and borrowings | 1,992,586 | - | - | - |
| Employee benefits | 1,327 | - | - | - |
| Provisions | 1,456 | - | - | - |
| **Total Liabilities** | **2,012,670** | **-** | **-** | **-** |
| **Net assets** | **48,867** | - | - | - |

## 16. Investments accounted for using the equity method

### (a) Investments in associates

| Name | Principal Activity | Economic interest held 2008 % | Economic interest held 2007 % | Country of incorporation / residence | Equity accounted profits 2008 $'000 | Equity accounted profits 2007 $'000 | Consolidated carrying value 2008 $'000 | Consolidated carrying value 2007 $'000 |
|---|---|---|---|---|---|---|---|---|
| Allco HIT Limited | Investment fund | 34.9 | 35.9 | Australia | (117,647) | 703 | 3,398 | 115,564 |
| CITIC Allco Investments Advisory Limited [6] | Investment fund | - | 50.0 | Hong Kong (China) | 79 | 38 | - | 171 |
| CITIC Allco Investments Limited [6] | Investment fund | - | 25.0 | Cayman Island | 5,301 | 95 | - | 19,566 |
| CITIC Allco Investments Management Limited [6] | Investment fund | - | 50.0 | Cayman Island | 1,247 | 1,009 | - | 1,693 |
| Allco SIF Limited [1 5] | Investment fund | - | - | Singapore | - | - | 81,303 | - |
| Allco Aviation Fund [1] | Aviation leasing | 6.2 | 15.0 | Australia | - | - | - | - |
| Container Residuals Pty Limited | Container leasing | 50.0 | 50.0 | Australia | (238) | 73 | - | 7,238 |
| Allocean Charters (Singapore) Pte Limited | Marine leasing | 50.0 | 50.0 | Singapore | (9,238) | - | - | 1,762 |
| Allocean Maritime Limited | Marine leasing | 49.0 | 49.0 | United Kindom | 2,759 | (531) | - | 529 |
| CFCLA Record Rail Leasing Partnership | Rail leasing | 50.0 | - | Australia | 1,835 | - | - | - |
| AllCapital US Rail Investments No1 LLC [1] | Rail leasing | 15.0 | 15.0 | United States | 204 | 132 | 6,017 | 4,859 |
| Allco CFCL Freight Rail Holdings Pty Limited | Rail leasing | 50.0 | 50.0 | Australia | 3,441 | - | 1 | - |
| Allco Equity Partners Limited [4] | Private Equity | 35.0 | - | Australia | 55,701 | - | 186,715 | - |
| Allco Equity Partners Management Trust [3] | Private Equity | - | 39.2 | Australia | (790) | - | - | 1 |
| AllCapital Wind Energy Tehachapi Coinvestment No. 1 LLC [1] | Energy Infrastructure | - | 10.0 | United States | (101) | - | - | 800 |
| GridX Power Pty Ltd | Energy Infrastructure | 23.5 | 23.5 | Australia | (465) | (224) | - | 4,809 |
| Industria Petroli Meridionale S.R.I. [6] | Energy Infrastructure | - | 50.0 | Itay | (865) | (100) | - | 27,482 |
| Alta Innovative Power Company LLC | Energy Infrastructure | - | 50.0 | United States | - | - | - | - |
| Cross Hudson (Cayman) Limited Partnership | Energy Infrastructure | 11.4 | - | Cayman Island | - | - | - | - |
| Allco Commercial Real Estate Investment Trust [1 6] | Real Estate | - | 16.1 | Singapore | 18,861 | 45,656 | - | 93,781 |
| Allco Property Development Fund | Real Estate | 50.0 | 50.0 | Australia | (180) | - | 6,070 | 6,250 |
| Allco Wholesale Property Fund [6] | Real Estate | - | 47.1 | Australia | (12,923) | 31,473 | - | 120,788 |
| Record Realty Trust [1] | Real Estate | 12.3 | 11.2 | Australia | (27,083) | 9,573 | 14,747 | 45,939 |
| Sagacious Opportunity Trust | Real Estate | 50.0 | 50.0 | Australia | 115 | (784) | - | - |
| Rubicon America Trust [2] | Real Estate | - | - | Australia | 1,310 | - | - | - |
| Rubicon Japan Trust [2] | Real Estate | - | - | Australia | 1,200 | - | - | - |
| Rubicon Europe Trust [2] | Real Estate | - | - | Australia | 2,515 | - | - | - |
| Allfinance Operating Trust | Debt markets | 30.0 | 30.0 | Australia | (20) | (425) | - | - |
| Re Leasing Pty Limited | Small ticket leasing | 33.0 | 33.0 | Australia | (13,101) | (19,640) | - | 38,100 |
| Rubicon Holdings (Australia) Limited [3] | Funds management | - | 20.4 | Australia | (1,750) | 2,763 | - | 12,152 |
| | | | | | (89,833) | 69,811 | 298,251 | 501,484 |

*1) Significant influence is deemed to exist in associates where a member of the Group is also the responsible entity or manager.*
*2) During the financial year the Group acquired an interest in these associates through the acquisition of the Rubicon Group. These were subsequently disposed of.*
*3) The remaining interests in this entity were acquired during the financial year and they now form part of the Consolidated Group.*
*4) Includes a gain of $49.2m (pre-tax) arising from the acquisition of the Group's increased stake in Allco Equity Partners Limited upon the first time adoption of equity accounting.*
*5) The Group has no direct ownership interest in the fund. However, through the subscription of a bond, the Group holds a S$206m investment. While the nature of this investment is in the form of debt, 67.2% (44.6% at 31 December 2007) has been reflected as a deemed equity interest.*
*6) These investments are held for sale and are included in the "assets and disposal groups classified as held for sale" balance. See note 15 for further details.*

16. **Investments accounted for using the equity method (cont'd)**

**(b) Results of associates**

| | Consolidated 2008 $'000 | 2007 $'000 |
|---|---|---|
| Net share of associates' profit and loss before income tax | (105,500) | 78,223 |
| Share of income tax expense | 15,667 | (8,412) |
| Share of associates' (loss)/profit accounted for using the equity method | (89,833) | 69,811 |

**(c) Movements in carrying amounts**

| | 2008 | 2007 |
|---|---|---|
| Carrying amount at beginning of the financial year | 501,484 | 39,950 |
| Acquisitions - business combinations | 99,702 | 159,382 |
| Re-classifications from/(to) available-for-sale assets | - | 22,968 |
| Re-classifications from controlled entities | - | 5,412 |
| Re-classifications to controlled entities | (9,014) | (22,915) |
| Re-classifications to assets and disposal groups classified as held for sale | (230,065) | - |
| Re-classifications from loans held at amortised cost | 149,218 | 59,751 |
| Investments in associates | 213,170 | 195,148 |
| Provision for impairment of investment in associates | (113,450) | (1,400) |
| Disposal of investments in associates | (135,657) | - |
| Currency translation differences arising during the year | (1,088) | - |
| Dividends received/receivable | (29,409) | (16,624) |
| | 444,891 | 441,672 |
| Share of (loss)/profit after related income tax | (89,833) | 69,811 |
| Unrealised profits in transactions with associates | (52,372) | (14,435) |
| Share of movement in reserves | (4,435) | 4,436 |
| Carrying amount at the end of the financial year | 298,251 | 501,484 |

**(d) Summarised financial information of associates and jointly controlled entities**

| | 2008 | 2007 |
|---|---|---|
| Consolidated entity's share of: | | |
| Total Assets | 2,176,164 | 1,933,815 |
| Total Liabilities | 1,679,288 | 1,503,386 |
| Revenues | 267,398 | 213,411 |
| (Loss)/profit for the year | (89,833) | 69,811 |

**(e) Fair value of listed investments in associates**

| | 2008 | 2007 |
|---|---|---|
| Allco Commercial Real Estate Investment Trust | n/a | 74,831 |
| Allco Equity Partners Limited | 57,569 | n/a |
| Allco HIT Limited | 3,198 | 118,548 |
| Record Realty Trust | 3,423 | 37,665 |
| | 64,190 | 231,044 |

**(f) Share of associates' losses not recognised**

| | 2008 | 2007 |
|---|---|---|
| Re Leasing Group | - | 43,874 |

**(g) Impairment losses**

The following impairment expenses were recognised during the year:

- The Company recognised an additional provision for impairment of $64.2m (2007: $53.1m) against loans issued to Re Leasing Pty Limited, an associate of the Company. Of the total specific provision balance of $117.3m, $101.9m was written off against the loan leaving a balance of $15.4m which fully provides for the remaining loan receivable outstanding. On consolidation, the uncollaterised portion of the loan has been treated as an investment in the associate. Of the $64.2m provision raised, $47.3m was applied against the carrying value of the Group's investment in associate;

**16. Investments accounted for using the equity method (cont'd)**

- $4.2m (2007: nil) against the carrying value of the investment in Record Realty Trust. The impairment reflects the Group's expected loss on the Fund winding down its operations;
- $33.9m (2007:nil) in respect of the investment in Allco Wholesale Property Fund;
- $7.8m (2007: nil) in respect of the carrying value of the investment in Allco Commercial Real Estate Investment Trust which was sold on 14 August 2008;
- $6.9m (2007: nil) in respect of the carrying value of the investments in CITIC Allco Investments Management Limited, CITIC Allco Investments Advisory Limited and CITIC Allco Investments Limited;
- $4.3m (2007: nil) in respect of the investment in GridX Power Pty Limited;
- $1.7m (2007: nil) in respect of the investment in Industria Petroli Meridionale S.R.I.;
- $0.8m (2007: nil) in respect of the investment in Allfinance Operating Trust; and
- $6.6m (2007: nil) in respect of the investment in Container Residuals Pty Limited.

**17. Transportation equipment**

| | Consolidated | | | |
|---|---|---|---|---|
| | Aircraft $'000 | Ships $'000 | Rail[1] $'000 | Total $'000 |
| **Cost** | | | | |
| Balance at 1 July 2006 | - | - | - | - |
| Acquisitions - business combinations | 2,362,480 | 558,140 | 100,091 | 3,020,711 |
| Acquisitions - other | 750,286 | 290,568 | 63,056 | 1,103,910 |
| Disposals | (1,335,830) | (189,139) | (128,074) | (1,653,043) |
| Effect of movements in foreign exchange rates | (353,524) | (66,044) | - | (419,568) |
| Balance at 30 June 2007 | 1,423,412 | 593,525 | 35,073 | 2,052,010 |
| Acquisitions - other | 1,071,487 | 205,324 | 129,257 | 1,406,068 |
| Disposals | (1,105,532) | (148,004) | (100,096) | (1,353,632) |
| Transfer to assets classifed as held for sale | - | (25,725) | (5,656) | (31,381) |
| Effect of movements in foreign exchange rates | (132,019) | (71,037) | (5,840) | (208,896) |
| Balance at 30 June 2008 | 1,257,348 | 554,083 | 52,738 | 1,864,169 |
| **Depreciation** | | | | |
| Balance at 1 July 2006 | - | - | - | - |
| Depreciation charge for the year | (136,854) | (34,542) | (1,773) | (173,169) |
| Disposals | 45,542 | 2,548 | 1,197 | 49,287 |
| Effect of movements in foreign exchange rates | 10,264 | 2,449 | - | 12,713 |
| Balance at 30 June 2007 | (81,048) | (29,545) | (576) | (111,169) |
| Depreciation charge for the year | (66,813) | (38,561) | (709) | (106,083) |
| Impairment losses for the year | - | (8,560) | (2,583) | (11,143) |
| Transfer to assets classifed as held for sale | - | 2,728 | 2,583 | 5,311 |
| Disposals | 56,234 | 9,377 | 1,067 | 66,678 |
| Effect of movements in foreign exchange rates | 11,549 | 4,285 | (6) | 15,828 |
| Balance at 30 June 2008 | (80,078) | (60,276) | (224) | (140,578) |
| **Carrying amounts (Non-current)** | | | | |
| At 1 July 2007 | 1,342,364 | 563,980 | 34,497 | 1,940,841 |
| At 30 June 2008 | 1,177,270 | 493,807 | 52,514 | 1,723,591 |

*1) The carrying amount of Rail Assets includes $Nil (2007: $13.2m) of costs in relation to assets being constructed which will commence being depreciated once these assets are ready for use.*

## 18. Infrastructure assets

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | 2008 $'000 | 2007 $'000 | 2008 $'000 | 2007 $'000 |
| **Cost** | | | | |
| Opening balance at beginning of year | 135,553 | - | - | - |
| Acquisitions - business combinations | 1,355 | 96,779 | - | - |
| Acquisitions - other | 87,348 | 39,829 | - | - |
| Disposals | (228,874) | - | | |
| Effect of movements in foreign exchange rates | 4,618 | (1,055) | - | - |
| Closing balance at end of year | - | 135,553 | - | - |
| **Depreciation & impairment losses** | | | | |
| Opening balance at beginning of year | (1,065) | - | - | - |
| Depreciation charge for the year | (2,585) | (1,109) | - | - |
| Impairment losses for the year | (788) | - | - | - |
| Disposals | 4,490 | - | - | - |
| Effect of movements in foreign exchange rates | (52) | 44 | - | - |
| Closing balance at end of year | - | (1,065) | - | - |
| **Carrying amounts (Non-current)** | | | | |
| At 1 July | 134,488 | - | - | - |
| At 30 June | - | 134,488 | - | - |

## 19. Property, plant and equipment

| | Consolidated | | | | The Company | | | |
|---|---|---|---|---|---|---|---|---|
| | Leasehold Improvements $'000 | Office equipment $'000 | Furniture and Fittings $'000 | Total $'000 | Leasehold Improvements $'000 | Office equipment $'000 | Furniture and Fittings $'000 | Total $'000 |
| **Cost** | | | | | | | | |
| Balance at 1 July 2006 | 36 | 20 | 73 | 129 | 36 | 20 | 73 | 129 |
| Acquisitions - business combinations | 2,172 | 5,719 | 668 | 8,559 | - | - | - | - |
| Acquisitions - other | 5,849 | 3,756 | 1,217 | 10,822 | - | - | - | - |
| Disposals | (671) | (1,375) | (338) | (2,384) | (36) | (20) | (73) | (129) |
| Effect of movements in foreign exchange rates | (293) | (129) | (21) | (443) | - | - | - | - |
| Balance at 30 June 2007 | 7,093 | 7,991 | 1,599 | 16,683 | - | - | - | - |
| Acquisitions - business combinations | 41 | 7 | 1 | 49 | - | - | - | - |
| Acquisitions - other | 1,822 | 1,238 | 570 | 3,630 | - | - | - | - |
| Disposals | (2,469) | (3,132) | (1,427) | (7,028) | - | - | - | - |
| Effect of movements in foreign exchange rates | (280) | (252) | (24) | (556) | - | - | - | - |
| Balance at 30 June 2008 | 6,207 | 5,852 | 719 | 12,778 | - | - | - | - |
| **Depreciation and impairment losses** | | | | | | | | |
| Balance at 1 July 2006 | (3) | (20) | (53) | (76) | (3) | (20) | (53) | (76) |
| Depreciation charge for the year | (805) | (2,315) | (250) | (3,370) | - | - | - | - |
| Disposals | 702 | 718 | 256 | 1,676 | 3 | 20 | 53 | 76 |
| Effect of movements in foreign exchange rates | 20 | 53 | 6 | 79 | - | - | - | - |
| Balance at 30 June 2007 | (86) | (1,564) | (41) | (1,691) | - | - | - | - |
| Depreciation charge for the year | (1,419) | (1,890) | (519) | (3,828) | - | - | - | - |
| Impairment loss | (759) | (732) | (415) | (1,906) | - | - | - | - |
| Disposals | 2,042 | 1,066 | 926 | 4,034 | - | - | - | - |
| Effect of movements in foreign exchange rates | 1 | 36 | 8 | 45 | - | - | - | - |
| Balance at 30 June 2008 | (221) | (3,084) | (41) | (3,346) | - | - | - | - |
| **Carrying amounts (Non-current)** | | | | | | | | |
| At 1 July 2006 | 33 | - | 20 | 53 | 33 | - | 20 | 53 |
| At 30 June 2007 | 7,007 | 6,427 | 1,558 | 14,992 | - | - | - | - |
| At 1 July 2007 | 7,007 | 6,427 | 1,558 | 14,992 | - | - | - | - |
| At 30 June 2008 | 5,986 | 2,768 | 678 | 9,432 | - | - | - | - |

## 20. Tax assets and liabilities

### (a) Current tax assets and liabilities

The current tax liability for the Group of $23.6m (2007: $18.3m) and $nil for the Company (2007: receivable of $11.2m) represents the amount of income taxes payable/receivable in respect of current and prior periods. The Company's liability includes the income tax payable by all members of the Australian Consolidated Tax Group.

### (b) Deferred tax assets

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2008 $'000** | **2007 $'000** | **2008 $'000** | **2007 $'000** |
| *Attributable to:* | | | | |
| Foreign currency balances | 39,460 | 18,085 | 9,279 | - |
| Deferred income | 1,261 | 3,297 | - | - |
| Trade and other receivables | 2,762 | - | - | - |
| Available-for-sale financial assets | 10,247 | - | - | - |
| Loan assets held at amortised cost - impairment provision | 45,941 | 12,374 | 39,389 | 15,930 |
| Derivative financial instruments | 11,287 | - | 6,617 | - |
| Equity accounted investments | 52,648 | - | - | - |
| Transportation equipment, property, plant and equipment | 468 | 12,073 | - | - |
| Provisions and accrued expenses | 42,287 | 5,758 | 3,216 | 2,988 |
| Employee entitlements | 11,409 | 4,976 | - | 26 |
| Share based payments | 9,662 | - | - | - |
| Tax losses | - | 19,859 | - | - |
| Equity raising costs | 9,350 | 12,003 | 9,350 | 12,003 |
| Interest bearing liabilities | 1,105 | - | 1,105 | - |
| Assets and disposal groups classified as held for sale | 19,495 | - | - | - |
| Other financial assets | - | - | 33,757 | - |
| Other | 5,830 | 4,388 | - | 314 |
| **Deferred tax assets** | 263,212 | 92,813 | 102,713 | 31,261 |
| Set off against deferred tax liabilities | (144,356) | (40,381) | (15,816) | (3,938) |
| **Net deferred tax assets** | 118,856 | 52,432 | 86,897 | 27,323 |
| *Movements* | | | | |
| Opening balance at 1 July | 92,813 | 4,286 | 31,261 | 882 |
| Acquired in business combinations | 701 | 56,994 | - | - |
| Amounts recognised directly in equity | 8,239 | 20,489 | (2,372) | 11,337 |
| Included in disposal groups | (5,233) | - | - | - |
| Current year tax loss not recognised | 113,761 | - | 92,080 | - |
| Less deferred tax assets at end of year | (263,212) | (92,813) | (102,713) | (31,261) |
| **Credited/(debited) to the income statement** | (52,931) | (11,044) | 18,256 | (19,042) |

**20. Tax assets and liabilities**

**(c) Deferred tax liabilities**

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| *Attributable to:* | | | | |
| Foreign Currency Balances | 194 | - | - | - |
| Transportation equipment, property, plant and equipment | 15,414 | 19,695 | - | - |
| Equity Accounted Investments | 20,477 | 16,876 | - | - |
| Intangible Assets | 8,792 | - | - | - |
| Derivative Financial Instruments | 15,415 | 2,063 | 9,161 | 79 |
| Deferred Income | 2,629 | 2,536 | - | - |
| Treasury Shares | - | - | 6,368 | - |
| Available-for-sale financial assets | 6,594 | 7,875 | - | 1,667 |
| Assets and disposal groups classified as held for sale | 96 | - | - | - |
| Trade and other receivables | 99,331 | 9,998 | - | - |
| Other | 287 | 1,670 | 287 | 2,192 |
| **Deferred tax liabilities** | 169,229 | 60,713 | 15,816 | 3,938 |
| Set off against deferred tax assets | (144,356) | (40,381) | (15,816) | (3,938) |
| **Net deferred tax liabilities** | 24,873 | 20,332 | - | - |
| *Movements* | | | | |
| Opening balance at 1 July | 60,713 | 5,307 | 3,938 | 1,245 |
| Acquired in business combinations | 24,340 | 29,042 | - | - |
| Amounts recognised directly in equity | (11,456) | (11,325) | 490 | (730) |
| Included in disposal groups | (5,638) | - | - | - |
| Less deferred tax liabilities at end of year | (169,229) | (60,713) | (15,816) | (3,938) |
| **Credited to the income statement** | (101,270) | (37,689) | (11,388) | (3,423) |

**(d) Unrecognised deferred tax assets**

Deferred tax assets have not been recognised in respect of the tax losses and temporary differences totalling $230.6m (2007: $5.2m) because it is not probable that future taxable profits will be available against which the Group can utilise the benefits.

## 21. Intangibles – management rights

| | Consolidated | | |
|---|---|---|---|
| | Finite useful life $'000 | Indefinite useful life $'000 | Total $'000 |
| **Cost** | | | |
| Balance at 1 July 2006 | - | - | - |
| Acquisitions - business combinations | 2,980 | 49,295 | 52,275 |
| Balance at 30 June 2007 | 2,980 | 49,295 | 52,275 |
| Acquisitions - business combinations | 127,282 | - | 127,282 |
| Balance at 30 June 2008 | 130,262 | 49,295 | 179,557 |
| **Amortisation and impairment losses** | | | |
| Balance at 1 July 2006 | - | - | - |
| Amortisation charge for the year | (2,980) | - | (2,980) |
| Balance at 30 June 2007 | (2,980) | - | (2,980) |
| Amortisation charge for the year | (521) | - | (521) |
| Impairment charge for the year[1] | (97,456) | (49,295) | (146,751) |
| Balance at 30 June 2008 | (100,957) | (49,295) | (150,252) |
| **Carrying amounts (Non-current)** | | | |
| At 1 July 2006 | - | - | - |
| At 30 June 2007 | - | 49,295 | 49,295 |
| At 1 July 2007 | - | 49,295 | 49,295 |
| At 30 June 2008 | 29,305 | - | 29,305 |

*1) the impairment charge comprises $124.8m through the Income Statement and $22.0m through equity*

### (a) Determination of carrying value

Determination of the recoverable amount attributable to management rights is based on the “value in use” (“VIU”) methodology. VIU is the present value of future cash flows expected to be derived from the business and has been calculated using management’s forecast adjusted for growth rates and discounted using appropriate discount rates for comparable businesses.

An impairment charge of $146.8m was recognised in respect of management rights attributable to the Funds Management ($42.9m) and Real Estate ($103.9m) businesses.

The impairment of the carrying value attributable to the Real Estate business is due to:

- On 28 March 2008, Record Realty Trust announced a strategic wind up of the fund, with a three year term to facilitate the orderly disposal of Fund assets. As a result of the re-assessment of the valuation of the management rights, taking into consideration the staggered reduction in funds under management and the associated costs of managing the fund over the wind up period, the carrying value of $13.5m was fully impaired.
- The acquisition of Rubicon Holdings (Aust.) Limited included management rights over a stable of listed and unlisted funds managed by the Company. The valuation of the management rights were based on existing funds under management adjusted for growth over the life of each contract as anticipated by management at the time of the acquisition. The management contracts have fixed terms and are amortised on a straight line basis.

  As a result of the dislocation in global credit markets which has reduced access to debt markets and significantly increased the cost of funding, management has re-assessed the valuation of the management rights taking into account the following factors:
  - the on-going viability of the respective funds;
  - the current operating environment whereby the respective funds have engaged in asset disposal programs to meet debt covenants and repayment schedules;
  - future growth prospects; and
  - revised discount rates.

**21. Intangibles (cont'd)**

A summary of the key assumptions used to value the carrying value of management rights is as follows:

| Valuation assumption | Initial | Revised |
|---|---|---|
| Growth of Funds Under Management | 4% | Nil |
| Discount rate | 15% | 25% |
| Terminal value | n/a | 10% |
| Management contract | 18 - 53 years | 10 years |

Accordingly, an impairment expense of $90.4m was recognised. The carrying value of $23.8m will be amortised over the remaining life of each contract which ranges from October 2016 to December 2019.

The impairment of the carrying value attributable to the Funds Management business is due to:

- an impairment of $17.6m relating to Allco HIT Limited ("AHL") whose operations have been severely impacted by the dislocation in credit markets. Management fees from AHL ceased during the year and were replaced by a cost recovery arrangement. Consequently there will be no future management fee cash flows from AHL;
- an impairment of $18.2m relating to the Allco Principals Trust ("APT") management rights. APT was placed in voluntary administration during the year; and
- an impairment of $7.0m relating to Allco Equity Partners Limited management rights due to an expected reduction in deal flow in the current environment. The carrying value of $5.5m will be amortised over the remaining 22 years of the contract.

**22. Goodwill**

**(a) Reconciliation of carrying amounts at the beginning and end of period**

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | 2008 $'000 | 2007 $'000 | 2008 $'000 | 2007 $'000 |
| **Goodwill** | | | | |
| Opening balance at beginning of year | 1,068,452 | - | - | - |
| Acquisitions - business combinations | 247,561 | 1,068,452 | - | - |
| Disposals | (12,294) | - | - | - |
| Impairment charge for the year | (885,143) | - | - | - |
| Reversal of goodwill from Rubicon acquisition[1] | (50,000) | - | - | - |
| Effect of movements in foreign exchange rates | 271 | - | - | - |
| Closing balance at end of year (Non-current) | 368,847 | 1,068,452 | - | - |

*1) Reversal of the Convertible Redeemable Preference Shares balance as set out on Note 30(e).*

**(b) Impairment tests for cash-generating units containing goodwill**

Goodwill is allocated to the Group's cash-generating units ("CGUs"), identified according to business segments. Goodwill is allocated to CGUs, based on synergies that are expected to benefit from the business combination. The aggregate carrying amounts of goodwill allocated to each CGU is as follows:

| | Consolidated 2008 $'000 | Consolidated 2007 $'000 | The Company 2008 $'000 | The Company 2007 $'000 |
|---|---|---|---|---|
| Aviation | 215,366 | 341,958 | - | - |
| Shipping | 153,481 | 326,909 | - | - |
| Rail | - | 2,930 | - | - |
| Infrastructure | - | 152,993 | - | - |
| Funds Management | - | 149,026 | - | - |
| Real Estate | - | 88,803 | - | - |
| Financial Assets | - | 5,833 | - | - |
| | 368,847 | 1,068,452 | - | - |

**22. Goodwill (cont'd)**

**(b) Impairment tests for cash-generating units containing goodwill (cont'd)**

The recoverable amount of a CGU is determined based on fair value less cost to sell using a Discounted Cash Flow ('DCF') valuation approach to estimate an Enterprise Value ('EV'). The underlying model which drives impairment analysis is a whole-of-business model, to which free-cash-flows are attributed to each CGU. The key assumptions of the valuation model are described below:

| Assumption | Description |
|---|---|
| Cashflows | The cashflows are determined based on the new strategic business plan which includes current and forecasted business volumes covering a five year period. A five year period was justified due to uncertainty associated with forecasting for longer periods. |
| Terminal value growth rate | Cash flows beyond the five year period are extrapolated using the estimated long term growth rates of 3%, which are based on management estimates taking into account past historical performance and expected long-term operating conditions. |
| Discount rate | The discount rate of 14.35% reflects management's estimate of the time value of money for the group as a whole determined using the Capital Asset Pricing Model approach. Management has applied a conservative funding mix and included the revised pricing of debt in the cost of funding. |

The carrying value of goodwill is most sensitive to the following assumptions:

| Assumption | Sensitivity | $m |
|---|---|---|
| Cashflows | + 2.5% | 23.9 |
| | - 2.5% | (23.9) |
| Terminal value growth rate | + 1% | 22.6 |
| | - 1% | (19.1) |
| Discount rate | +1% | (46.2) |
| | - 1% | 54.2 |

**(c) Impairment Charge**

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | $'000 | $'000 | $'000 | $'000 |
| Aviation | 126,592 | - | - | - |
| Shipping | 173,428 | - | - | - |
| Infrastructure | 144,987 | - | - | - |
| Funds Management | 199,250 | - | - | - |
| Real Estate | 235,052 | - | - | - |
| Financial Assets | 5,834 | - | - | - |
| | 885,143 | - | - | - |

The Aviation and Shipping CGU impairments of $126.6m and $173.4m occurred respectively during the year. Although the adoption of a new group strategic business plan has increased focus on core asset classes including Aviation and Shipping, the carrying amounts of goodwill have been impaired primarily due to a prolonged bank syndicate review and a reduction in expected levels of business activity in respect of on-going business due to market-wide effects such as high oil prices, risk of a US-led global recession and the recent global credit crunch.

The Infrastructure and Financial Assets CGU impairment of $145.0m and $5.8m occurred following the strategic business decision to exit these businesses.

The Funds Management and Real Estate CGU impairments of $199.3m and $235.1m respectively, occurred primarily due to the underperformance of current listed Group managed funds including property trusts, plus the increased cost of funding and lack of access to credit markets.

### 23. Other financial assets

| | Consolidated 2008 $'000 | Consolidated 2007 $'000 | The Company 2008 $'000 | The Company 2007 $'000 |
|---|---|---|---|---|
| Investments in subsidiaries | - | - | 1,602,811 | 1,211,846 |
| *less* : impairment | - | - | (1,064,716) | - |
| | - | - | 538,095 | 1,211,846 |
| Investments in associates | - | - | 133,179 | 126,261 |
| *less* : impairment | - | - | (117,876) | - |
| | - | - | 15,303 | 126,261 |
| Other | 138 | 1,515 | - | - |
| Total other financial assets - Non-current | 138 | 1,515 | 553,398 | 1,338,107 |

### 24. Other assets

| | Consolidated 2008 $'000 | Consolidated 2007 $'000 | The Company 2008 $'000 | The Company 2007 $'000 |
|---|---|---|---|---|
| Inventory - spares for transportation equipment | 1,592 | 3,257 | - | - |
| Prepayments | 8,051 | 9,127 | - | - |
| Other | 454 | 1,970 | - | - |
| Total other assets | 10,097 | 14,354 | - | - |
| Current | 6,132 | 14,354 | - | - |
| Non-current | 3,965 | - | - | - |
| | 10,097 | 14,354 | - | - |

### 25. Trade and other payables

| | Consolidated 2008 $'000 | Consolidated 2007 $'000 | The Company 2008 $'000 | The Company 2007 $'000 |
|---|---|---|---|---|
| Trade creditors | 15,669 | 33,787 | 3,741 | 934 |
| Outstanding insurance claims | 6,035 | 2,231 | - | - |
| Goods and Services Tax (GST) payable | 12,505 | - | - | - |
| Payables to related entities | 5,539 | 15,045 | 333 | 368 |
| Accrued expenses | 79,192 | 80,863 | 25,734 | 20,821 |
| Deferred cash settlement[1] | 98,188 | - | - | - |
| Other | 1,007 | 4,606 | - | - |
| | 218,135 | 136,532 | 29,808 | 22,123 |
| Current | 119,947 | 130,086 | 29,808 | 22,123 |
| Non-current | 98,188 | 6,446 | - | - |
| | 218,135 | 136,532 | 29,808 | 22,123 |

*1) The deferred cash settlement relates to the present value of the deferred consideration on the purchase of the units in Allco Equity Partners Limited which is payable on 31 December 2009 under put and call structures.*

**26. Interest-bearing loans and borrowings**

As part of its funding strategy, the Group invests in assets using both limited recourse funding and proprietary capital. Proprietary capital includes a combination of shareholder funds, subordinated debt and corporate borrowings. This note provides detail of limited recourse asset specific borrowings, subordinated debt and the corporate recourse borrowing facilities.

**(a) Non-traded financial liabilities**

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2008 $'000** | **2007 $'000** | **2008 $'000** | **2007 $'000** |
| Corporate borrowings | | | | |
| Group | 826,434 | 209,062 | 826,434 | 209,062 |
| Subsidiaries | 78,062 | 62,231 | - | - |
| | 904,496 | 271,293 | 826,434 | 209,062 |
| Allco notes | 341,889 | 341,047 | 341,889 | 341,047 |
| Limited recourse borrowings | 3,234,055 | 5,502,962 | - | - |
| Total interest bearing loans and borrowings[1] | 4,480,440 | 6,115,302 | 1,168,323 | 550,109 |
| ***Current*** | | | | |
| Corporate borrowings | | | | |
| Group[4] | 826,434 | - | 826,434 | - |
| Subsidiaries | 78,062 | 30,000 | - | - |
| | 904,496 | 30,000 | 826,434 | - |
| Limited recourse borrowings[2 3] | 1,496,379 | 2,041,169 | - | - |
| Total current borrowings | 2,400,875 | 2,071,169 | 826,434 | - |
| ***Non-current*** | | | | |
| Corporate borrowings | | | | |
| Group | - | 209,062 | - | 209,062 |
| Subsidiaries | - | 32,231 | - | - |
| | - | 241,293 | - | 209,062 |
| Allco notes | 341,889 | 341,047 | 341,889 | 341,047 |
| Limited recourse borrowings[2] | 1,737,676 | 3,461,793 | - | - |
| Total non-current borrowings | 2,079,565 | 4,044,133 | 341,889 | 550,109 |
| Total interest bearing loans and borrowings[1] | 4,480,440 | 6,115,302 | 1,168,323 | 550,109 |

*1) Net of capitalised borrowing costs.*

*2) In financing acquisitions of assets, the Group sourced debt on a limited recourse basis, which has recourse to the assets it finances. The Group's exposure is limited to its investment in these vehicles.*

*3) In preparing the 30 June 2008 Financial Report, two adjustments have been made to correct misclassification errors identified in the 30 June 2007 comparative financial information.*

- *Limited recourse borrowings totalling $1,877.7m, previously included within non-current interest bearing loans and borrowings, have now been reclassified as current liabilities to correctly reflect their maturity profile as at 30 June 2007.*
- *A margin loan facility maintained by Allco Singapore Pte Limited of $32.2m previously included within limited recourse borrowings has now been reclassified as a subsidiary corporate borrowing (notwithstanding that this has limited recourse to the securities it finances).*

*Whilst these adjustments impact the prior year comparative financial information disclosed in the Notes to the Consolidated Financial Statements, they have no impact on any of the balances in respect of 30 June 2008 Income Statements and Balance Sheets.*

*4) The occurrence of a market review event provided an opportunity for the Group's senior banks to serve notice for repayment within three months. On 21 August 2008, the Group reached agreement with its banking syndicate to extend the facilities to 30 September 2009. See 26(b) for further details.*

## 26. Interest-bearing loans and borrowings (cont'd)

### (b) Financing facilities

| Facilities | Maturity date[1] | Pricing[2] | Currency | Approved facility limit[3] 30-Jun 2008 $'000 | Approved facility limit[3] 30-Jun 2007 $'000 | Line of credit drawn 30-Jun 2008 $'000 | Line of credit drawn 30-Jun 2007 $'000 | Commitments 30-Jun 2008 $'000 | Commitments 30-Jun 2007 $'000 | Unused facility 30-Jun 2008 $'000 | Unused facility 30-Jun 2007 $'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| ***Group*** | | | | | | | | | | | |
| Subscription | 22 Sep 09 | BBR plus 300 bps | AUD | N/A | N/A | 368,661 | 40,000 | - | 44,200 | N/A | N/A |
| | 22 Sep 09 | EURIBOR plus 300 bps | EUR | N/A | N/A | 38,471 | 71,839 | - | - | N/A | N/A |
| | 22 Sep 09 | LIBOR plus 300 bps | USD | N/A | N/A | 201,156 | 100,971 | 63,293 | - | N/A | N/A |
| Total | | | | 850,000 | 850,000 | 608,288 | 212,810 | 63,293 | 44,200 | 178,419 | 592,990 |
| Syndicate[1] | 30 Jun 08 | BBR plus 300 bps | AUD | 250,000 | 250,000 | 187,782 | - | - | - | 62,218 | 250,000 |
| Bilateral | 22 Sep 09 | BBR plus 300 bps | AUD | 50,000 | 50,000 | 34,142 | - | - | - | 15,858 | 50,000 |
| Capitalised borrowing costs on financing facilities | | | | N/A | N/A | (3,778) | (3,748) | N/A | N/A | N/A | N/A |
| Total Group banking facilities | | | | 1,150,000 | 1,150,000 | 826,434 | 209,062 | 63,293 | 44,200 | 256,495 | 892,990 |

*1) The revised maturity date of the new senior facilities is 30 September 2009. See below for further details.*

*2) The pricing of the facilities are as negotiated on 30 May 2008. These have been replaced by the revised pricing as set out below.*

*3) At balance date, these were the original facility limits which remain suspended pending the finalisation of a review event by the Group's senior banks. See below for further details.*

Under the terms of the Group's banking facilities, the Group had a review event clause linked to its market capitalisation. During the year, the dislocation of financial markets and subsequent decline in the Company's market capitalisation resulted in the occurrence of a review event, which provided the Group's syndicate banks with an opportunity to seek to renegotiate the terms and conditions of these facilities. On 30 May 2008, the Group's syndicate banks increased the margin payable under its senior debt facilities from 70-95 bps above the relevant borrowing reference rate to 300bps.

**26. Interest-bearing loans and borrowings (cont'd)**

**(b) Financing facilities (cont'd)**

On 21 August 2008, the Group signed a new senior debt facility with its syndicate bankers. The new facility will be available for draw down once certain conditions precedent of an administrative nature are satisfied. The Group anticipates that these conditions will be satisfied by 31 August 2008. The new senior debt facility replaces the three existing senior debt facilities and matches the outstanding drawings at the time. Key terms of the revised facility are as follows:

- The facility matures on 30 September 2009 and contains no market capitalisation review clause;
- An agreed repayment schedule paying down senior debt to $400m by June 2009;
- The facility will be secured by guarantees and security provided by numerous subsidiaries including those which are already guarantors under the existing debt facilities;
- Apart from the debt repayment schedule, the new facility contains no events of default tied to gearing, interest coverage, debt service or other financial ratios;
- A margin above the relevant currency borrowing reference rate that reduces as the level of senior debt facility is reduced provided that the Group's gearing levels based on the value of its assets is not greater than certain target amounts;

| Total facility | Margin % p.a. above relevant borrowing reference rate |
|---|---|
| $600 million or greater | 3.50% |
| Less than $600 million but equal to or greater than $400 million | 3.00% |
| Less than $400 million | 2.75% |

- A review events will arise under the new facility if:
  a) The Company enters into a merger or consolidation;
  b) The Company becomes controlled by a person or group of persons acting together, with a relevant interest of at least 35% voting shares;
  c) The Company's shares are suspended from trading on the ASX for more than 5 consecutive days; or
  d) if two or more of more of the Acting Chairman and certain senior executives of the Company leave within a twelve month period and a replacement is not appointed within ninety days.

  If a review event described in (a) or (b) were to occur, the Company must notify the bank syndicate, and will have four business days to repay each member of the syndicate its share of outstanding debt and other financial exposures (including hedges etc), unless the relevant bank syndicate member elects not to require that debt repayment acceleration.

  If a review event described in (c) or (d) were to occur, the Company must notify the bank syndicate, at which point the bank syndicate has twenty business days to inform the Company whether the review event is unacceptable or acceptable subject to revised finance terms. If the review event is unacceptable to either party, the Company would be required to repay the entires outstanding facility within 90 days.

## 26. Interest-bearing loans and borrowings (cont'd)

### (b) Financing facilities (cont'd)

| Facilities | Maturity date | Pricing | Segment | Currency | Approved facility limit 30-Jun 2008 $'000 | Approved facility limit 30-Jun 2007 $'000 | Line of credit drawn 30-Jun 2008 $'000 | Line of credit drawn 30-Jun 2007 $'000 | Commitments 30-Jun 2008 $'000 | Commitments 30-Jun 2007 $'000 | Unused facility 30-Jun 2008 $'000 | Unused facility 30-Jun 2007 $'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ***Subsidiaries*** | | | | | | | | | | | | |
| Allco Funds Management Limited | 1 Jul 07 | Fixed at 8.95% | Real Estate | AUD | - | 30,000 | - | 30,000 | - | - | - | - |
| Rubicon Finance Trust | 15 Sep 08 | LIBOR plus 250bps | Real Estate | USD | 13,464 | - | 13,334 | - | - | - | 130 | - |
| Rubicon Holdings (Aust.) Ltd | 31 Jul 08 | BBSY plus 400bps | Real Estate | AUD | 25,000 | - | 24,415 | - | - | - | 585 | - |
| Allco Singapore Pte. Ltd | 29 Jan 09 | SIBOR plus 127.5bps | Real Estate | SGD | 40,313 | 32,295 | 40,313 | 32,231 | - | - | - | 64 |
| Total subsidiary banking facilities | | | | | 78,777 | 62,295 | 78,062 | 62,231 | - | - | 715 | 64 |
| Total corporate borrowings | | | | | 1,228,777 | 1,212,295 | 904,496 | 271,293 | 63,293 | 44,200 | 257,210 | 893,054 |

*Rubicon Finance Trust ("RFT")*

This facility is secured by a fixed and floating charge over assets of RFT and RAHL. Interest accrues at a floating rate of LIBOR plus 2.5%.

*Rubicon Holdings (Aust.) Ltd ("RAHL")*

This facility is secured by a fixed and floating charge over assets of RAHL. On 1 August 2008, the facility was extended to 30 June 2009. Interest accrues at a floating rate of BBSY plus 4.0%, with a planned repayment program paying down debt to $9.4m.

*Allco Singapore Pte. Ltd*

The recourse on this loan is over the units held in the Allco Commercial Real Estate Investment Trust ("REIT"). Interest accrues at a floating rate of SIBOR plus 1.275%. The loan was repaid with the finalisation of the sale of units in the REIT on 14 August 2008.

## 26. Interest-bearing loans and borrowings (cont'd)

### (c) Limited recourse facilities

| | | | | | | Financial Assets | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Aviation<br>$'000 | Shipping<br>$'000 | Infrastructure<br>$'000 | Rail<br>$'000 | Real Estate<br>$'000 | Mortgage Assets<br>$'000 | Trade Receivables<br>$'000 | Equipment and auto assets<br>$'000 | Other Financial assets<br>$'000 | Total Financial Assets<br>$'000 | Consolidated Total<br>$'000 |
| **30 Jun 2008** | | | | | | | | | | | |
| Current | 114,560 | 26,487 | 713 | 823 | 26,776 | 986,392 | 266,402 | 74,226 | - | 1,327,020 | 1,496,379 |
| Non-current | 1,034,757 | 397,618 | 20,041 | 35,619 | - | 178,502 | - | 44,273 | 26,866 | 249,641 | 1,737,676 |
| | 1,149,317 | 424,105 | 20,754 | 36,442 | 26,776 | 1,164,894 | 266,402 | 118,499 | 26,866 | 1,576,661 | 3,234,055 |
| **30 Jun 2007** | | | | | | | | | | | |
| Current | 163,463 | - | - | - | - | 679,179 | 870,842 | 327,685 | - | 1,877,706 | 2,041,169 |
| Non-current | 1,138,755 | 434,203 | 97,737 | - | 56,407 | 1,243,347 | 76,227 | 380,680 | 34,437 | 1,734,691 | 3,461,793 |
| | 1,302,218 | 434,203 | 97,737 | - | 56,407 | 1,922,526 | 947,069 | 708,365 | 34,437 | 3,612,397 | 5,502,962 |

*Aviation*

Allco finances aircraft purchases with long term borrowings from various banks and other institutions. These are obligations of special purpose subsidiaries established to own aircraft. The lenders have recourse to the assets of the subsidiaries through various ranked security positions. Interest accrues at fixed rates between 3.88% and 11.82% and at floating rates of BBSW (+0.7%) or BBSY (+0.7% to +1.94%) or LIBOR (+0.50% to +2.5%). The current interest bearing loans for Aviation will be repaid over the next twelve months using fixed rental receipts from aircraft on the Group's balance sheet. There will be no net cash flow requirement for the Group and receivables on these aircraft will be reduced to nil by the end of the agreed lease term. Consequently, the Group does not expect these loans to have refinance risk.

*Shipping*

Allco finances ship purchases with long-term borrowings from a banking consortium. These include a total of $365.7m revolving credit loans and $62.4m mezzanine facilities. Interest on the revolving credit loans accrue at USD-LIBOR plus 1.5% and at USD-LIBOR plus 3% on the mezzanine facility. Interest and principal payable on the revolving credit loans occurs on a quarterly basis. The mezzanine facility has quarterly interest payments with no principal payment due until maturity.

*Rail*

Allco finances rail purchases through a $75.0m USD long term facility. Interest accrues at LIBOR plus 1.25%.

*Real Estate*

Allco finances real estate purchases with short, medium and long-term borrowings. Interest accrues at a floating rate between 5.65% and 6.03%.

## 26. Interest-bearing loans and borrowings (cont'd)

### (c) Limited recourse facilities (cont'd)

*Financial Assets*

Of the current facilities for financial assets;

- $182.2m relates to termed out mortgage and lease securitisation programmes which are expected to be paid down through repayments of the assets financed.
- $1,144.8m relates to facilities where management are in negotiations with its programme bankers to refinance in the normal course of business. These negotiations are still in progress and are at different stages for each of the programmes with successful refinancing anticipated. In the event that refinancing is unsuccessful, the programmes would cease new origination activity at which point a variety of exit or run off scenarios would be applicable. The maximum exposure to the Group in the event of unsuccessful refinancing is $37.7m.

The outstanding liabilities payable represent a combination of rated bonds issued to wholesale investors and securitisation warehouse funding provided by a number of Allco's key relationship banks. The margin on these facilities is based on their rating, with the floating rates ranging from BBSW + 0.20% to BBSW + 10%.

### (d) Allco Subordinated Notes (Allco Notes)

The Company issued $350m of Allco Notes on 21 June 2007. The Allco Notes are subordinated such that in the event of a liquidation, holders will be entitled to receive a repayment of the face value and any outstanding interest only after all other debts, other than those which by their terms or at law rank equally or behind Allco Notes, have been paid in full, but before any distribution is made to shareholders and any creditors whose claims rank behind those of holders.

The face value of the notes is $A100 and matures on 15 November 2017. Interest accrues at 2.1% above BBSW and is payable semi-annually. The minimum interest rate is 8.55% per annum. The interest rate will reset on 15 November 2012.

## 27. Deferred income

| | Consolidated 2008 $'000 | Consolidated 2007 $'000 | The Company 2008 $'000 | The Company 2007 $'000 |
|---|---|---|---|---|
| Unearned income | 32,725 | 32,493 | - | - |
| Lease incentive | 2,964 | 2,413 | - | - |
| | 35,689 | 34,906 | - | - |
| Current | 13,960 | 8,354 | - | - |
| Non-current | 21,729 | 26,552 | - | - |
| | 35,689 | 34,906 | - | - |

## 28. Employee benefits

| | Consolidated 2008 $'000 | Consolidated 2007 $'000 | The Company 2008 $'000 | The Company 2007 $'000 |
|---|---|---|---|---|
| Liability for annual leave | 4,160 | 4,075 | - | 24 |
| Liability for long-service leave | 637 | 672 | - | - |
| Provision for bonuses[1] | 46,263 | 49,517 | - | 3,632 |
| | 51,060 | 54,264 | - | 3,656 |
| Current | 50,590 | 53,592 | - | 3,656 |
| Non-current | 470 | 672 | - | - |
| | 51,060 | 54,264 | - | 3,656 |

*1) As at 30 June 2008, the provision for bonuses includes $14.0m to incentivise personnel engaged with the disposal of non-core assets to maximise sale proceeds.*

## 29. Provisions

| | Consolidated 2008 $'000 | Consolidated 2007 $'000 | The Company 2008 $'000 | The Company 2007 $'000 |
|---|---|---|---|---|
| *Business Restructure* | | | | |
| Opening balance at 1 July | - | - | - | - |
| Provisions made during the year | 37,789 | - | - | - |
| Provisions used during the year | (8,527) | - | - | - |
| Closing balance at 30 June | 29,262 | - | - | - |
| *Onerous Contracts* | | | | |
| Opening balance at 1 July | - | - | - | - |
| Provisions made during the year | 11,385 | - | - | - |
| Provisions used during the year | (330) | - | - | - |
| Closing balance at 30 June | 11,055 | - | - | - |
| Total Provisions | 40,317 | - | - | - |
| Current | 31,741 | - | - | - |
| Non-current | 8,576 | - | - | - |
| | 40,317 | - | - | - |

*Business restructure*

The revised business plan repositions the Group to focus on its core asset classes. As a result, a restructuring provision has been recognised in respect of termination benefits. Employee entitlements in note 28 exclude termination benefits.

*Onerous Contracts*

The provision for onerous lease contracts represents the present value of future lease payments that the Group is presently obliged to make under non-cancellable onerous operating lease contracts, less revenue expected to be earned on the lease including estimated future sub-lease revenue where applicable. The estimates may vary as a result of changes in the utilisation of the lease premises and sub-lease arrangement where applicable. The unexpired terms of the leases ranges from 3 to 9 years.

## 30. Issued capital

### (a) Ordinary share capital

| | The Company 2008 Number of Shares | 2007 Number of Shares |
|---|---|---|
| Ordinary shares fully paid | 373,207,461 | 346,633,825 |

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. Ordinary shares have no par value.

### (b) Movements in issued capital

| | Date | Number of shares | Issue Price | $'000 |
|---|---|---|---|---|
| Opening balance 1 July 2006 | | 201,536,715 | | 539,837 |
| Shares issued | 01-Jul-06 | 85,225,429 | $12.35 | 1,052,534 |
| Dividend reinvestment plan | 13-Sep-06 | 906,756 | $11.45 | 10,382 |
| Shares issued | 29-Sep-06 | 1,643,415 | $10.36 | 17,030 |
| Institutional placement | 07-Dec-06 | 24,666,318 | $10.40 | 256,530 |
| Institutional entitlement offer | 07-Dec-06 | 18,468,710 | $8.00 | 147,750 |
| Retail entitlement offer | 09-Jan-07 | 11,996,730 | $8.00 | 95,974 |
| Options exercised | 31-Jan-07 | 41,250 | $5.52 | 228 |
| Options exercised | 14-Feb-07 | 1,025,211 | $5.52 | 5,658 |
| Dividend reinvestment plan | 21-Mar-07 | 1,123,291 | $9.85 | 11,064 |
| Transaction costs, net of tax | | - | | (29,811) |
| Closing balance at 30 June 2007 | | 346,633,825 | | 2,107,176 |
| Opening balance 1 July 2007 | | 346,633,825 | | 2,107,176 |
| Dividend reinvestment plan | 28-Sep-07 | 1,383,716 | $7.80 | 10,795 |
| Shares issued | 19-Dec-07 | 19,728,323 | $5.44 | 107,322 |
| Conversion of rights issued | 03-Mar-08 | 655,668 | $5.44 | 3,567 |
| Shares issued | 03-Mar-08 | 4,687,185 | $0.62 | 2,906 |
| Shares issued | 25-Mar-08 | 118,744 | $0.43 | 51 |
| Transaction costs, net of tax | | - | | (74) |
| Closing balance at 30 June 2008 | | 373,207,461 | | 2,231,743 |

### (c) Dividend reinvestment plan

The Company has established a dividend reinvestment plan under which holders of ordinary shares may elect to have all or part of their dividend entitlements satisfied by the issue of new ordinary shares rather than by being paid in cash. Shares are issued under the plan at a 5% discount to the volume weighted average market price in the 5 business days leading up to and including the record date.

### (d) Issued rights

The Company issued 655,668 rights as consideration for the acquisition of Rubicon Holdings (Aust.) Limited at a strike price of nil. These rights are fully vested and were exercised on 3 March 2008.

**30. Issued capital (cont'd)**

**(e) Convertible redeemable preference shares ("CRPS")**

The Company issued 10 million units of CRPS as part of the consideration for the acquisition of Rubicon Holdings (Aust.) Limited. On winding up of the Company the CRPS confers on its holders the right to a payment in priority to ordinary shares of an amount of $0.0001 per share and does not carry any rights to dividends. The conversion of the CRPS will only occur provided certain triggers associated with the acquisition are met, at the earliest on 31 December 2008 or 31 December 2010 at the latest. Any CRPS that are not converted will be redeemed for a cash payment to the holder of $0.0001 per share.

At the time of the acquisition, management assumed that the conversion triggers would be met and valued the CRPS at $5.00 per share. This valuation has been included in consideration paid in respect of the acquisition of Rubicon. However, as a result of the impact of the dislocation of credit markets which has resulted in a significant reduction in property funds under management, management has revised the probability of exercise as highly unlikely. Accordingly, as at 30 June 2008, the CRPS was written down to Nil with a corresponding adjustment to goodwill.

**(f) Treasury shares**

| | The Company | |
|---|---|---|
| | **30-Jun 2008 $'000** | **30-Jun 2007 $'000** |
| Company shares held by the share allocation plan | 21,228 | 4,198 |

Treasury shares represent the cost of Company shares acquired for and held by Employee Share Plans. Treasury shares are de-recognised when the underlying shares vest to employees. No gain or loss is recognised in profit or loss on the purchase, sale or cancellation of the Company's own equity instruments. At 30 June 2008, 6,869,551 shares (2007: 377,574) were held by Employee Share Plans.

**(g) Options and rights**

Options and rights issued and outstanding are as follows:

| | The Company | |
|---|---|---|
| | **Number 30-Jun 2008** | **Number 30-Jun 2007** |
| Expiring on 31 July 2012 with an exercise price of $10.91 per option | - | 64,032 |
| Expiring on 12 September 2013 with an exercise price of $7.83 per option | 8,479,042 | - |
| Total options and rights | 8,479,042 | 64,032 |

### 30. Issued capital (cont'd)

#### (h) Movement in options

The details of options issued and exercised by the Company are as follows:

| | Date | Number | Underlying ordinary shares | Exercise price $ |
|---|---|---|---|---|
| Opening balance 1 July 2006 | | 1,066,461 | 1,066,461 | |
| Exercise of options | 31-Jan-07 | (41,250) | (41,250) | 5.52 |
| Exercise of options | 14-Feb-07 | (1,025,211) | (1,025,211) | 5.52 |
| Issue of options | 04-May-07 | 64,032 | 64,032 | 10.91 |
| Closing balance at 30 June 2007 | | 64,032 | 64,032 | |
| Opening balance at 1 July 2007 | | 64,032 | 64,032 | |
| Issue of options | 10-Sep-07 | 437,063 | 437,063 | 7.83 |
| Issue of options | 10-Sep-07 | 17,483 | 17,483 | 7.83 |
| Issue of options[1] | 14-Sep-07 | 9,274,504 | 9,274,504 | 7.83 |
| Issue of options[1] | 29-Oct-07 | 1,590,910 | 1,590,910 | 7.83 |
| Issue of rights | 19-Dec-07 | 655,668 | 655,668 | - |
| Exercise of rights | 03-Mar-08 | (655,668) | (655,668) | - |
| Forfeiture of options | 31-Jul-07 | (69,930) | (69,930) | - |
| Forfeiture of options | 16-Nov-07 | (52,448) | (52,448) | - |
| Forfeiture of options | 30-Nov-07 | (69,930) | (69,930) | - |
| Forfeiture of options | 14-Dec-07 | (52,448) | (52,448) | - |
| Forfeiture of options | 21-Dec-07 | (34,965) | (34,965) | - |
| Forfeiture of options | 04-Jan-08 | (69,930) | (69,930) | - |
| Forfeiture of options | 15-Mar-08 | (61,189) | (61,189) | - |
| Forfeiture of options | 20-Mar-08 | (340,910) | (340,910) | - |
| Forfeiture of options | 28-Mar-08 | (349,651) | (349,651) | - |
| Forfeiture of options | 31-Mar-08 | (122,378) | (122,378) | - |
| Forfeiture of options | 01-Apr-08 | (463,289) | (463,289) | - |
| Forfeiture of options | 04-Apr-08 | (69,930) | (69,930) | - |
| Forfeiture of options | 08-Apr-08 | (52,448) | (52,448) | - |
| Forfeiture of options | 18-Apr-08 | (21,853) | (21,853) | - |
| Forfeiture of options | 30-Apr-08 | (231,644) | (231,644) | - |
| Forfeiture of options | 01-May-08 | (96,154) | (96,154) | - |
| Forfeiture of options | 06-May-08 | (52,448) | (52,448) | - |
| Forfeiture of options | 12-Jun-08 | (186,410) | (186,410) | - |
| Forfeiture of options | 27-Jun-08 | (17,483) | (17,483) | - |
| Forfeiture of options | 30-Jun-08 | (489,512) | (489,512) | - |
| Closing balance 30 June 2008 | | 8,479,042 | 8,479,042 | |

*1) As described in the 30 June 2007 financial statements, 13,578,225 options were expected to be issued post 30 June 2007 in connection with staff incentive schemes. The final number issued was 10,865,414.*

### 31. Retained earnings

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | 2008 $'000 | 2007 $'000 | 2008 $'000 | 2007 $'000 |
| Opening balance at 1 July | 130,791 | 60,948 | 49,044 | 22,224 |
| Adjustments on business combinations | 348 | (30,439) | - | - |
| (Loss)/profit for the year | (1,731,561) | 211,701 | (1,630,560) | 138,239 |
| Dividends paid | (83,192) | (111,419) | (83,192) | (111,419) |
| Closing balance at 30 June | (1,683,614) | 130,791 | (1,664,708) | 49,044 |

## 32. Minority Interests

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | $'000 | $'000 | $'000 | $'000 |
| Opening balance at 1 July | 22,941 | - | - | - |
| Minority interests - business combinations | 38,325 | 10,065 | - | - |
| Additional equity contributions | - | 6,371 | - | - |
| Disposal of minority interests | (17,009) | - | - | - |
| Share of (loss)/profit | (8,773) | 7,463 | - | - |
| Distributions paid | (3,275) | (958) | - | - |
| Closing balance at 30 June | 32,209 | 22,941 | - | - |

## 33. Dividends

### (a) Dividends paid – ordinary shares

| | The Company | |
|---|---|---|
| | 2008 | 2007 |
| | $'000 | $'000 |
| Final dividend paid for the year ended 30 June 2007 - 24.0 cents, franked to 16.9 cents (2006: 21.0 cents per share, fully franked) | 83,192 | 42,323 |
| Interim dividend paid for the year ended 30 June 2008 - Nil cents (2007: 20.0 cents per share, franked to 14.6 cents) | - | 69,096 |
| Total dividends paid | 83,192 | 111,419 |
| Dividends paid in cash or satisifed by the issue of shares under the dividend reinvestment plan during the year | | |
| - Paid in cash | 72,397 | 89,973 |
| - Satisfied by issue of shares | 10,795 | 21,446 |
| Total dividends paid | 83,192 | 111,419 |

### (b) Dividends proposed

| | | |
|---|---|---|
| Dividends not recognised at the end of the year | - | 83,192 |

Since the balance sheet date the Directors have recommended the payment of the 2008 final dividend of Nil cents (2007: 24.0 cents, franked to 70.4%) per ordinary share.

### (c) Dividend franking account credit balance

The franked dividends recommended after 30 June 2008 will be franked out of existing franking credits or out of franking credits arising out of income tax in the year ended 30 June 2008.

| | | |
|---|---|---|
| Franking credits available for subsequent financial periods based on a tax rate of 30% | 17,318 | 25,042 |

The amounts above represent the balance of the dividend franking account at year-end, adjusted for:

- Franking credits that will arise from the payment of the current income tax liability;
- Franking debits that will arise from the payment of dividends recognised as a liability at year-end;
- Franking credits that will arise from the receipt of dividends recognised as receivables by the tax consolidated Group at year-end; and
- Franking credits that the entity may be prevented from distributing in subsequent years.

The franking account balance includes franking credits that would be available to the Company if distributable profits of subsidiaries were paid as dividends.

## 34. Reserves

### (a) Available-for-sale investments revaluation reserve

Changes in fair value and exchange differences (net of tax) arising on translation of investments classified as available-for-sale financial assets are taken to the “available-for-sale” investments revaluation reserve. Amounts are recognised in profit or loss when the associated assets are sold or impaired.

### (b) Foreign currency translation reserve

Exchange differences arising on translation of foreign controlled entities are taken to the foreign currency translation reserve. Amounts are recognised in the profit or loss when the net investment is disposed of.

### (c) Cashflow hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments recognised directly in equity. Amounts are recognised in profit or loss when the associated hedged transaction affects profit or loss.

### (d) Share of associates reserve

This reserve relates to the Group’s interest in the reserves of equity accounted investments.

### (e) Share based payments reserve

The share based payments reserve is used to recognise the fair value of shares granted under the employee share schemes that have not yet vested. Shares issued to employees and Directors under the schemes are expensed over the period of service to the vesting date. Such accounts will reverse when all underlying shares vest to the employees. For further information on the employee share schemes, refer note 40.

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | 2008 $'000 | 2007 $'000 | 2008 $'000 | 2007 $'000 |
| **Available-for-sale investments revaluation reserve** | | | | |
| Opening balance 1 July | (355) | (761) | 382 | 382 |
| Net unrealised gains from changes in fair value | 17,878 | 538 | - | - |
| Realised gains re-classified to the income statement on disposal | (1,167) | - | - | - |
| Realised loss re-classified to the income statement on disposal or impairment | 4,860 | - | - | - |
| Tax effect on the above | (6,594) | (132) | - | - |
| Closing balance at 30 June | 14,622 | (355) | 382 | 382 |
| **Foreign currency translation reserve** | | | | |
| Opening balance 1 July | (79,371) | - | - | - |
| Acquisitions, business combinations | 284 | (11,210) | | |
| Currency translation differences arising during the year | 49,017 | (102,272) | - | - |
| Transfer to the income statement | (22,680) | - | - | - |
| Tax effect on the above | (17,149) | 34,111 | - | - |
| Closing balance at 30 June | (69,899) | (79,371) | - | - |

### 34. Reserves (cont'd)

| | Consolidated 2008 $'000 | Consolidated 2007 $'000 | The Company 2008 $'000 | The Company 2007 $'000 |
|---|---|---|---|---|
| **Hedging reserve** | | | | |
| Opening balance 1 July | 7,655 | 11,284 | 159 | (792) |
| Acquisitions, business combinations | (528) | - | - | - |
| Net gains/(loss) from changes in fair value on effective portion of hedges | (13,125) | 12,589 | 3,404 | 5,958 |
| Net gains/(loss) on ineffective porion of hedges classified to the income statement | 780 | (4,071) | (49) | (4,599) |
| Net gains/(loss) on discontinued hedges classified to the income statement | (3,518) | (17,252) | (2,584) | - |
| Tax effect on the above | 2,037 | 5,105 | (279) | (408) |
| Closing balance at 30 June | (6,699) | 7,655 | 651 | 159 |
| **Share of associates reserves** | | | | |
| Opening balance 1 July | 4,264 | (7,173) | - | - |
| Adjustments on business combinations | (973) | 7,001 | - | - |
| Share of reserves during the year, net of tax | (4,435) | 4,436 | - | - |
| Closing balance at 30 June | (1,144) | 4,264 | - | - |
| **Share based payments reserve** | | | | |
| Opening balance 1 July | 13,378 | - | - | - |
| Equity - settled bonus expense | 38,412 | 13,378 | - | - |
| Transfer on vesting of shares | (2,500) | - | - | - |
| Closing balance at 30 June | 49,290 | 13,378 | - | - |
| **Total reserves** | (13,830) | (54,429) | 1,033 | 541 |

### 35. Commitments

#### (a) Leases as lessee

Commitments in relation to non-cancellable operating leases, contracted for at the reporting date but not recognised as liabilities, are payable as follows:

| | | | | |
|---|---|---|---|---|
| Non-cancellable operating lease rentals are payable as follows: | | | | |
| Within one year | 22,060 | 29,017 | 4,545 | 4,068 |
| After one year but not later than five years | 48,663 | 79,673 | 11,340 | 9,826 |
| Later than five years | 7,543 | 4,436 | - | - |
| | 78,266 | 113,126 | 15,885 | 13,894 |

The lease commitments represent payments due for non-cancellable operating leases for office premises, and bareboat charter agreements entered into by the Shipping business segment.

#### (b) Leases as lessor

The Group leases investment property, aircraft, ships and rail assets under operating leases. The minimum lease payments receivable under non-cancellable leases are as follows:

| | | | | |
|---|---|---|---|---|
| Within one year | 259,000 | 383,897 | - | - |
| After one year but not later than five years | 904,083 | 828,692 | - | - |
| Later than five years | 456,033 | 339,157 | - | - |
| | 1,619,116 | 1,551,746 | - | - |

**35. Commitments (cont'd)**

During the year contingent rentals of $28.1m (2007:$27.3m) was included in the income statement. This related to aircraft operating leases from which rentals are indexed to movements in the underlying borrowing base rates.

**(c) Capital commitments**

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | 2008 $'000 | 2007 $'000 | 2008 $'000 | 2007 $'000 |
| *Contracted but not provided for and payable:* | | | | |
| Within one year | 618,773 | 368,322 | - | - |
| After one year but not later than five years | 196,391 | 20,519 | - | - |
| | 815,164 | 388,841 | - | - |

**(d) Approved but undrawn mortgage commitments**

| | | | | |
|---|---|---|---|---|
| Within one year | 5,593 | 91,646 | - | - |
| After one year but not later than five years | 15,024 | - | - | - |
| | 20,617 | 91,646 | - | - |

**(e) Share of associates' and joint ventures' expenditure commitments**

| | | | | |
|---|---|---|---|---|
| Capital commitments | 78,687 | 190,981 | - | - |
| Lease commitments | 9,498 | 700 | - | - |
| | 88,185 | 191,681 | - | - |

**36. Contingencies**

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

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | 2008 $'000 | 2007 $'000 | 2008 $'000 | 2007 $'000 |
| ▪ Future royalty payments due by the Group to an associate under the terms of an asset transfer agreement. This represents a portion of future revenues earned by the Group on infrastructure assets. | - | 7,125 | - | - |
| ▪ A claim has been filed by a former joint venture partner in respect of the termination of the joint venture arrangement on 3 July 2008. Management expects a favourable outcome on the matter. | - | - | - | - |
| **Letters of support** | | | | |
| ▪ On 23 October 2007, the Company provided an undertaking to the Directors of Re Leasing Pty Limited, an associate entity, accepting responsibility for providing sufficient financial assistance to Re Leasing Pty Limited, to pay its debts as and when they become due and payable. This undertaking is valid for twelve months from 23 October 2007. | - | - | - | - |

**36. Contingencies (cont'd)**

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | 2008 $'000 | 2007 $'000 | 2008 $'000 | 2007 $'000 |
| ▪ On 30 November 2007, the Company provided an undertaking to the Directors of the Trustee of Alleasing Trust and Directors of Alleasing Pty Ltd, each a controlled entity of Re Leasing Pty Limited, to provide sufficient financial assistance to Alleasing Trust and its controlled entities (including Alleasing Pty Ltd) to enable them to continue their operations and fulfill all their financial obligations until at least 30 September 2009. | - | - | - | - |
| ▪ On 29 October 2007, the Company provided an undertaking to the Directors of Mobius Financial Services Pty Limited , a controlled entity of the Group to provide sufficient financial assistance to the company to enable them to continue their operations and fulfill all their financial obligations for twelve months from 29 October 2007. | - | - | - | - |
| **Letters of credit** | | | | |
| ▪ As at 30 June 2008, the Group had provided letters of credit totalling \$63.3m in accordance with terms of supply and purchase agreements with certain suppliers. Of this amount, \$58.1m (2007: \$24.5m) was entered into on behalf of an associate, and arrangements exist whereby the associate will reimburse the Group in the event these letters of credit are drawn.[1] | 63,293 | 30,394 | - | - |

*1) All letters of credit have been released following the completion of the sale of the Tehachapi US-based wind development project on 18 July 2008.*

## 37. Business combinations

### (a) Details of entities acquired

| Name and nature of entity acquired | Acquisition date | Cost of acquisition $'000 | Acquired % | Revenue contributed since acquisition $'000 | Net profit contributed since acquisition $'000 |
|---|---|---|---|---|---|
| *30 June 2008* | | | | | |
| *Funds Management* | | | | | |
| Allco Equity Partners Management Trust ("AEPM") | 25-Jul-07 | 52,184 | 60.8% | 7,344 | 3,107 |
| *Real Estate* | | | | | |
| Rubicon Holdings (Aust.) Limited ("Rubicon") | 19-Dec-07 | 230,437 | 79.6% | 20,762 | (177,746) |
| | | 282,621 | | 28,106 | (174,639) |
| *30 June 2007* | | | | | |
| *Financial services* | | | | | |
| Allco Finance (Australia) Limited ("AFAL") | 01-Jul-06 | 1,069,565 | 100% | 949,183 | 167,626 |
| *Mortgage origination and servicing* | | | | | |
| Mobius Financial Services Pty Limited | 31-Oct-06 | 3,747 | 42.8% | 89,123 | (7,610) |
| *Locomotive repairs* | | | | | |
| Rail Technical Support Group Pty Limited | 29-Dec-06 | 305 | 63.5% | 3,163 | (1,039) |
| *Wind power generation* | | | | | |
| Windpark Dobberkau GmbH & Co.KG Renditefonds | 01-Mar-07 | 123 | 100% | 1,494 | 377 |
| Windpark Hermannsburg GmbH & Co. KG Renditefonds | 02-Mar-07 | 815 | 100% | 1,478 | 201 |
| Juwi Asset GmbH & Co. KG | 02-Mar-07 | 498 | 100% | - | - |
| Windpark Masendorf GmbH & Co. KG Renditefonds | 03-Mar-07 | 283 | 100% | 977 | 18 |
| Eoliennes Lestrade SNC | 03-Apr-07 | 172 | 100% | - | - |
| Juwi Beteiligungs GmbH & Co. KG Welchweiler | 15-May-07 | 68 | 100% | - | - |
| New Breeze GmbH & Co Green Power 2 KG | 21-Jun-07 | 2,642 | 100% | - | - |
| | | 1,078,218 | | 1,045,418 | 159,573 |

The adjustments required to achieve consistent application of the Group’s accounting policies to accurately calculate the revenue and net profit attributable to these acquisitions for the respective periods ended 30 June 2008 are considered impractical as the costs would outweigh the benefits.

**37. Business combinations (cont'd)**

**(b) Summary of acquisitions**

| | AEPM $'000 | Rubicon $'000 | Total $'000 |
|---|---|---|---|
| *30 June 2008* | | | |
| Purchase consideration | 52,092 | 224,582 | 276,674 |
| Direct costs relating to the acquisition | 92 | 5,855 | 5,947 |
| **Total purchase consideration** | 52,184 | 230,437 | 282,621 |
| Fair value of net assets acquired | 3,921 | 51,445 | 55,366 |
| Less: previous ownership interest | (1,960) | (10,484) | (12,444) |
| Total fair value of net identifiable assets acquired | 1,961 | 40,961 | 42,922 |
| **Goodwill acquired** | 50,224 | 189,476 | 239,700 |
| Goodwill embedded in previous ownership | - | 7,861 | 7,861 |
| **Total Goodwill** | 50,224 | 197,337 | 247,561 |

| | AFAL $'000 | Other $'000 | Total $'000 |
|---|---|---|---|
| *30 June 2007* | | | |
| Purchase consideration | 1,069,565 | 6,303 | 1,075,868 |
| Direct costs relating to the acquisition | - | 2,350 | 2,350 |
| **Total purchase consideration** | 1,069,565 | 8,653 | 1,078,218 |
| Fair value of net identifiable assets/(liabilities) acquired | 21,869 | (26,020) | (4,151) |
| Less: Previous ownership interest | (4,023) | 17,940 | 13,917 |
| Total fair value of net identifiable assets/(liabilities) acquired | 17,846 | (8,080) | 9,766 |
| **Goodwill** | 1,051,719 | 16,733 | 1,068,452 |

**(c) Purchase consideration of acquisitions**

| | AEPM $'000 | Rubicon $'000 | Total $'000 |
|---|---|---|---|
| *30 June 2008* | | | |
| Non cash consideration | - | 160,889 | 160,889 |
| Cash consideration | 52,184 | 69,548 | 121,732 |
| **Total purchase consideration** | 52,184 | 230,437 | 282,621 |
| Less: cash balances acquired | 1,529 | 24,021 | 25,550 |
| **Total cash outflow** | 50,655 | 45,527 | 96,182 |

| | AFAL $'000 | Other $'000 | Total $'000 |
|---|---|---|---|
| *30 June 2007* | | | |
| Non cash consideration | 1,069,565 | 2,447 | 1,072,012 |
| Cash consideration | - | 6,206 | 6,206 |
| **Total purchase consideration** | 1,069,565 | 8,653 | 1,078,218 |
| Less : cash balances acquired | (153,233) | (54,740) | (207,973) |
| **Total cash inflow** | (153,233) | (48,534) | (201,767) |

**37. Business combinations (cont'd)**

**(d) Net identifiable assets acquired**

| *30 June 2008* | AEPM Carrying Value $'000 | Fair Value adjustments on AEPM $'000 | Rubicon Carrying Value $'000 | Fair Value adjustments on Rubicon $'000 | Fair Value of net assets acquired $'000 |
|---|---|---|---|---|---|
| Cash and cash equivalents | 1,529 | - | 24,021 | - | 25,550 |
| Trade and other receivables | 3,280 | - | 16,520 | - | 19,800 |
| Available for sale financial assets | - | - | 14,242 | - | 14,242 |
| Loan assets held at amortised cost | - | - | 91,454 | (1,532) | 89,922 |
| Equity accounted investments | - | - | 145,496 | (45,794) | 99,702 |
| Property, plant and equipment | 51 | - | 768 | (769) | 50 |
| Deferred tax assets | - | - | 701 | - | 701 |
| Other assets | 71 | - | - | - | 71 |
| Intangible assets | - | 13,058 | - | 114,224 | 127,282 |
| Trade and other payables | (8,490) | - | (15,295) | - | (23,785) |
| Derivative financial instruments | - | - | (583) | - | (583) |
| Current tax liabilities | - | - | (5,441) | - | (5,441) |
| Interest-bearing loans and borrowings | - | - | (261,808) | - | (261,808) |
| Deferred income | - | - | (707) | - | (707) |
| Employee benefits | (1,661) | - | (3,629) | - | (5,290) |
| Deferred tax liabilities | - | (3,917) | (530) | (19,893) | (24,340) |
| **Net identifiable assets acquired** | (5,220) | 9,141 | 5,209 | 46,236 | 55,366 |

**37. Business combinations (cont'd)**

**(d) Net identifiable assets acquired**

| *30 June 2007* | AFAL carrying value $'000 | Fair Value adjustments on AFAL $'000 | Other carrying value $'000 | Fair value adjustment on Other $'000 | Fair Value of net assets acquired $'000 |
|---|---|---|---|---|---|
| Cash and cash equivalents | 153,233 | - | 54,740 | - | 207,973 |
| Trade and other receivables | 149,439 | (3,621) | 9,979 | - | 155,797 |
| Derivative financial instruments - assets | 9,534 | - | 804 | - | 10,338 |
| Available for sale financial assets | 107,365 | (6,306) | - | - | 101,059 |
| Loan assets held at amortised cost | 1,202,373 | (1,008) | 978,909 | 474 | 2,180,748 |
| Investment property | 90,756 | - | - | - | 90,756 |
| Equity accounted investments | 159,382 | - | - | - | 159,382 |
| Other assets | 146,266 | (1,478) | 15,395 | - | 160,183 |
| Transportation equipment | 3,076,024 | (55,313) | - | - | 3,020,711 |
| Property, plant and equipment | 6,440 | (403) | 2,522 | - | 8,559 |
| Infrastructure assets | 9,064 | - | 87,715 | - | 96,779 |
| Deferred tax assets | 21,850 | 34,842 | 302 | - | 56,994 |
| Intangible assets | 5,760 | 46,494 | 21 | - | 52,275 |
| Trade and other payables | (113,444) | (59) | (18,058) | 3,471 | (128,090) |
| Derivative financial instruments | - | - | (40) | - | (40) |
| Deferred income | (29,967) | (1,929) | - | - | (31,896) |
| Interest-bearing loans and borrowings | (4,869,065) | - | (1,159,774) | - | (6,028,839) |
| Current tax liabilities | (3,139) | 3,846 | - | - | 707 |
| Employee benefits | (27,222) | - | (698) | - | (27,920) |
| Provisions | (19,635) | (28,034) | (1,782) | - | (49,451) |
| Deferred tax liabilities | (32,806) | 3,764 | - | - | (29,042) |
| Other liabilities | (1,069) | - | - | - | (1,069) |
| **Net assets acquired** | 41,139 | (9,205) | (29,965) | 3,945 | 5,914 |
| Minority Interests | (10,065) | - | - | - | (10,065) |
| Net identifiable assets acquired | 31,074 | (9,205) | (29,965) | 3,945 | (4,151) |

**38. Disposal of controlled entities**

The following significant subsidiaries were deconsolidated during the year:

| Name of subsidiary | Deconsolidated 30 June 2008 | 30 June 2007 |
|---|---|---|
| Allco Retail Centre Fund | 28-Sep-07 | |
| Rail Technical Support Group Pty Ltd | 24-Dec-07 | |
| Allco Wind Energy (Luxembourg) No 1 S.a.r.l | 24-Dec-07 | |
| Allco Wind Energy (Luxembourg) No 2 S.a.r.l | 24-Dec-07 | |
| Allco Wind Energy (Luxembourg) No 3 S.a.r.l | 30-Apr-08 | |
| Allco Wind Energy (Luxembourg) No 4 S.a.r.l | 30-Apr-08 | |
| Allco Wind Energy (Luxembourg) No 5 S.a.r.l | 30-Apr-08 | |
| Allco Wind Energy (Luxembourg) No 6 S.a.r.l | 30-Apr-08 | |
| Allco Wind Energy (Luxembourg) OBU-F No1 S.a.r.l | 30-Apr-08 | |
| Allco Wind Energy (Luxembourg) OBU-F No2 S.a.r.l | 30-Apr-08 | |
| Allco Finance (Malaysia) Sdn Bhd | 30-Apr-08 | |
| Mobius SCM-W01 Trust | 27-Jun-08 | |
| T/M APC LLC | 30-Jun-08 | |
| Alta Windpower Development LLC | 30-Jun-08 | |
| Oak Creek T/MAPC Land Co., LLC | 30-Jun-08 | |
| Tehachapi Infrastructure Co LLC | 30-Jun-08 | |
| AllCapital Tehachapi Project Company LLC | 30-Jun-08 | |
| AllCapital Wind Energy Management LLC | 30-Jun-08 | |
| AllCapital Tehachapi Management LLC | 30-Jun-08 | |
| AllCapital Rail Investments No.1 LLC | | 29-Dec-06 |
| Momentum Investment Finance Pty Limited | | 28-Feb-07 |
| AllOcean Charters Singapore (Pte) Limited | | 29-Jun-07 |
| Alite Wind LLC | | 29-Jun-07 |

The results of the subsidiaries above did not have a material impact on the results of the Group in the current or prior period.

The disposals had the following effect on the Group's assets and liabilities.

**(a) Summary of disposals**

| | Consolidated 2008 $'000 | 2007 $'000 |
|---|---|---|
| Sale proceeds | 310,350 | 25,135 |
| Less: Direct costs of disposal | (2,581) | - |
| Less: Fair value of net identifiable assets disposed | (117,380) | (18,006) |
| Net gain on disposal of controlled entities | 190,389 | 7,129 |

**(b) Proceeds of disposal**

| | 2008 | 2007 |
|---|---|---|
| Non cash proceeds | 200,970 | 93 |
| Cash proceeds | 109,380 | 25,042 |
| Total sale proceeds | 310,350 | 25,135 |
| Less: cash balances disposed | (23,094) | (56,163) |
| Total cash inflow/(outflow) | 86,286 | (31,121) |

**38. Disposal of controlled entities (cont'd)**

**(c) Net identifiable assets disposed**

| | Consolidated | |
|---|---|---|
| **Carrying value of net assets disposed** | **2008 $'000** | **2007 $'000** |
| Cash and cash equivalents | 23,094 | 56,163 |
| Trade and other receivables | 40,355 | 883 |
| Loan assets held at amortised cost | 112,698 | 27,608 |
| Current tax asset | - | 440 |
| Equity Accounted Investments | 9,861 | - |
| Transportation equipment | (731) | 209,245 |
| Infrastructure assets | 190,111 | - |
| Property, plant and equipment | 4,050 | - |
| Deferred tax assets | 4,506 | - |
| Other assets | 3,288 | (54) |
| Intangible assets | 12,294 | - |
| Trade and other payables | (32,374) | (2,225) |
| Interest -bearing loans and borrowings | (237,771) | (271,445) |
| Deferred Income | (119) | (410) |
| Employee entitlements | (815) | - |
| Deferred tax liabilities | (5,638) | - |
| Minority interest | (7,636) | - |
| Foreign currency translation reserve | 2,207 | - |
| Net assets disposed | 117,380 | 20,205 |
| Less: Investment retained | - | (2,199) |
| **Net identifable assets disposed** | 117,380 | 18,006 |

## 39. Key management personnel disclosures

Key Management Personnel ("KMP") are persons (including Non-Executive Directors having the authority and responsibility for planning, directing and controlling the Company's activities, directly or indirectly, including Directors (whether Executive or otherwise) of the Group. The following persons were KMPs during the year:

| | | |
|---|---|---|
| **Non-Executive Directors:** | | |
| Rod Eddington | Independent Director | |
| Neil Lewis | Independent Director | |
| Bob Mansfield | Acting Chairman, Independent Director | acting from 3 March 2008 |
| Barbara Ward | Independent Director | resigned 25 January 2008 |
| **Executive Directors:** | | |
| David Clarke | Chief Executive Officer and Managing Director | |
| Michael Stefanovski | Deputy Managing Director | resigned as a Director 4 August 2008 |
| David Turnbull | Regional Chairman, Asia | resigned 3 March 2008 |
| **Group Executives:** | | |
| David Veal | Head of Aviation | |
| John Love | Head of Shipping | |
| Mark Worrall | Head of Rail | |
| Rob Moran | Head of Private Equity and Corporate Finance | |
| Neil Brown | Head of Funds Management | appointed 10 September 2007 |
| Gordon Fell | Executive Chairman Real Estate | appointed 19 December 2007; (resigned as Director 3 March 2008) |
| Ray Fleming | Chief Financial Officer | appointed 21 July 2008 |
| Tim Dodd | Chief Financial Officer | resigned 12 June 2008 |
| Tom Lennox | General Counsel and Company Secretary | from 17 March 2008 |
| Tony Stocks | Chief Risk Officer | from 17 March 2008 |
| Belinda Castine | Head of Human Resources | from 17 March 2008 |
| Christine Bowen | Head of External Relations | from 17 March 2008 |

*Former Group Executives:*

The following executives ceased to be members of KMP during the financial year ended 30 June 2008 but remained employed by the Group:

| | | |
|---|---|---|
| **Executive Directors:** | | |
| David Coe | Executive Advisor | resigned 3 March 2008 |
| **Group Executives:** | | |
| Timothy Rich | Country Head, Singapore | from 19 December 2007 |
| Nick Bain | Head of Infrastructure | from 17 March 2008 |
| Justin Lewis | Head of Product Development | from 17 March 2008 |
| Jim Hope Murray | Head of Financial Assets | from 17 March 2008 |
| Chris West | Co-Head of Corporate Finance | from 17 March 2008 |

Where applicable, where these individuals had balances in relation to shares or loans as at 30 June 2007, their balances have been included in the opening balances of the current financial year. Other than as noted in this section, there have been no changes in KMP during the reporting period and in the period after reporting date and prior to the date when the financial report is authorised for issue. KMP for the Company and the Group are the same. Hence there are no separate parent or consolidated disclosures.

## 39. Key management personnel disclosures (cont'd)

### Key management personnel compensation

| | Short-term | | | | Share-based payments (equity settled) [1] | | Post-employment | | |
|---|---|---|---|---|---|---|---|---|---|
| | Base salary and fees $ | Cash bonus $ | Retention & other incentives $ | Non- monetary benefits $ | Shares, options & rights $ | Termination benefits $ | Super-annuation | Other post-employment benefits | Total $ |
| **2008** | 6,611,159 | - | 4,795,000 | 195,055 | 4,984,406 | 187,099 | 222,358 | 750,000 | 17,745,077 |
| **2007** | 5,161,165 | 5,000,000 | - | 459,296 | 3,735,056 | - | 204,752 | - | 14,560,269 |

(1) In the comparative period, an adjustment has been made for Michael Stefanovski, Justin Lewis and Tim Rich for their pro rata equity entitlement under the legacy Employee Share Scheme.

## 39. Key management personnel disclosures (cont'd)

### Equity and debt instrument disclosures relating to key management personnel

Executive Directors' and executives' unvested option holdings

| | Grant date [9] | Hurdle type [8] | Grant date fair value [7] per option ($) | Option exercise price ($) | Balance of options at the start of the year | Granted during the year | Lapsed or forfeited during the year | Transfer out during the year [6] | Balance of options at the end of the year |
|---|---|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | | | |
| David Clarke [1] | 12 Sep 2007 | TSR | 1.88 | 7.83 | - | 611,888 | - | - | 611,888 |
| | 12 Sep 2007 | EPS | 2.06 | 7.83 | - | 611,888 | - | - | 611,888 |
| Michael Stefanovski [1, 2] | 12 Sep 2007 | TSR | 1.88 | 7.83 | 61,189 | - | (61,189) | - | - |
| | 12 Sep 2007 | EPS | 2.06 | 7.83 | 61,189 | - | (61,189) | - | - |
| **Executives** | | | | | | | | | |
| David Veal | 12 Sep 2007 | TSR | 1.88 | 7.83 | 61,189 | - | - | - | 61,189 |
| | 12 Sep 2007 | EPS | 2.06 | 7.83 | 61,189 | - | - | - | 61,189 |
| John Love | 12 Sep 2007 | TSR | 1.88 | 7.83 | 61,189 | - | - | - | 61,189 |
| | 12 Sep 2007 | EPS | 2.06 | 7.83 | 61,189 | - | - | - | 61,189 |
| Mark Worrall | 12 Sep 2007 | TSR | 1.88 | 7.83 | 61,189 | - | - | - | 61,189 |
| | 12 Sep 2007 | EPS | 2.06 | 7.83 | 61,189 | - | - | - | 61,189 |
| Rob Moran | 12 Sep 2007 | TSR | 1.88 | 7.83 | 61,189 | - | - | - | 61,189 |
| | 12 Sep 2007 | EPS | 2.06 | 7.83 | 61,189 | - | - | - | 61,189 |
| Neil Brown | 12 Sep 2007 | TSR | 1.88 | 7.83 | - | 218,532 | - | - | 218,532 |
| | 12 Sep 2007 | EPS | 2.06 | 7.83 | - | 218,532 | - | - | 218,532 |
| Gordon Fell [3] | - | | - | - | - | - | - | - | - |
| Tim Dodd [4] | 12 Sep 2007 | TSR | 1.88 | 7.83 | 61,189 | - | (61,189) | - | - |
| | 12 Sep 2007 | EPS | 2.06 | 7.83 | 61,189 | - | (61,189) | - | - |
| | 4 May 2007 | TSR | 3.36 | 10.91 | 64,032 | - | (64,032) | - | - |
| Tom Lennox | 12 Sep 2007 | TSR | 1.88 | 7.83 | 61,189 | - | - | - | 61,189 |
| | 12 Sep 2007 | EPS | 2.06 | 7.83 | 61,189 | - | - | - | 61,189 |
| Tony Stocks | 12 Sep 2007 | TSR | 1.88 | 7.83 | 61,189 | - | - | - | 61,189 |
| | 12 Sep 2007 | EPS | 2.06 | 7.83 | 61,189 | - | - | - | 61,189 |
| Belinda Castine | - | | | | | | | | |
| Christine Bowen | 12 Sep 2007 | TSR | 1.88 | 7.83 | 34,965 | - | - | - | 34,965 |
| | 12 Sep 2007 | EPS | 2.06 | 7.83 | 34,965 | - | - | - | 34,965 |
| *Ceased to be a KMP during the year:* | | | | | | | | | |
| **Executive Directors** | | | | | | | | | |
| David Coe [1] | 12 Sep 2007 | TSR | 1.88 | 7.83 | 61,189 | - | - | - | 61,189 |
| | 12 Sep 2007 | EPS | 2.06 | 7.83 | 61,189 | - | - | - | 61,189 |
| David Turnbull [1,5] | 12 Sep 2007 | TSR | 1.88 | 7.83 | 61,189 | - | (61,189) | - | - |
| | 12 Sep 2007 | EPS | 2.06 | 7.83 | 61,189 | - | (61,189) | - | - |
| **Executives** | | | | | | | | | |
| Timothy Rich | 12 Sep 2007 | TSR | 1.88 | 7.83 | 61,189 | - | - | (61,189) | - |
| | 12 Sep 2007 | EPS | 2.06 | 7.83 | 61,189 | - | - | (61,189) | - |
| Nick Bain | 12 Sep 2007 | TSR | 1.88 | 7.83 | 61,189 | - | - | (61,189) | - |
| | 12 Sep 2007 | EPS | 2.06 | 7.83 | 61,189 | - | - | (61,189) | - |
| Justin Lewis | 12 Sep 2007 | TSR | 1.88 | 7.83 | 61,189 | - | - | (61,189) | - |
| | 12 Sep 2007 | EPS | 2.06 | 7.83 | 61,189 | - | - | (61,189) | - |
| Jim Hope Murray | 12 Sep 2007 | TSR | 1.88 | 7.83 | 61,189 | - | - | (61,189) | - |
| | 12 Sep 2007 | EPS | 2.06 | 7.83 | 61,189 | - | - | (61,189) | - |
| Christopher West | 12 Sep 2007 | TSR | 1.88 | 7.83 | 61,189 | - | - | (61,189) | - |
| | 12 Sep 2007 | EPS | 2.06 | 7.83 | 61,189 | - | - | (61,189) | - |
| | | | | | 1,969,632 | 1,660,840 | (431,166) | (611,890) | 2,587,416 |

(1) The grant of options for David Coe, David Clarke, Michael Stefanovski and David Turnbull, being Directors of Allco, were approved by the AGM on 25 October 2007.
(2) Michael Stefanovski has resigned from his executive role and elected to leave Allco on 30 September 2008 and has also resigned from the Board effective 4 August 2008. As a consequence 100% of his granted options will lapse.
(3) Gordon Fell is not eligible to participate in Allco's STI and LTI schemes as determined by the Rubicon Share Acquisition Agreement.
(4) Tim Dodd resigned as Chief Financial Officer as of 12 June 2008. As a consequence 100% of his options have lapsed.
(5) David Turnbull resigned as Director as of 3 March 2008 and ceased to be an Executive at 31 March 2008. As a consequence, 100% of his options have lapsed.
(6) Transfer out for individuals who ceased to be KMP do not confirm that arrangements have vested, were forfeited or lapsed.
(7) Fair value of TSR options is determined at $1.88 for 12 Sep 2007 grants and $3.36 for 4 May 2007 grant. Fair value of EPS options is determined at $2.06.
(8) For performance hurdles, refer structure and details of options in earlier section of this Remuneration Report.
(9) The service criteria for all grants is that the executive remains employed with the Group for three years from grant date.

During the reporting period, only options were granted but no rights. There were no options exercised during the year and no options vested during the year. All options are unvested/non-exercisable at the reporting date. The first date options outstanding at the reporting date can be exercised is 12 September 2010. All options outstanding at the reporting date expire on 12 September 2013. Management has assessed the fair value of options at the reporting date was close to zero.

## 39. Key management personnel disclosures (cont'd)

Executive Directors' and executives' vested shareholdings

| | Balance at the start of the year | Reduction through sale by API [6] | In consideration of acquisition of Rubicon [4] | Acquired during the year | Disposed during the year | Other changes (incl DRP) during the year | Transfer out during the year [5] | Balance at the end of the year [8] | Balance at 29 Aug 2008 |
|---|---|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | | | |
| David Clarke [1] | - | - | - | - | - | 69,157 | - | 69,157 | 69,157 |
| Michael Stefanovski [2] | - | - | - | 159,027 | (159,027) | - | - | - | - |
| **Executives** | | | | | | | | | |
| David Veal [7] | 11,350,350 | (1,153,333) | - | - | - | - | - | 10,197,017 | 10,197,017 |
| John Love [7] | 2,749,666 | - | - | - | (6,319) | - | - | 2,743,347 | 2,743,347 |
| Mark Worrall [7] | 4,170,990 | (1,100,000) | - | - | (618,841) | - | - | 2,452,149 | 2,452,149 |
| Rob Moran [7] | 3,428,647 | (224,444) | - | - | - | - | - | 3,204,203 | 3,204,203 |
| Neil Brown | - | - | - | - | - | - | - | - | - |
| Gordon Fell [3] | 192,342 | - | 11,118,992 | - | - | - | - | 11,311,334 | 11,311,334 |
| Tim Dodd | - | - | - | - | - | - | - | - | - |
| Tom Lennox | - | - | - | - | - | - | - | - | - |
| Tony Stocks | - | - | - | - | - | - | - | - | - |
| Belinda Castine | - | - | - | - | - | - | - | - | - |
| Christine Bowen | 4,011 | - | - | - | (4,011) | - | - | - | - |
| *Ceased to be a KMP during the year:* | | | | | | | | | |
| **Executive Directors** | | | | | | | | | |
| David Coe [3, 7] | 34,701,765 | (13,449,542) | 4,932,086 | - | (1,225,972) | - | - | 24,958,337 | 24,958,337 |
| David Turnbull | - | - | - | - | - | - | - | - | - |
| **Executives** | | | | | | | | | |
| Timothy Rich [7] | 814,182 | (187,778) | - | - | (205,464) | - | (420,940) | - | - |
| Nick Bain [7] | 11,752,563 | (1,773,333) | - | - | - | - | (9,979,230) | - | - |
| Justin Lewis [7] | 1,039,329 | (412,222) | - | - | (206,401) | - | (420,706) | - | - |
| Jim Hope Murray [7] | 4,290,600 | (1,100,000) | - | - | (712,260) | - | (2,478,340) | - | - |
| Christopher West [7] | 10,427,457 | (825,000) | - | - | - | - | (9,602,457) | - | - |
| | 84,921,902 | (20,225,652) | 16,051,078 | 159,027 | (3,138,295) | 69,157 | (22,901,673) | 54,935,544 | 54,935,544 |

(1) David Clarke allocated all of his 2007 cash bonus to AFG shares (27,071) which had a 6 months vesting period. These shares had vested before the reporting date and are included in this amount.

(2) Michael Stefanovski's arrangements include the vesting of 200,000 shares granted under the Deferred Share Plan which will be transferred on or after 30 September 2008.

(3) David Coe received 2,500,003 convertible redeemable preference shares (CRPS) as part of consideration for the acquisition of Rubicon. He disposed of 621,428 CRPS during the reporting period to a charitable trust which is not a related party to David Coe and continues to hold 1,878,575 CRPS at the reporting date. Gordon Fell received 5,636,056 CRPS as part of consideration for the acquisition of Rubicon, which he continues to hold at the reporting date. CRPS are automatically reclassified as new Allco Finance Group Limited shares if the combined Real Estate division assets under management (AUM) at 31 December 2008 is at least 20% higher than at 1 January 2008. If the threshold is not satisfied, the next retesting date is 31 December 2010 if the combined Real Estate division reports a compound annual growth of at least 20%. If the threshold is not received they are automatically redeemed at $0.0001 per CRPS.

(4) Shares issued in consideration for the Acquisition of Rubicon are subject to a three year escrow period starting 19 December 2007 with release of 3 equal installments per annum.

(5) Transfer out for individuals who ceased to be KMP does not confirm that holdings have been sold.

(6) Beneficial interest for KMP as at 1 July 2007 includes interest indirectly held by Allco Record Unit Trust (ARUT). ARUT held 11 million Allco shares and have been added in direct proportion to their beneficial interest in ARUT to interest held directly and by close members of their family and their other related parties. All shares held by ARUT were transferred to Allco Principals Investments Pty Ltd, a subsidiary of Allco PrincipalsTrust (APT) and sold during the year.

For David Coe additional beneficial interest as at 1 July 2007 indirectly held by Redshift Corporation Pty Ltd and APT has been included in the above table for comparison purposes. By virtue of his beneficial equityholder interest in APT and Redshift being both over 20%, his additional beneficial interest amounts to 11.7 million shares at 1 July 2007. APT's entire shareholding in Allco shares amounted to 45 million at 1 July 2007. All shares held by APT were sold during the year.

(7) The opening balance at 1 July 2007 includes a total of 61,001,258 ordinary shares, which were issued in consideration for the acquisition of Allco Finance (Australia) Limited on 1 July 2006, and are subject to voluntary escrow. The escrow period for one third of those shares ended on 22 October 2007. The escrow period for another third of those shares ends on 30 September 2008. The escrow period for the remaining third of those shares ends on 30 September 2009. The ending balance at 30 June 2008 includes a total of 40,640,789 ordinary shares subject to escrow.

(8) During the year, members of key management personnel pledged a total of 17,938,818 shares to BOSI as follows: David Veal 3,200,969; Mark Worrall 404,822; Rob Moran 1,014,664; David Coe 6,339,074;Timothy Rich 132,711; Nick Bain 3,209,743; Justin Lewis 44,613; Jim Hope Murray 391,403; Chris West 3,200,819. These shares have not been sold and are included in the closing balance of shares.

During the reporting and comparative period, no options were exercisable. During the reporting period, no unvested shares vested, except where otherwise noted.

There were no fully paid Allco notes of the Group held during the year by executive Directors and Executives including their related parties, except for Tom Lennox, who held 7,500 continuously during the year. The interest rate on the notes from 1 July to 14 November 2007 was 6.56% + 2.10%, from 15 November to 14 May 2008 was 7.3083% + 2.10% and from 15 May to 30 June 08 was 7.94% + 2.10% (2007: 6.56% + 2.10%).

## 39. Key management personnel disclosures (cont'd)

Equity Based compensation of Non-Executive Directors

| Non-Executive Directors | Balance of restricted shares at the start of the year | Granted as compensation during the year | Vested during the year | Balance of restricted shares at the end of the year |
|---|---|---|---|---|
| Rod Eddington | - | 1,375 | - | 1,375 |
| Gordon Fell [2] | - | - | - | - |
| Bob Mansfield | - | - | - | - |
| Neil Lewis | - | 1,906 | - | 1,906 |
| Barbara Ward [1] | - | 1,511 | (1,511) | - |
| | - | 4,792 | (1,511) | 3,281 |

Non-executive Directors' vested shareholdings

| Non-Executive Directors | Balance at the start of the year | Vested shares and DRP from the NED Share Plan | Other changes (incl DRP) during the year | Transfer out during the year | Balance at the end of the year | Balance at 29 August 2008 |
|---|---|---|---|---|---|---|
| Rod Eddington | - | - | - | - | - | - |
| Neil Lewis | 70,000 | - | 40,000 | - | 110,000 | 110,000 |
| Bob Mansfield | 44,212 | - | - | - | 44,212 | 44,212 |
| Barbara Ward [1] | 3,680 | 1,511 | - | (5,191) | - | - |
| | 117,892 | 1,511 | 40,000 | (5,191) | 154,212 | 154,212 |

(1) Barbara Ward resigned as of 25 January 2008. 1,511 NEDPS shares vested on resignation. Transfer out for Barbara Ward do not confirm that holdings have been sold.

(2) Gordon Fell became an Executive Director of the Board as of 19 December 2007. His relevant interest has been disclosed under Executives.

During the comparison period, there were no unvested NEDSP shares. In neither the reporting period or the comparison period, the non-executive Directors received any vested shares or DRP from the NEDSP, except where noted otherwise.

On 21 June 2007, the Group's listed notes started trading on the ASX. Neil Lewis subscribed to 2,000 Allco notes in the comparative period which he continued to hold at the reporting date. He acquired 13,000 further notes and holds 15,000 notes at 30 June 2008. During the year no other KMP including their related parties were holding Allco notes. The interest rate on the notes from 1 July to 14 November 2007 was 6.56% + 2.10%, from 15 November to 14 May 2008 was 7.3083% + 2.10% and from 15 May to 30 June 08 was 7.94% + 2.10% (2007: 6.56% + 2.10%).

One former member of KMP, Timothy Rich, including his related parties, owned 75,000 units in a controlled investment fund managed by Allco Finance Group or options over these and received $374 (2007: $2,700) in distributions during the reporting period. The fund was wound up during the reporting year and made its final distributions.

**Loans to key management personnel**

The Group did not provide loans, guaranteed or secured by any entity in the Group to key management personnel and their related parties at any time during the reporting period (2007: nil).

**39. Key management personnel disclosures (cont'd)**

**Other transactions with key management personnel**

In connection with the creation in 2006 of an employee share plan for the benefit of Allco employees, a private entity of David Veal, a member of Key Management Personnel (KMP) and private entities of David Coe, Nick Bain and Chris West, former members of Key Management Personnel entered into an arrangement to pay to a related party of Allco, being the Allco Employee Share Trust No.1 (the Trust), an amount equal to any shortfall in relation to shares that are forfeited by participants in the share plan in connection with a $6,089,999 loan owed by the Trust to the Group. This right of the Trust is against the private entities of the current or former key management personnel and there is no contractual recourse to the key management personnel as individuals.

The assets of the Trust comprise:

- shares in AFGL held under the share plan; and
- a right under the arrangement described in the above paragraph.

During the year, the Group recognised a provision of $4,495,000 ($1,123,750 per private entity of each KMP) in respect of the loan to the Trust based on the Directors' view of the current value of the assets of the trust.

A number of KMP, or their related parties, held positions in other entities that resulted in them having control or significant influence over the financial or operating policies of those entities.

During the year ended 30 June 2008, the Group had a loan receivable from Rubicon Capital Pty Limited ("Rubicon"). Gordon Fell was a director of Rubicon and Gordon Fell and David Coe own equity in Rubicon. During the year ended 30 June 2008, the Group earned interest income of $11,953,416 (2007: $18,753,455). As at 30 June 2008, nil (2007: $109,840,498) had been drawn down under the loan facility. On 19 December 2007, Allco acquired control over Rubicon. As a consequence, the loan balance eliminates on consolidation. The Company does not hold any loans to Rubicon directly.

Aggregate amounts of each of the above types of other transactions with key management personnel and the consolidated entity:

| | Consolidated | |
|---|---|---|
| | **2008** | **2007** |
| **Amounts recognised as revenue** | **$** | **$** |
| Interest received | 11,953,416 | 18,753,455 |

| | Consolidated | |
|---|---|---|
| | **2008** | **2007** |
| | **$** | **$** |
| Loans at amortised cost | - | 109,840,498 |

Apart from the details disclosed in this note, no key management personnel have entered into a material contract with the Company or the consolidated entity since the end of the previous financial year and there were no material contracts involving key management personnel interests existing at year end.

### 40. Share-based payments

**Executive Options and Rights plan (EORP)**

The EORP was introduced and approved by the Board in 2006. The HRRC determines the maximum amount of equity under the program to be issued with the allocation to individual executives broadly in line with their past contribution and potential. The structure and details of options issued to executives in September 2007 under the Plan are summarised below:

| | |
|---|---|
| Nature | Each AFGL executive remuneration option or right grant entitles the participant to one share in the Company upon vesting subject to payment of an exercise price. Rights have no exercise price |
| Grant frequency | Annual grant (subject to HRRC approval); ad-hoc on commencement of employment for select senior executives |
| Eligibility criteria | Selected senior executives, broadly in line with past contribution and future potential |
| Exercise price | 5-day VWAP preceding grant date |
| Performance hurdles | **Earnings Per Share ("EPS")** (50% of options)<br>Based on the average annual compound EPS growth over a three year measurement period:<br>• Below 15% compound EPS: no vesting<br>• At 15% compound EPS (threshold): 50% of awards will vest<br>• 25% and above compound EPS: 100% of awards will vest<br>• Between 15% and 25%: Pro-rata straight line vesting<br>• No retesting<br><br>**Total Shareholder Return** ("TSR") (50% of options)<br>Based on relative TSR performance over a three year measurement period from grant date:<br>• Below 50$^{th}$ percentile of comparator group: no vesting<br>• 50$^{th}$ percentile of comparator group (threshold): 50% of awards will vest<br>• 75$^{th}$ percentile of comparator group (stretch): 100% of awards will vest<br>• Between 50$^{th}$ and 75$^{th}$ percentile: Pro-rate straight line vesting<br>• Comparator group: S&P/ASX 200, excluding the resources and property trust sectors at grant date [1]<br>▪ Retesting: performance on unvested component of any award will be retested after 42 months and one final time after 48 months from grant date |
| Vesting period | Three years from grant date |
| Exercise period and expiry | Exercisable upon vesting and lapse 6 years after grant date |
| Rights to Dividends | No dividend rights until exercised |

[1] *For future issues, the Board reserves the right to review the composition of the peer group from time to time to ensure it is appropriate as a relative measure of performance of the Group.*

Fair value of granted options with an EPS hurdle is independently determined using binomial option pricing model; those with a TSR hurdle using monte-carlo simulation model that takes into account the market condition, expected volatility of the shares in the peer Group and correlation of the underlying share price movements and those of the shares in the peer Group. Both valuation models take into account term of the options or rights, the impact of dilution and the following additional model inputs as follows:

## 40. Share-based payments (cont'd)

| Grant date | Share price at grant date ($) | Expected volatility (%) | Expected dividend yield (%) | Risk free rate (%) | Option exercise price ($) |
|---|---|---|---|---|---|
| 4 May 2007 | 12.6 | 36.0 | 3.4 | 6.09 | 10.91 |
| 12 Sep 2007 | 7.66 | 40.0 | 5.7 | 6.03 | 7.83 |

Expected volatility is based on the implied volatility of publicly traded options over the Company's share, the historic volatility of the market price of the Company's share and the mean reversion tendency of volatilities. Expected volatility of each company in the peer group is determined based on the historic volatility of the companies' share prices. Each of these assumptions has been based on two years' historic volatility data.

The weighted average fair value of the share options and rights granted during the year was $1.97 (2007: $3.36). The weighted average exercise price is $7.83 (2007: $10.91).The weighted average remaining contractual life of the share options at 30 June 2008 is 3.8 years (2007: 4.6 years). The following table summarises information about options and rights held by employees as at 30 June 2008:

| Grant date | Vesting date | Expiry date | Option exercise price ($) | Grant date fair value per option ($) | Balance of options at the start of the year | Options granted as compensation during the year | Options lapsed or forfeited during the year | Balance of options at the end of the year |
|---|---|---|---|---|---|---|---|---|
| 4 May 2007 | 31 July 2009 | 31 Jul 2012 | 10.91 | 3.36 | 64,032 | - | (64,032) | - |
| | | | | | | | | - |
| 5 Sep 2007 | 12 Sep 2010 | 12 Sep 2013 | 7.83 | 1.88 | - | 8,742 | (8,742) | - |
| 5 Sep 2007 | 12 Sep 2010 | 12 Sep 2013 | 7.83 | 2.06 | - | 8,742 | (8,742) | - |
| 10 Sep 2007 | 12 Sep 2010 | 12 Sep 2013 | 7.83 | 1.88 | - | 218,532 | - | 218,532 |
| 10 Sep 2007 | 12 Sep 2010 | 12 Sep 2013 | 7.83 | 2.06 | - | 218,532 | - | 218,532 |
| 12 Sep 2007 | 12 Sep 2010 | 12 Sep 2013 | 7.83 | 1.88 | - | 5,432,707 | (1,411,718) | 4,020,989 |
| 12 Sep 2007 | 12 Sep 2010 | 12 Sep 2013 | 7.83 | 2.06 | - | 5,432,707 | (1,411,718) | 4,020,989 |
| | | | | | 64,032 | 11,319,962 | (2,904,952) | 8,479,042 |

### Deferred Share Plan (DSP)

The DSP was introduced and approved by the Board in 2006. The HRRC determines the maximum amount of equity under the program to be issued with the allocation to individual executives broadly in line with their past contribution and potential. The structure and details of deferred shares issued to executives under the Plan are summarised below:

| | |
|---|---|
| Nature | Each AFGL deferred share grant entitles the participant to one share in the Company at no cost after the vesting date |
| Grant frequency | Annual grants since 2007 and ad-hoc on commencement of employment |
| Eligibility criteria | Selected senior executives |
| Exercise price | Nil |
| Vesting period | Three years from grant date |
| Entitlements | Rank in all respects equally with and have the same rights and entitlements as other ordinary shares of the Company |

Shares held in trust are acquired on-market on or around the grant date or are newly issued. The trust has been consolidated in accordance with note 3(a). The on-market purchase price or closing bid price on date of issue of the shares held by the trust and not yet issued to the employees at the reporting date are shown as treasury shares in equity (see note 30(f)).

## 40. Share-based payments (cont'd)

| Grant date | Vesting date | Grant date fair value per deferred share ($) | Balance of unvested shares at the start of the year | Granted as compensation during the year | Lapsed or forfeited during the year | Vested during the year | Balance of unvested shares at the end of the year |
|---|---|---|---|---|---|---|---|
| 10 Apr 2007 | 12 Apr 2008 | 12.00 | 42,086 | - | - | (42,086) | - |
| 10 Apr 2007 | 12 Apr 2009 | 12.00 | 42,086 | - | - | - | 42,086 |
| 10 Apr 2007 | 12 Apr 2010 | 12.00 | 42,087 | - | - | - | 42,087 |
| 12 Apr 2007 | 30 Jun 2008 | 12.00 | 28,972 | - | - | (28,972) | - |
| 12 Apr 2007 | 12 Apr 2010 | 12.00 | 100,000 | - | - | - | 100,000 |
| 12 Apr 2007 | 12 Apr 2009 | 12.00 | 97,954 | - | - | - | 97,954 |
| 30 May 2007 | 20 Jan 2008 | 11.63 | 6,810 | - | - | (6,810) | - |
| 30 May 2007 | 20 Jan 2009 | 11.63 | 6,810 | - | - | (6,810) | - |
| 30 May 2007 | 20 Jan 2010 | 11.63 | 6,810 | - | - | (6,810) | - |
| 30 May 2007 | 20 Jan 2011 | 11.63 | 3,959 | - | - | (3,959) | - |
| 9 Jul 2007 | 30 Jun 2010 | 10.77 | - | 112,783 | - | (112,783) | - |
| 6 Aug 2007 | 6 Aug 2010 | 9.50 | - | 40,420 | - | (40,420) | - |
| 31 Aug 2008 | 1 Jul 2008 | 8.81 | - | 200,000 | - | (200,000) | - |
| 31 Aug 2008 | 1 Jul 2009 | 8.81 | - | 200,000 | (200,000) | - | - |
| 31 Aug 2008 | 1 Jul 2010 | 8.81 | - | 200,000 | (200,000) | - | - |
| 1 Sep 2007 | 1 Mar 2008 | 8.81 | - | 33,761 | - | (33,761) | - |
| 1 Sep 2007 | 1 Mar 2009 | 8.81 | - | 20,835 | - | (20,835) | - |
| 1 Sep 2007 | 1 Mar 2010 | 8.81 | - | 4,427 | - | (4,427) | - |
| 10 Sep 2007 | 20 Jan 2008 | 7.72 | - | 23,873 | - | (23,873) | - |
| 10 Sep 2007 | 20 Jan 2009 | 7.72 | - | 15,255 | - | (15,255) | - |
| 10 Sep 2007 | 20 Jan 2010 | 7.72 | - | 5,498 | - | (5,498) | - |
| 12 Sep 2007 | 11 Sep 2010 | 7.66 | - | 1,051,396 | (89,348) | (449,932) | 512,116 |
| 15 Oct 2007 | 15 oct 2010 | 8.92 | - | 21,838 | - | - | 21,838 |
| 5 Nov 2007 | 5 Nov 2010 | 7.15 | - | 2,823 | - | - | 2,823 |
| 1 Dec 2007 | 1 Dec 2008 | 6.72 | - | 32,438 | - | - | 32,438 |
| 1 Dec 2007 | 1 Dec 2009 | 6.72 | - | 32,438 | - | - | 32,438 |
| 1 Dec 2007 | 1 Dec 2010 | 6.72 | - | 32,438 | - | - | 32,438 |
| 17 Dec 2007 | 30 Sep 2010 | 5.44 | - | 3,096,801 | - | (2,838,734) | 258,067 |
| 19 Dec 2007 | 19 Dec 2010 | 5.44 | - | 1,564,122 | (120,000) | (248,500) | 1,195,622 |
| | | | 377,574 | 6,691,145 | (609,348) | (4,089,466) | 2,369,906 |

**Employee Share Plan**

The Allco Finance (Australia) Limited ("AFAL") employee share scheme ("ESS") was established prior to the creation of the merged entity in July 2006 to recognise past loyalty and service, provide eligible employees with an opportunity to share in the Company's growth and to encourage them to improve the longer-term performance of the Company and its returns to shareholders. When established, the Plan was considered a key strategy in retaining business critical executives within the business post-merger.

The vesting date of the shares under the ESS was 30 June 2008. The vesting was subject to service conditions and, for certain executives, subject to the achievement of individual goal-based performance conditions that were assessed over the course of the 2006 and 2007 financial years. Additionally, for more senior participants to obtain their shares on vesting under this Scheme, they are required to pay $1.49 for each share within 30 days after the vesting date, or they forfeit their award.

To enable the Company to appropriately assess all of its incentive schemes as part of a broader review of the Group's executive remuneration framework, and in order to retain these key executives during the 2008 calendar year, Allco modified the vesting terms of the share grants under the ESS by extending the original term for these participants to 30 September 2008. The change applies to Participants who are required to pay any amounts under the Plan.

### 40. Share-based payments (cont'd)

All other terms of the plan remain unchanged. The fair value of this modification is immaterial. The ESS Plan will be terminated once all shares have vested.

| Grant date | Vesting date | Expiry date | Grant date fair value per deferred share ($) | Balance of unvested shares at the start of the year | Forfeited during the year | Vested during the year | Balance of unvested shares at the end of the year |
|---|---|---|---|---|---|---|---|
| 1 Mar 2006 | 30 Sep 2008 | 31 Oct 2008 | 4.01 | 4,069,969 | (161,146) | - | 3,908,823 |
| 1 Mar 2006 | 30 Jun 2008 | - | 5.28 | 16,055 | - | (16,055) | - |
| | | | | 4,086,024 | (161,146) | (16,055) | 3,908,823 |

### Summary

The following table is a summary of shares, options and rights granted pursuant to the plans and the related expense recognised in the period:

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | 2008 $'000 | 2007 [1] $'000 | 2008 $'000 | 2007 $'000 |
| Fair value of shares granted under the share allocation plans to participating employees during the year | 42,027 | 4,522 | | - |
| Fair value of options granted under the executive options and rights plan to participating employees during the year | 22,300 | 215 | | - |
| | 64,328 | 4,737 | - | - |

| Share-based payments expense arising from: | Consolidated | | The Company | |
|---|---|---|---|---|
| | 2008 $'000 | 2007 $'000 | 2008 $'000 | 2007 $'000 |
| Shares granted under the share allocation plans | 42,035 | 7,319 | | - |
| Options granted under the executive options and rights plan | (4,363) | 6,070 | - | - |
| | 37,672 | 13,389 | - | - |

(1) In the prior year, an amount was included that represented the expected fair value of shares and options to be granted on 12 September 2007. The 2007 comparative has been amended to reflect the actual fair value of shares and options granted during the comparative year.

## 41. Related party transactions

The Group's strategy is to be a global originator and manager of alternative assets by providing asset finance solutions to operating clients and creating investment opportunities to third parties. This is achieved by bringing together investors and financiers in order to satisfy the needs of its operating clients to access essential strategic assets which are integral to their business and provide investment opportunities in these assets to external investors.

The Group recognises the importance of corporate governance protocols surrounding this activity, and has established a governance and control framework to ensure that the interests of its shareholders are protected and that its fiduciary obligations to third party investors are strictly managed.

In executing its business strategy, the Group undertakes transactions with related parties in the normal course of business, either through the sourcing and sale of assets, or the provision of management services. Control processes have been implemented which include a transaction specific review by the Related Party Committee (a sub-committee of the Board comprising only independent directors) for each transaction. This ensures that all transactions are individually and independently reviewed to ensure they are conducted on arms-length, market tested terms. Any transactions between the Group and any of its managed funds are only undertaken following review and approval by the independent non-executive directors of the Responsible Entity for the relevant funds.

The Group's operating model is predicated on the creation of managed funds and investment vehicles ("funds") to allow investor clients to invest in the Group's core businesses. In the conduct of this operating model the Group receives revenue from its funds, including:

- fees for originating assets
- fees for arranging debt facilities
- fees for managing funds
- realisation of gains on sale of Group owned assets sold to funds
- fees for managing assets
- fees for exceeding performance benchmarks

### (a) Ultimate parent

The ultimate parent entity of the Group is Allco Finance Group Limited, a company incorporated and domiciled in Australia. The registered office is 1 Macquarie Place, Sydney.

### (b) Subsidiaries

The Group's interest in subsidiaries is set out in note 42. Transactions between the Group and its subsidiaries principally arise from the granting of loans and the provision of administrative services.

**41. Related party transactions (cont'd)**

During the year, the following transactions occurred with subsidiaries:

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | 2008 $'000 | 2007 $'000 | 2008 $'000 | 2007 $'000 |
| Interest revenue | - | - | 28,062 | 24,785 |
| Dividend revenue | - | - | 35,000 | 165,631 |
| Group service fee recharges | - | - | - | 2,144 |
| Impairment of loan assets held at amortised cost | - | - | 252,379 | - |
| Impairment of investments in controlled entities | - | - | 989,716 | - |
| Superannuation contributions on behalf of employees | 4,174 | 2,846 | - | 61 |
| Current tax payable assumed from wholly owned tax consolidated entities | - | - | 78,820 | 49,518 |
| Tax losses assumed from wholly owned tax consolidated entities | - | - | 143,114 | 14,471 |

The following balances with subsidiaries were outstanding:

| | | | | |
|---|---|---|---|---|
| *Loans and advances* [1] | | | | |
| Balance at 1 July | - | - | 1,079,818 | 715,321 |
| Loans advanced | - | - | 1,505,479 | 424,230 |
| Interest charged [2] | - | - | 60,512 | 24,785 |
| Loans repaid | - | - | (1,343,506) | (84,518) |
| Loans impaired | - | - | (252,379) | - |
| Foreign exchange movement | - | - | (7,133) | - |
| Balance at 30 June | - | - | 1,042,791 | 1,079,818 |
| Current tax receivable (tax funding agreement) | - | - | 64,294 | 35,047 |

*1) Includes working capital balances. These advances have no fixed repayment date and accrue nil interest.*

*2) Only includes capitalised interest. Accrued interest on loans is included in the other receivables balance.*

The Company has entered into a tax sharing agreement with its eligible Australian controlled subsidiaries. The terms and conditions of this agreement are set out in note 3(f) – Summary of significant accounting policies.

Loans (excluding working capital balances) made with subsidiaries are interest bearing. The terms on loans to subsidiaries are no more favourable than other loans made by the Group.

On 25 July 2007, the Group acquired the remaining 60.8% interest in Allco Equity Partners Management Trust, increasing the Company's interest to 100%. Refer to note 37 for further details.

On 19 December 2007, the Group acquired the remaining ordinary shares in Rubicon Holdings (Aust.) Limited, increasing the Company's shareholding from 20.4% to 100%. Refer to note 37 for further details.

**41. Related party transactions (cont'd)**

**(c) Associates**

The Group's interest in associates is set out in note 16. Transactions between the Group and its associates principally arise from the granting of loans and the provision of management services of which the Group earned interest and management fee income.

During the year, the following transactions occurred with associates:

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2008 $'000** | **2007 $'000** | **2008 $'000** | **2007 $'000** |
| Interest revenue | 49,418 | 54,171 | 12,492 | 27,366 |
| Origination fees | 18,491 | 66,657 | - | 310 |
| Asset management fees [1] | 51,417 | 12,552 | 974 | - |
| Gain from sale of assets | 133,519 | 144,663 | - | - |
| Other income | 3,383 | 15,084 | 64 | 147 |
| Dividend revenue [2] | 363 | 828 | 8,120 | 2,534 |
| Contractual break costs | 3,730 | - | 3,730 | - |
| Impairment of loan assets held at amortised cost | 116,206 | - | 155,721 | - |
| Impairment of investments in associates | 113,450 | - | 112,523 | - |
| Impairment of trade receivables & accrued income | 4,373 | - | - | - |
| Impairment of held for sale assets | 2,785 | - | - | - |
| Transaction fees | 6,991 | - | 6,991 | - |

*1) Fee income includes all fees charges to associates including management fees in respect of management services provided. Any eliminations of the unrealised component are made when equity accounting is included within the share of profits/losses of these associates.*

*2) Dividend revenue is shown as gross amounts. Under the equity accounting method these amounts are not taken as profit but as an adjustment to equity accounted investments.*

- The Group holds a Singapore $206.0m investment in Allco SIF Limited (SIF), a wholesale fund based in Singapore. Whilst the nature of this investment is in the form of debt, a portion of it has been reflected as an equity interest. This equity interest equates to a 67.2% economic interest. The remaining 32.8% economic interest is held by Allco Principals Trust. The following transactions were entered into between SIF and other related entities within the Group during the year:
  - The Group sold a 39.9% interest in its investment in a subsidiary, Allco Maritime Investments UK Limited ("AMI UK") to SIF. The results for the year include net gains of $34.1m resulting from this transaction;
  - The Group sold an equity interest in a US Energy Infrastructure development project to SIF. The results for the year include net gains of $23.1m resulting from this transaction;
  - The Group sold 100% of certain interest in wind energy projects to SIF. The results for the year include net gains of $13.8m resulting from this transaction;
  - The Group entered into a remarketing arrangement with SIF regarding the sale of its interest in the Tehachapi US-based wind project. The Group provided an indemnity to SIF in respect of any US Tax payable in relation to the sale. The results include an expense of $7.0m resulting from this transaction; and
  - During the year, the Group advanced loans of $14.5m to Cross Hudson (Cayman) LP, an associate of the Group. As at 30 June 2008, the total amount outstanding was $15.0m.

- During the year, the Group earned deal origination fees totalling $18.5m relating to:
  - the purchase of an interest in IBA Health Group Limited by an associate, Allco Equity Partners Limited;
  - structuring services in respect of property acquisitions for a number of managed real estate funds; and
  - structuring services in respect of the acquisition of rail cars for a managed rail fund.

- The Group provided an indemnity to a subsidiary of Allco Commercial Real Estate Investment Trust (REIT) to guarantee payment of income support obligations arising under an income support deed. The expense recognised is $3.7m. The deed ceased to apply following the sale of the Group's interest in the REIT.

**41. Related party transactions (cont'd)**

**(c) Associates**

- During the year the Group sold twenty aircraft to the Allco Aviation Fund, an investment fund established to allow third party investors to access the financial benefits associated with aircraft ownership. The results for the year include net gains of $60.6m in connection with these transactions. A wholly owned subsidiary is the investment manager, asset manager and advisor to the Fund.

- During the year, the Group advanced additional mezzanine loans of $35.1m to Alleasing Trust, a wholly owned subsidiary of Re Leasing Pty Limited, an associate of the Group. As at 30 June 2008, the total amount outstanding was $127.0m accruing interest at 11.5% per annum, payable quarterly. The carrying value of this loan reflects the expected recoverability upon disposal of the underlying investment supporting the Group's interest. The Group is currently in negotiations with interested parties for the sale of the underlying investment. There is currently a dispute as to the quantum of the Group's entitlements to the net proceeds from the sale of the underlying investment. Further disclosure of management's assessment as to the ultimate quantum the Group is likely to receive may prejudice the final settlement outcome.

- Impairment provisions were recognised in respect of loans advanced to the following associates: Sagacious Opportunity Trust ($3.2m), Container Residuals Pty Limited ($11.7m), Allocean Charters (Singapore) Pte Limited ($6.8m) and Cross Hudson (Cayman) LP ($3m).

The following balances with associates were outstanding:

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2008 $'000** | **2007 $'000** | **2008 $'000** | **2007 $'000** |
| *Loans receivable from associates* | | | | |
| Balance at 1 July | 408,747 | 750,642 | 150,236 | 288,486 |
| Reclassifications to subsidiaries | (59,669) | (407,352) | - | - |
| Reclassification to non related loans | (27,671) | - | - | - |
| Reclassification to other related party | (40,508) | - | - | - |
| Reclassifed as deemed equity investments | (30,439) | - | - | - |
| Loans disposed | (82,942) | - | - | - |
| Loans advanced | 154,361 | 205,361 | 35,100 | 17,906 |
| Interest charged [1] | 23,750 | 32,548 | 12,416 | 27,126 |
| Loans repaid | (48,107) | (172,452) | (6,585) | (119,730) |
| Loans impaired | (116,629) | - | (155,721) | (63,553) |
| Loans written off | (3,211) | - | - | - |
| Foreign exchange movement | (7,831) | - | - | - |
| Balance at 30 June | 169,851 | 408,747 | 35,446 | 150,235 |
| *Trade and other receivables* | 35,876 | 102,323 | - | - |
| *Trade and other payables* | 11,529 | - | 9,637 | - |

*1) Includes capitalised interest. Accrued interest on loans is included in other receivables.*

Loans made with associates are interest bearing. The terms on loans to associates are no more favourable than other loans made by the Group.

## 41. Related party transactions (cont'd)

### (d) Other related parties

| | Consolidated 2008 $'000 | Consolidated 2007 $'000 | The Company 2008 $'000 | The Company 2007 $'000 |
|---|---|---|---|---|
| Interest revenue | 6,939 | (4,592) | 786 | - |
| Asset management fees | 6,877 | 28,524 | - | - |
| Dividend revenue | 248 | - | - | - |
| Impairment of loans at amortised cost | 70,859 | - | 61,986 | - |
| Impairment of trade receivables & accrued income | 10,518 | - | - | - |
| Impairment of other assets | - | - | 949 | - |
| Other income | 455 | 962 | - | - |

The following balances with other related parties were outstanding:

| | Consolidated 2008 $'000 | Consolidated 2007 $'000 | The Company 2008 $'000 | The Company 2007 $'000 |
|---|---|---|---|---|
| *Loans receivable from other related parties* | | | | |
| Balance at 1 July | - | 156,380 | - | 7,019 |
| Reclassifications from subsidiaries | 23,552 | (156,380) | - | - |
| Reclassification from associates | 40,508 | - | - | - |
| Loans advanced | 77,390 | - | 58,172 | - |
| Loans repaid | (9,574) | - | (74) | (7,019) |
| Loans impaired | (70,859) | - | (61,986) | - |
| Interest charged [1] | 7,189 | - | 288 | - |
| Balance at 30 June | 68,206 | - | (3,600) | - |
| *Loans payable to other related parties* | | | | |
| Balance at 1 July | 125,534 | - | - | - |
| Reclassifications to subsidiaries | - | 100,126 | - | - |
| Loans disposed | (3,700) | - | - | - |
| Loans advanced | - | 20,700 | - | - |
| Loans repaid | (888) | - | - | - |
| Interest charged | - | 4,708 | - | - |
| Balance at 30 June | 120,946 | 125,534 | - | - |

*1) includes capitalised interest. Accrued interest on loans is included in other receivables.*

| | Consolidated 2008 $'000 | Consolidated 2007 $'000 | The Company 2008 $'000 | The Company 2007 $'000 |
|---|---|---|---|---|
| *Trade and other receivables* | 5,605 | - | - | - |
| *Trade and other payables* | 5,866 | - | - | - |
| Letters of credit issued to suppliers of an associate (AllCapital Wind Energy Tehachapi Coinvestment No.1 LLC)[1] | 58,094 | 24,497 | - | - |

*1) All letters of credit have been released following the completion of the sale of the Tehachapi US-based wind development project.*

- During the year, the Group provided loans of $48.3m to Allco Principals Trust ("APT"), a fund managed by the Group. The line of credit of $50.0m, which is approved for working capital purposes, accrues interest at 15.0% per annum, is able to be repaid any time prior to 17 December 2008 and has a priority position over other creditors. Collateral for this loan includes APT's interest in Allco SIF Limited ("SIF"). In addition, the Group is due accrued management fees and recoverable expenses paid on its behalf. During the period, the valuation of assets held in SIF was revised downwards. Accordingly, an impairment provision was recognised in respect of the loan ($51.9m) and accrued management fees ($8.9m).

- An impairment of $10.1m was recognised in respect of a loan provided to Allco Principals Property Pty Limited, a related entity of APT.

**41. Related party transactions (cont'd)**

- The Group manages and holds a cornerstone investment in Allco Max Securities and Mortgage Trust ("Max"). On 1 December 2007, the Group undertook to rebate $1.9m per annum in management fees and waived rights to receive distributions on the 10 million Max units for the period ending 30 November 2009.

- In connection with the creation in 2006 of an employee share plan for the benefit of Allco employees, Allco made an unsecured, zero coupon loan of $6.1m to a related party, being the Allco Employee Share Trust No.1 (the Trust). The assets of the Trust comprise:
  - shares in AFGL in the share plan; and
  - a right to receive a payment from private entities of certain key management personnel of any shortfall in relation to shares that were forfeited by participants in the share plan. This right of the Trust is against the private entities of the key management personnel and there is no contractual recourse to the key management personnel as individuals.

  During the year, a provision of $4.5m in the Income Statement has been recognised

- Loans were advanced to the former principals of Mobius Financial Services (Mobius) and The Mortgage Insurance Company Limited (TMIC). The loans facilitated the principals acquiring a share in both entities and are in effect secured over these interests. The recoverability of these loans were assessed for impairment and assigned a value equivalent to the value of their minority shareholdings in Mobius and TMIC and an impairment expense of $4.0m was recognised.

**(e) Key management personnel**

Disclosures relating to key management personnel and their related parties are set out in note 39.

## 42. Significant subsidiaries

A subsidiary is significant to the Group based on:

- its contribution to the Group's profit;
- the size of the investment;
- whether it is a key holding subsidiary within the Group;
- the main operating subsidiaries in each of the countries in which the Group operates; and
- whether it holds licenses to carry out certain specified investing activities and management functions.

The significant subsidiaries are shown below:

| Name of entity | Country of Incorporation | Class of Shares | Equity holding 2008 | Equity holding 2007 |
|---|---|---|---|---|
| ***Parent entity*** | | | | |
| Allco Finance Group Limited | Australia | Ordinary | 100% | 100% |
| ***Subsidiaries*** | | | | |
| ACME Funds Management Pty Limited | Australia | Ordinary | 100% | 100% |
| ACME Leasing Pty Limited | Australia | Ordinary | 100% | 100% |
| ACME Securitisation Pty Limited | Australia | Ordinary | 100% | 100% |
| Allco IP Pty Limited | Australia | Ordinary | 100% | 100% |
| RIL Finance Pty Limited | Australia | Ordinary | 100% | 100% |
| Allco Wind Energy Investments Pty Limited[4] | Australia | Ordinary | 100% | 100% |
| Allco Wind Energy Investments NZ Limited | New Zealand | Ordinary | 100% | 100% |
| RIL Funds Management Pty Limited | Australia | Ordinary | 100% | 100% |
| RIL Leasing Pty Limited | Australia | Ordinary | 100% | 100% |
| Allco Finance (Australia) Limited | Australia | Ordinary | 100% | 100% |
| Capital Markets Finance Limited | Australia | Ordinary | 100% | 100% |
| Principal Finance Unit Trust | Australia | Units | 60% | 60% |
| Allco Asset Finance Limited | Australia | Ordinary | 100% | 100% |
| Allco Funds Management Limited | Australia | Ordinary | 100% | 100% |
| Allco Managed Investments Funds Limited | Australia | Ordinary | 100% | 100% |
| Allco Managed Investments Limited | Australia | Ordinary | 100% | 100% |
| Record Funds Management Limited | Australia | Ordinary | 100% | 100% |
| Allco Wholesale Investment Management Limited | Australia | Ordinary | 100% | 100% |
| Allco IB Holdings Limited | Australia | Ordinary | 100% | 100% |
| Allco International Holdings Limited | Australia | Ordinary | 100% | 100% |
| AFGL (US) Holdings LLC | USA | Ordinary | 100% | 100% |
| AllCapital Rail Holdings LLC | USA | Ordinary | 100% | 100% |
| AllCapital Energy Management LLC | USA | Ordinary | 100% | 100% |
| AllCapital Energy Holdings LLC | USA | Ordinary | 100% | 100% |
| AllCapital Tehachapi Project Co | USA | Ordinary | 100% | 100% |
| Cross Hudson Holdings LLC[2] | USA | Ordinary | - | 50% |
| Allco International (Luxembourg) Holdings Limited | Australia | Ordinary | 100% | 100% |
| Allco Finance Group (Luxembourg Holdings) Sarl | Luxembourg | Ordinary | 100% | 100% |
| Allco Singapore Holdings Limited | Australia | Ordinary | 100% | 100% |
| Allco Funds Management Singapore Limited | Singapore | Ordinary | 100% | 100% |
| Allco (Singapore) Limited[4] | Singapore | Ordinary | 100% | 100% |
| Allco International Holdings (Asia) Pte Limited[3] | Singapore | Ordinary | 100% | 100% |
| Allco Finance (Asia) Limited[3] | Hong Kong | Ordinary | 100% | 100% |
| Allco (Malaysia) Sdn Bhd[2] | Malaysia | Ordinary | 100% | 100% |
| Allco Finance Group (JV Holdings) Limited | Hong Kong | Ordinary | 100% | 100% |
| Allco International Holdings (UK) Limited | UK | Ordinary | 100% | 100% |
| Allco Finance (Deutschland) GmbH [3] | Germany | Ordinary | 100% | 100% |
| Allco Finance Limited | UK | Ordinary | 100% | 100% |

**42. Significant subsidiaries (cont'd)**

| Name of entity | Country of Incorporation | Class of Shares | Equity holding 2008 | Equity holding 2007 |
|---|---|---|---|---|
| Allco Transportation Limited | UK | Ordinary | 100% | 100% |
| Allocean Holdings Limited | UK | Ordinary | 100% | 100% |
| Allocean Limited | UK | Ordinary | 100% | 100% |
| Allocean Charters Limited | UK | Ordinary | 100% | 100% |
| Allocean Charters 2 Limited | UK | Ordinary | 100% | 100% |
| Mobius Financial Services Pty Limited | Australia | Ordinary | 100% | 80% |
| Rubicon Holdings (Aust) Limited[1 6] | Australia | Ordinary | 100% | - |
| Allco Equity Partners Management Trust[1 5] | Australia | Units | 100% | - |
| Allrail Holdings Trust | Australia | Units | 100% | 100% |
| Aircraft Holdings Trust | Australia | Units | 100% | 100% |
| Allco Maritime Investments Pty Limited | Australia | Ordinary | 100% | 100% |
| Allco SPC No.12 Pty Limited | Australia | Ordinary | 100% | 100% |

*1. Acquired outstanding interests during the financial year.*

*2. Fully divested during the current financial year.*

*3. Entities in the process of being wound up post reporting date.*

*4. Sold post reporting date.*

*5. Prior to 25 July 2007, the Group held a 39.1% interest which was accounted for as an equity accounted investment.*

*6. Prior to 19 December 2007, the Group held a 20.4% interest which was accounted for as an equity accounted investment.*

**43. Deed of cross guarantee**

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the wholly owned subsidiaries listed below are relieved from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial reports, and Directors' report.

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

The subsidiaries subject to the Deed are:

- Allco Finance (Australia) Limited
- Allco Nominees Limited
- Allco Equipment Finance Limited
- Allco Property Finance Limited
- Allco Leasing Limited
- Allco Management Limited
- ACME Funds Management Pty Limited
- ACME Leasing Pty Limited
- ACME Securitisation Pty Limited
- RIL Finance Pty Limited
- RIL Leasing Pty Limited
- Allco Asset Finance Limited
- Allco International (Holdings) Limited
- Allco International (Luxembourg) Holdings Limited
- Allco Singapore Holdings Limited
- Allco Securitisation Limited
- Allco Funds Management Limited
- Allco IB Holdings Limited

**43. Deed of cross guarantee (cont'd)**

The Company and the above subsidiaries represent both the "Closed Group" and the "Extended Closed Group" for the purposes of the Class Order.

**Summarised income statement and balance sheet**

A consolidated income statement and balance sheet, comprising the Company and controlled entities which are party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, at 30 June 2008 is set out as follows:

**Summarised income statement and retained profits**

| | Consolidated | |
|---|---|---|
| | **2008 $'000** | **2007 $'000** |
| Revenue and other income | 502,484 | 425,932 |
| Expenses excluding financing costs | (2,094,827) | (227,719) |
| Financing costs | (94,010) | (42,820) |
| Share of profit of associates and joint ventures | (53,381) | 18,889 |
| Profit before tax | (1,739,734) | 174,282 |
| Income tax expense | 162,243 | (31,592) |
| Profit for the year | (1,577,491) | 142,690 |
| Retained profits at beginning of year | 57,198 | 25,927 |
| Dividends provided or paid | (83,192) | (111,419) |
| **Retained profits at end of year** | **(1,603,485)** | **57,198** |
| **Attributable to:** | | |
| Equity holders of the Company | (1,603,485) | 57,198 |
| Minority Interest | - | - |
| **Profit for year** | **(1,603,485)** | **57,198** |

**Balance sheet**

| | | |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | 32,787 | 131,101 |
| Trade and other receivables | 56,291 | 76,396 |
| Derivative financial instruments | 45,887 | 30,537 |
| Current tax assets | - | 11,954 |
| Available-for-sale financial assets | 2,430 | 16,171 |
| Loan assets held at amortised cost | 546,765 | 1,103,049 |
| Equity accounted investments | 224,172 | 193,566 |
| Assets of Disposal group classified as held for sale | 84,838 | - |
| Property, plant and equipment | 6,865 | 5,968 |
| Deferred tax assets | 312,830 | 47,345 |
| Intangible assets | 215,366 | 657,723 |
| Other assets | 570,867 | 545,149 |
| **Total assets** | 2,099,098 | 2,818,959 |
| **Liabilities** | | |
| Trade and other payables | 156,588 | 48,122 |
| Derivative financial instruments | 32,625 | 1,770 |
| Deferred income | 3,930 | 2,413 |
| Interest-bearing loans and borrowings | 1,168,323 | 550,106 |
| Employee entitlements | 35,971 | 27,089 |
| Provisions | 31,064 | - |
| Deferred tax liabilities | 45,620 | 26,480 |
| **Total liabilities** | 1,474,121 | 655,980 |
| **Net assets** | **624,977** | **2,162,979** |

**43. Deed of cross guarantee (cont'd)**

| | Consolidated | |
|---|---|---|
| | 2008 | 2007 |
| | $'000 | $'000 |
| **Equity** | | |
| *Issued capital* | | |
| - Ordinary share capital | 2,231,743 | 2,107,176 |
| - Treasury shares | (21,228) | (4,198) |
| Reserves | 17,947 | 2,803 |
| Retained earnings | (1,603,485) | 57,198 |
| **Total equity** | **624,977** | **2,162,979** |

## 44. Financial and capital risk management

### (a) Financial risk management

The Group's activities expose it to a variety of financial risks including market risk, credit risk, and liquidity risk. The understanding and management of risk, particularly preservation of capital, is critical and the Group is committed to ensuring that its culture, processes and structures enables the achievement of Allco's business objectives. The Group's overall risk management program seeks to minimise potential adverse effects on financial performance. The Group uses derivative financial instruments such as foreign exchange contracts and interest rate swaps to manage certain risk exposures.

Primary responsibility for risk management and internal control across the Group rests with management through the Chief Executive Officer while the Board through its Audit and Compliance Committee and Risk Committee retains ultimate responsibility for managing the Group's risks.

The Allco Risk Function under the guidance of the Chief Risk Officer is pivotal in developing, implementing, administering and reporting on an integrated risk management strategy and operational process. This assists the business to identify risks and to execute strategy to mitigate these risks.

Employees, in the context of their roles, are responsible for identifying the risks surrounding their work, implementing suitable controls over those risks and communicating freely with management in areas they believe are of concern.

The Risk Committee has responsibility for:

- Ensuring appropriate attention is focused on the Group's risk management framework covering market, liquidity, credit, operational, regulatory and reputation risks affecting the Group;
- Ensuring the risk management framework is in place including establishing policies for the control of risk;
- Reviewing information on the overall risk profile of the Company, breaches of the policy framework and external developments which may have an impact on the effectiveness of the risk management framework; and
- Approving significant changes to the risk management policies and framework.

In addition, the Allco Transactional Risk Management Policy provides a rigorous set of guidelines for the analysis and management of transactional risk and ensures that the Board fulfils its obligation in overseeing risk management process.

### (b) Market risk

Market risk refers to the potential for changes in the market value of the Group's investment positions or revenue streams arising from changes in economic and market conditions. There are various types of market risk including exposures associated with interest rates, equity market prices, currency rates and the general market values of asset classes in which the Group invests or which it manages.

**44. Financial and capital risk management (cont'd)**

**(i) Interest rate risk**

The Group actively uses debt to finance the majority of its investments. If the debt has a floating interest rate, an increase in interest rates could increase the cost of debt servicing.

The Group manages interest rate exposure by adjusting the ratio of fixed interest debt to variable interest debt to the target rates. The financing structure used to fund assets and the cash flow stream derived from assets are hedged in a way to ensure interest rate risk profiles of the asset and its funding base are matched, thereby mitigating the interest rate risk.

*Interest rate sensitivity*

The following table summarises the sensitivity of the Group's financial assets and liabilities to a reasonable possible change in interest rate, with all other variables held constant. It assesses the effect of a 100 basis point increase or decrease in the yield curve on equity and profit /(loss) before tax.

| | Consolidated | | | | The Company | | | |
|---|---|---|---|---|---|---|---|---|
| | Profit/(loss) | | Equity | | Profit/(loss) | | Equity | |
| **$'000 (before tax)** | **2008** | **2007** | **2008** | **2007** | **2008** | **2007** | **2008** | **2007** |
| 100 basis point increase | 24,454 | 14,271 | 49,011 | 35,667 | 5,516 | 850 | 11,400 | - |
| 100 basis point decrease | (24,454) | (14,271) | (49,011) | (35,667) | (5,516) | (850) | (11,400) | - |

A sensitivity of 100 basis points has been selected as this is considered reasonable given the current level of short-term and long-term interest rates and the volatility observed both on an historical basis and market expectations for future movement.

The interest rate sensitivity reflects a significant amount of derivatives that have been entered into from a commercial perspective, hedging the economic exposure on securitised planes. However, they are not in hedge relationships because on consolidation, aircraft are transportation assets and not financial instruments which prevents the Group from designation of hedge relationships.

**(ii) Foreign currency risk**

The Group is exposed to foreign currency exchange risk arising from certain transactions denominated in foreign currencies, including the following:

- borrowings denominated in foreign currencies;
- firm commitments or highly probable forecast transactions for receipts and payments settled in foreign currencies or with prices dependent on foreign currencies; and
- net investments in foreign operations.

The currencies giving rise to this risk are primarily the US dollar, Great Britain Pound, Euro and Singapore dollar. The Group manages its foreign exchange risk against functional currency. The Group uses foreign exchange forward contracts, cross currency interest rate swaps and natural offsetting asset and liability positions to manage its foreign currency exposure.

**44. Financial and capital risk management (cont'd)**

**(b) Market risk (cont'd)**

*Foreign currency sensitivity*

The following table summarises the sensitivity of the Group's financial assets and liabilities to foreign currency exchange risks. It assesses the effect of how a 10 percent increase or decrease in the Australian dollar against the following currencies at 30 June would have on equity and profit or loss (before tax) at reporting date. This analysis assumes that all other variables, in particular interest rates, are held constant. The analysis is performed on the same basis for 2007.

A sensitivity of 10 percent has been selected as this is considered reasonable given the current level of exchange rates and the volatility observed both on an historical basis and market expectations for future movement.

For the Group, the foreign currency translation risk associated with foreign investments results in some volatility to the foreign currency translation reserve. The impact on the foreign currency translation reserve relates to translation of the net assets of foreign controlled entities including the impact of net investment hedging. The net loss of $69.9m (2007: $79.4m) in the Foreign Currency Translation Reserve takes into account the related hedges and represents the impact of the unhedged portion.

| | Consolidated | | | | The Company | | | |
|---|---|---|---|---|---|---|---|---|
| | Profit/(loss) | | Equity | | Profit/(loss) | | Equity | |
| **$'000 (before tax)** | **2008** | **2007** | **2008** | **2007** | **2008** | **2007** | **2008** | **2007** |
| *10 percent increase of AUD* | | | | | | | | |
| USD | (6,777) | (1,801) | 3,713 | (25,304) | 21,162 | 3,672 | 662 | 52 |
| Euro | (1,182) | 6,228 | 6,537 | 6,722 | 3,492 | 6,571 | - | (8) |
| GBP | (984) | (57) | 821 | (63) | (984) | (57) | - | - |
| SGD | (8,645) | (2,652) | 12,317 | 5,559 | (13,529) | (2,209) | - | - |
| *10 percent decrease of AUD* | | | | | | | | |
| USD | 8,944 | 3,449 | (5,574) | 26,367 | (23,279) | (4,039) | (728) | (57) |
| Euro | 1,300 | (6,851) | (7,173) | (7,394) | (3,841) | (7,228) | - | 8 |
| GBP | 1,083 | 63 | (903) | 70 | 1,083 | 63 | - | - |
| SGD | 10,500 | 3,240 | (14,483) | (6,438) | 14,882 | 2,430 | - | - |

Management manages the foreign exchange exposure in relation to aircraft with reference to the Group's residual interest in aircraft. Foreign exchange sensitivity is performed to reflect Management's approach to managing this risk.

**(iii) Equity price risk**

The Group is exposed to equity securities price risk arising from its cornerstone investments in a number of listed securities. The Group does not actively hedge its exposure to the risk of a general decline in equity market values. The Group actively assists and oversees the underlying business or assets to manage this risk.

| | Carrying amount | | Market Value | |
|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** |
| **Consolidated** | **$'000** | **$'000** | **$'000** | **$'000** |
| Listed shares in associates (accounted for using the equity method) | 204,860 | 255,284 | 64,190 | 231,044 |

The carrying amount is considered an appropriate measure of the fair value of these investments. As part of its business model, the Group actively assists and oversees the management of the businesses that it invests in with a view to enhancing the value of those investments. As such it is not considered appropriate to measure fair value solely by reference to the share price of an investment at any point in time. Assessments of fair value, using appropriate methodologies, are undertaken to confirm the appropriateness of the carrying value.

**44. Financial and capital risk management (cont'd)**

*Equity Pricing Sensitivity*

The Group's investment in listed equity securities classified as available for sale is sensitive to equity pricing risk. The following table summarises the sensitivity of these investments to equity pricing risk. It assesses the effect of how a 10 percent increase or decrease in the share price at 30 June would have on equity and profit or loss (before tax) at reporting date. This analysis assumes that all other variables are held constant.

| | **Consolidated** | | | | **The Company** | | | |
|---|---|---|---|---|---|---|---|---|
| | **Profit/(loss)** | | **Equity** | | **Profit/(loss)** | | **Equity** | |
| **$'000 (before tax)** | **2008** | **2007** | **2008** | **2007** | **2008** | **2007** | **2008** | **2007** |
| 10 percent increase in share price | - | - | 73 | 1,617 | - | - | - | - |
| 10 percent decrease in share price | (73) | - | - | (1,617) | - | - | - | - |

**(iv) Asset risk**

Asset risk refers to the risk of a deterioration in asset values as a result of changes in market dynamics such as demand and supply, competition, input costs and economic conditions.

The Group seeks to minimise asset risk by seeking independent valuations of underlying asset investments and stress testing against deterioration in market conditions. Asset specialists are employed throughout the Group who monitor market conditions on an ongoing basis which enables expeditious changes to investment holdings where necessary.

Concentration limits are set across each asset class to enable a diversification of asset risk at an individual asset, industry, country and Group level.

**(c) Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group seeks to manage credit risk through the identification and assessment of key risks prior to committing to a new investment. These risks are mitigated or minimised where possible and are monitored and reviewed on an ongoing basis. Evaluations are performed based on both historical and projected counterparty data in conjunction with broader industry and economic forecasts.

Credit risk is assessed at both the individual counterparty level and at a Group portfolio level to ensure a diversification of risk across each business unit.

The carrying amounts of the financial assets recognised on the balance sheet best represents the Group's exposure to credit risk. In addition to the recognised financial assets, the Group also has a credit exposure with respect to approved but undrawn loan commitments amounting to $20.6m (2007: $91.6m).

Collateral and other credit enhancement

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- Commercial lending, charges over real estate properties, inventory and debtors; and
- Residential lending, mortgages over real estate properties.

**44. Financial and capital risk management (cont'd)**

The following tables summarises the fair values of the collateral that the Group holds against its various financial assets.

| Consolidated $'000 | Gross maximum exposure 2008 | Gross maximum exposure 2007 | Fair value of collateral 2008 | Fair value of collateral 2007 |
|---|---|---|---|---|
| Cash and cash equivalents | 350,705 | 444,848 | - | - |
| Trade and other receivables | 323,069 | 145,019 | - | - |
| Derivative financial instruments | 59,881 | 50,262 | - | - |
| Assets and disposal groups classified as held for sale | 2,086,744 | - | 2,242,768 | - |
| Available-for-sale financial assets | 41,883 | 32,818 | - | - |
| Loan assets held at amortised cost | 1,731,760 | 4,024,937 | 2,048,029 | 4,135,606 |
| | 4,594,042 | 4,697,884 | 4,290,797 | 4,135,606 |

| Assets and disposal groups classified as held for sale (Consolidated) $'000 | | | | |
|---|---|---|---|---|
| Cash and cash equivalents | 40,752 | - | - | - |
| Trade and other receivables | 10,670 | - | - | - |
| Derivative financial instruments | 5,090 | - | - | - |
| Available-for-sale financial assets | 9,972 | - | 9,972 | - |
| Loan assets held at amortised cost | 2,020,260 | - | 2,232,796 | - |
| | 2,086,744 | - | 2,242,768 | - |

| The Company $'000 | | | | |
|---|---|---|---|---|
| Cash and cash equivalents | 19,337 | 113,849 | - | - |
| Trade and other receivables | 2,223 | 3,098 | - | - |
| Derivative financial instruments | 30,537 | 4,862 | - | - |
| Assets and disposal groups classified as held for sale | 41,712 | - | | - |
| Loan assets held at amortised cost | 1,032,925 | 1,230,053 | - | - |
| | 1,126,734 | 1,351,862 | - | - |

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

**Concentrations of credit risk**

There were no significant concentrations of credit risk at the reporting date. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet. Where entities have a right of set-off and intend to settle on a net basis under master netting arrangements, this set-off has been recognised in the financial statements on a net basis.

**44. Financial and capital risk management (cont'd)**

**Ageing of Financial assets**

The following table summarises the credit risk of Group's financial assets by assessing the age of financial assets. It also details financial assets that are individually impaired and a description of collateral held where relevant.

| | | | Past due but not impaired | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Consolidated 2008** | **Total $'000** | **Neither past due nor impaired $'000** | **Less than or equal to 30 days $'000** | **31-90 days $'000** | **90 days - 1 Year $'000** | **More than 1 Year $'000** | **Collectively impaired $'000** | **Individually impaired $'000** |
| Cash and cash equivalents | 350,705 | 350,705 | - | - | - | - | - | - |
| Trade and other receivables | 350,074 | 290,537 | - | 165 | 3,427 | 42 | - | 55,903 |
| Derivative financial instruments | 59,881 | 59,881 | - | - | - | - | - | - |
| Assets and disposal groups classified as held for sale | 2,086,744 | 1,961,757 | 65,604 | - | - | - | 7,262 | 52,121 |
| Available-for-sale financial assets | 41,883 | 41,883 | - | - | - | - | - | - |
| Loan assets held at amortised cost | 2,042,918 | 1,596,738 | 101,914 | 977 | - | - | 204,431 | 138,858 |
| **Total** | 4,932,205 | 4,301,501 | 167,518 | 1,142 | 3,427 | 42 | 211,693 | 246,882 |

| **Consolidated - Assets and disposal groups classified as held for sale 2008** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 40,752 | 40,752 | - | - | - | - | - | - |
| Trade and other receivables | 10,670 | 10,670 | - | - | - | - | - | - |
| Derivative financial instruments | 5,090 | 5,090 | - | - | - | - | - | - |
| Available-for-sale financial assets | 9,972 | 9,972 | - | - | - | - | - | - |
| Loan assets held at amortised cost | 2,020,260 | 1,895,273 | 65,604 | - | - | - | 7,262 | 52,121 |
| **Total** | 2,086,744 | 1,961,757 | 65,604 | - | - | - | 7,262 | 52,121 |

| **Consolidated 2007** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 444,848 | 444,848 | - | - | - | - | - | - |
| Trade and other receivables | 145,019 | 144,829 | - | - | - | - | - | 190 |
| Derivative financial instruments | 50,262 | 50,262 | - | - | - | - | - | - |
| Available-for-sale financial assets | 32,818 | 32,818 | - | - | - | - | - | - |
| Loan assets held at amortised cost | 4,062,141 | 3,576,163 | 83,035 | 4,417 | 4,395 | - | 363,655 | 30,476 |
| **Total** | 4,735,088 | 4,248,920 | 83,035 | 4,417 | 4,395 | - | 363,655 | 30,666 |

**44. Financial and capital risk management (cont'd)**
**Ageing of Financial assets**

| The Company 2008 | Total $'000 | Neither past due nor impaired $'000 | Past due but not impaired: Less than or equal to 30 days $'000 | 31-90 days $'000 | 90 days - 1 Year $'000 | More than 1 Year $'000 | Collectively impaired $'000 | Individually impaired $'000 |
|---|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 19,337 | 19,337 | - | - | - | - | - | - |
| Trade and other receivables | 2,223 | 2,223 | - | - | - | - | - | - |
| Derivative financial instruments | 30,537 | 30,537 | - | - | - | - | - | - |
| Assets and disposal groups classified as held for sale | 41,712 | - | - | - | - | - | - | 41,712 |
| Loan assets held at amortised cost | 1,362,587 | 882,241 | - | - | - | - | - | 480,346 |
| **Total** | 1,456,396 | 934,338 | - | - | - | - | - | 522,058 |

| The Company - Assets and disposal groups classified as held for sale 2008 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Loan assets held at amortised cost | 41,712 | - | - | - | - | - | - | 41,712 |

| The Company 2007 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 113,849 | 113,849 | - | - | - | - | - | - |
| Trade and other receivables | 3,098 | 3,098 | - | - | - | - | - | - |
| Derivative financial instruments | 4,862 | 4,862 | - | - | - | - | - | - |
| Loan assets held at amortised cost | 1,283,153 | 1,162,883 | - | - | - | - | - | 120,270 |
| **Total** | 1,404,962 | 1,284,692 | - | - | - | - | - | 120,270 |

The Group is currently at various stages in its litigation in respect of its non-performing loan portfolio and has taken possession of collateral property having a cumulative fair value of $29.2m (2007: $29.8m) at the reporting date.

At the reporting date, the Group held loans receivables of approximately $3.9m (2007: $3.9m) due from two former executives of a Group company. These loans were collateralized against the combined equity interests in certain Group companies which were repossessed upon the default on loans. These companies are expected to be liquidated in the near future with no expected return to equity holders. Hence the loans have been fully impaired and a nil value is attributed to the security held for the loans.

## 44. Financial and capital risk management (cont'd)

### (c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages liquidity risk through a combination of methods including the use of cash and undrawn capacity in the corporate facility, recycling assets through sale, and through the refinancing of its project specific facilities.

The following table analyses the Group's and the Company's financial liabilities into relevant maturity groupings based on the remaining contractual maturity period at the reporting date.

| | | | | | Residual contractual maturities[1] | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Consolidated** | **Carrying Amount** | | **Gross nominal** | | **Less than 6 months** | | **6-12 months** | | **1-2 years** | | **2-5 years** | | **More than 5 years** | |
| **$'000** | **2008** | **2007** | **2008** | **2007** | **2008** | **2007** | **2008** | **2007** | **2008** | **2007** | **2008** | **2007** | **2008** | **2007** |
| Trade and other payables | 165,502 | 74,057 | 178,576 | 74,374 | 59,595 | 69,874 | 7,719 | 4,500 | 111,262 | - | - | - | - | - |
| Interest bearing loans and borrowings | 4,480,440 | 6,115,302 | 6,160,605 | 10,563,592 | 1,553,296 | 791,715 | 245,320 | 1,162,547 | 1,003,097 | 807,639 | 1,093,149 | 2,103,223 | 2,265,743 | 5,698,468 |
| Derivative financial liabilities | 46,724 | 1,784 | 57,425 | 1,784 | 9,323 | 1,784 | 8,255 | - | 13,763 | - | 22,084 | - | 4,000 | - |
| Liabilities of disposal groups classified as held for sale | 2,009,887 | - | 3,529,120 | - | 626,842 | - | 194,025 | - | 596,850 | - | 361,456 | - | 1,749,947 | - |
| Off Balance Sheet Instruments | - | - | 83,910 | 122,040 | 63,293 | - | 5,593 | 122,040 | - | - | 15,024 | - | - | - |
| *Unrecognised loan commitments* | - | - | 20,617 | *91,646* | - | - | *5,593* | *91,646* | - | - | *15,024* | - | - | - |
| *Letters of credits* | - | - | 63,293 | *30,394* | *63,293* | - | - | *30,394* | - | - | - | - | - | - |
| | 6,702,553 | 6,191,143 | 10,009,636 | 10,761,790 | 2,312,349 | 863,373 | 460,912 | 1,289,087 | 1,724,972 | 807,639 | 1,491,713 | 2,103,223 | 4,019,690 | 5,698,468 |

| **Liabilities of disposal groups classified as held for sale (Consolidated)** | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Trade and other payables | 17,301 | | 17,301 | - | 17,301 | - | - | - | - | - | - | - | - | - |
| Interest bearing loans and borrowings | 1,992,586 | | 3,511,819 | - | 609,541 | - | 194,025 | - | 596,850 | - | 361,456 | - | 1,749,947 | - |
| | 2,009,887 | - | 3,529,120 | - | 626,842 | - | 194,025 | - | 596,850 | - | 361,456 | - | 1,749,947 | - |

| **The Company** | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **$'000** | | | | | | | | | | | | | | |
| Trade and other payables | 20,438 | 7,524 | 20,438 | 7,524 | 20,438 | 7,524 | - | - | - | - | - | - | - | - |
| Interest bearing loans and borrowings | 1,168,323 | 550,109 | 1,550,709 | 900,900 | 235,829 | 21,339 | 46,482 | 21,339 | 689,170 | 42,677 | 98,805 | 306,736 | 480,423 | 508,809 |
| Derivative financial liabilities | 22,058 | - | 27,016 | - | 3,547 | - | 1,806 | - | 6,128 | - | 14,136 | - | 1,399 | - |
| Off Balance Sheet Instruments | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| *Unrecognised loan commitments* | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| *Letters of credits* | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| | 1,210,819 | 557,633 | 1,598,163 | 908,424 | 259,814 | 28,863 | 48,288 | 21,339 | 695,298 | 42,677 | 112,941 | 306,736 | 481,822 | 508,809 |

*1) The maturity analysis is presented on the basis of legal contractual repayment dates and differs to the current/non-current allocations as disclosed in the notes to the financial statements.*

**44. Financial and capital risk management (cont'd)**

**(d) Capital risk management**

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern, while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of total corporate facilities (Note 26), and equity, comprising issued capital (Note 30), retained earnings (Note 31), and reserves (Note 34).

In line with the recently announced, renegotiated debt agreement with the Group's senior lenders, the current focus of the Group is on the reduction of debt balances through the orderly realisation of non-core assets. This will create the platform for a longer term review of the optimal capital structure of the Group following the completion of the asset realisation program.

**45. Financial instruments and hedging activities**

The Group enters into derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest rates and foreign exchange rates in accordance with the Group's risk management policies as previously described.

For derivative financial instruments that are not hedge accounted, all changes in the fair value are recognised immediately in profit or loss.

For derivative financial instruments that are hedge accounted, the following types of hedge relationships are used by the Group:

- hedges of the fair value of recognised assets and liabilities (fair value hedges);
- hedges of cashflows associated with recognised assets and liabilities or highly probable forecast transactions (cash flow hedges); or
- hedges of a net investment in a foreign operation.

**(a) Fair values**

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded securities and available for sale securities) are based on quoted market prices. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market are determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions. Quoted market prices or dealer quotes for similar instruments are also used to analysis market conditions. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

**45. Financial instruments and hedging activities (cont'd)**

The fair values of all financial assets and liabilities recognised at the balance date are not materially different from their carrying amounts except for the following:

| Consolidated | Carrying amount | | Fair value | |
|---|---|---|---|---|
| | 2008 $'000 | 2007 $'000 | 2008 $'000 | 2007 $'000 |
| **Financial assets** | | | | |
| Loan assets held at amortised cost | 1,731,760 | 4,024,937 | 1,738,168 | 4,014,168 |
| Available-for-sale financial assets | 41,883 | 32,818 | 39,344 | 32,818 |
| Loan assets held at amortised cost classified as held for sale | 2,020,260 | - | 2,017,624 | - |
| **Financial liabilities** | | | | |
| Interest-bearing loans and borrowings | 4,480,440 | 6,115,302 | 4,503,453 | 6,105,482 |
| Interest-bearing loans and borrowings of disposal groups classified as held for sale | 1,992,586 | - | 1,994,348 | - |

| Company | Carrying amount | | Fair value | |
|---|---|---|---|---|
| | 2008 $'000 | 2007 $'000 | 2008 $'000 | 2007 $'000 |
| **Financial assets** | | | | |
| Loan assets held at amortised cost | 1,032,925 | 1,230,053 | 1,056,366 | 1,219,284 |
| **Financial liabilities** | | | | |
| Interest-bearing loans and borrowings | 1,168,323 | 550,109 | 1,180,211 | 540,289 |

**Estimation of fair values**

The following summarises the major methods and assumptions used in estimating fair values reflected in the above.

- *Available-for-sale financial assets*

Fair value of traded securities is based on quoted market prices without any deduction for transaction costs. The fair value of unlisted securities is estimated using discounted cash flow analysis.

- *Derivative financial assets liabilities*

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates.

- *Loans assets held at amortised cost and Interest-bearing loans and borrowings*

The fair values are estimated using discounted cash flow analysis, based on current incremental lending rates from similar types of lending arrangements.

- *Trade and other receivables and payables*

The carrying amount represents fair value due to their short-term to maturity. The fair value of non-current payables is estimated using discounted cash flow analysis.

**Interest rates used for determining fair value**

To discount the financial instruments, the Group has used yield curves as at 30 June 2008, plus an adequate constant credit spread appropriate in relation to the currency in which the cash flows associated with the financial instrument are denominated.

## 45. Financial instruments and hedging activities (cont'd)

### (b) Derivatives and hedging activities

*Maturity analysis of derivatives*

The following table indicates the period in which the cash flows associated with derivatives that are hedge accounted under the cash flow hedging model are expected to occur.

| **Consolidated** | **Carrying Amount** | | **Total Expected** | | **6 months or less** | | **6 months to less than 1** | | **1 year to less than 2** | | **2 years to less than 5** | | **Greater than 5 years** | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **$000's** | **2008** | **2007** | **2008** | **2007** | **2008** | **2007** | **2008** | **2007** | **2008** | **2007** | **2008** | **2007** | **2008** | **2007** |
| **Interest rate swaps** | | | | | | | | | | | | | | |
| Assets | 23,892 | 7,393 | 27,864 | 9,688 | 5,479 | 980 | 4,070 | 818 | 5,188 | 1,579 | 12,443 | 6,311 | 684 | - |
| Liabilities | (21,901) | - | (25,456) | - | (6,358) | - | (5,962) | - | (7,043) | - | (5,237) | - | (856) | |
| | 1,991 | 7,393 | 2,408 | 9,688 | (879) | 980 | (1,892) | 818 | (1,855) | 1,579 | 7,206 | 6,311 | (172) | - |
| **Forward Exchange Contracts** | | | | | | | | | | | | | | |
| Assets | 2,754 | 262 | 3,035 | 262 | - | 60 | 1,460 | 202 | (552) | - | 3,331 | - | (1,204) | - |
| Liabiltiies | (8,945) | - | (13,707) | - | (656) | - | (625) | - | (4,683) | - | (6,848) | - | (895) | - |
| | (6,191) | 262 | (10,672) | 262 | (656) | 60 | 835 | 202 | (5,235) | - | (3,517) | - | (2,099) | - |
| **Total** | (4,200) | 7,655 | (8,264) | 9,950 | (1,535) | 1,040 | (1,057) | 1,020 | (7,090) | 1,579 | 3,689 | 6,311 | (2,271) | - |

| **The Company** | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **$000's** | | | | | | | | | | | | | | |
| **Interest rate swaps** | | | | | | | | | | | | | | |
| Assets | 11,096 | - | 13,949 | - | 1,945 | - | 2,593 | - | 3,719 | - | 5,146 | - | 546 | - |
| Liabilities | (5,661) | | (7,133) | - | (922) | - | (1,578) | - | (1,818) | - | (2,042) | - | (773) | |
| | 5,435 | - | 6,816 | - | 1,023 | - | 1,015 | - | 1,901 | - | 3,104 | - | (227) | - |
| **Forward Exchange Contracts** | | | | | | | | | | | | | | |
| Assets | 1,397 | 262 | 1,460 | 262 | - | 60 | 1,460 | 202 | - | - | - | - | - | - |
| | 1,397 | 262 | 1,460 | 262 | - | 60 | 1,460 | 202 | - | - | - | - | - | - |
| **Total** | 6,832 | 262 | 8,276 | 262 | 1,023 | 60 | 2,475 | 202 | 1,901 | - | 3,104 | - | (227) | - |

**45. Financial instruments and hedging activities (cont'd)**

*Interest rate swap contracts - cash flow hedges*

The Group's policy is to net floating rate assets and liabilities and then to hedge the residual exposure to increasing interest rates. Accordingly, the Group has entered into interest rate swap contracts which it uses to convert its net variable cashflows into fixed cashflows.

The settlement dates coincide with the dates of interest payable on the underlying borrowing. The contracts are settled on a net basis. The gain or loss from re-measuring interest rate swap contracts at fair value is deferred in equity in the cash flow hedging reserve, to the extent that the hedge is effective, and re-classified into profit or loss when the interest expenses of the underlying hedged item is recognised.

*Forward exchange contracts - cash flow hedges*

The Group has entered into foreign exchange forward contracts in order to protect against exchange rate movements on existing foreign currency assets and liabilities as well as highly probable future foreign currency transactions. Most of these contracts have maturities of less than five years. Where necessary, forward exchange contracts are rolled over at maturity.

*Forecast transaction designated as hedged items*

During the year, $4.6m (2007: $nil) was recognised in the income statement representing the settlement proceeds on derivatives used to hedge forecast transactions for which hedge accounting was applied but was discontinued as the hedged forecast transaction did not occur.

**(c) Hedges of cashflows from foreign investments**

The Group has exposures to foreign currency risk as a result of the Group's investments in offshore activities. This risk arises from the repatriation of cashflows from these assets. The Group has hedged these investments in foreign operations to mitigate exposure to this risk using forward foreign currency contracts and/or borrowings in the relevant currency of the investment.

Gains or losses on re-measurement of derivative financial instruments designated as hedges of foreign operations are recognised in the foreign currency translation reserve in equity to the extent they are effective. During the year net gains after tax of $10.3m (2007: $nil) on the Group's hedging instruments were taken directly to equity in the foreign currency translation reserve in the consolidated balance sheet.

The cumulative amount of the recognised gains or losses included in equity is transferred to the income statement when the foreign operation is sold. During the year, there were no transfers from equity of the Group to the income statement due to disposal of foreign operations.

Gains or losses on any portion of the hedge determined to be ineffective are recognised in the income statement. During the year ended 30 June 2008, $6.1m (2007: $nil) was transferred from equity of the Group to the income statement due to ineffectiveness attributable to the Group's net investment hedges.

**46. Reconciliation of cash flows from operating activities**

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | 2008 $'000 | 2007 $'000 | 2008 $'000 | 2007 $'000 |
| (Loss)/profit for the period | (1,740,334) | 219,164 | (1,630,560) | 138,239 |
| Depreciation and amortisation | 113,017 | 180,628 | - | - |
| Impairment charges | 1,625,705 | 26,435 | 1,653,626 | 53,100 |
| Share based payment expense | 35,172 | 13,389 | - | - |
| Net gain on disposal of controlled entities | (190,389) | (7,129) | - | - |
| Fair value movements in investment properties | - | (8,263) | - | - |
| Share of losses/(profits) of associates and joint ventures net of dividends or distributions received | 113,930 | (61,496) | - | - |
| Net gain on sale of assets | (107,325) | (164,008) | - | 52 |
| Contractual breakcosts | 84,842 | - | 3,730 | - |
| Net loss on disposal on associates | 72,116 | - | - | - |
| Net gain on sale of available-for-sale financial assets | - | (742) | - | - |
| Net foreign exchange losses/(gains) | 22,589 | 15,413 | (10,004) | (6,413) |
| Fair value movements on financial assets | (6) | (12,491) | - | - |
| Fair value on derivative financial instruments | (30,182) | (33,382) | (28,313) | (12,110) |
| Fair value movement in investment properties | 6,454 | - | - | - |
| Changes in operating assets and liabilities | | | | |
| - (Increase) / decrease in trade and other receivables | (1,162) | 22,007 | 35,960 | (68,408) |
| - (Increase) / decrease in capitalised interest income | (56,294) | (37,042) | (40,488) | (38,210) |
| - (Increase) / decrease in deferred tax assets | (166,692) | (11,044) | (73,824) | (19,042) |
| - Increase / (decrease) in deferred tax liabilities | 101,270 | 37,689 | 11,388 | 3,423 |
| - Increase / (decrease) in deferred income | 76 | (2,149) | - | - |
| - Increase / (decrease) in trade and other payables | 27,370 | (22,838) | 8,532 | 12,524 |
| - Increase / (decrease) in capitalised borrowing costs | 26,509 | 35,162 | 2,845 | - |
| - Increase / (decrease) in employee entitlements | (7,680) | 25,320 | (3,656) | 2,632 |
| - Increase / (decrease) in current tax liability | (127) | 22,562 | 62,413 | (10,382) |
| - Increase / (decrease) in provisions | 41,773 | - | - | - |
| Net cash flow from operating activities | (29,368) | 237,185 | (8,351) | 55,405 |

**47. Non-cash investing and financing activities**

| | | | | |
|---|---|---|---|---|
| Acquisition of Rubicon Holdings (Aust.) Limited by means of an equity issue (including ordinary shares, CRPS and Rights) | 160,889 | - | - | - |
| Dividends satisfied through the issue of ordinary shares | 10,795 | 21,446 | 10,795 | 21,446 |
| Merger with Allco Finance (Australia) Limited by means of an equity issue | - | 1,069,564 | - | 1,069,564 |

## 48. Matters subsequent to the end of the financial year

*Sale of part of the Singaporean Real Estate business*

On 8 July 2008, the Group sold its interest of 17.7% in the Allco Commercial REIT (Allco REIT), a listed property trust on the Singaporean Exchange for $79.9m and 100% interest in Allco (Singapore) Limited, the manager of Allco REIT for $58.1m resulting in total proceeds of $138.0m. The sale was completed on 14 August 2008. This will have nil impact on the results for the period ending 30 June 2009.

*Sale of Australian Wind Business*

On 23 July 2008, the Group sold its Australian wind energy business for proceeds of $12.5m. The sale will be recognised in the results of the next financial year. The sale was completed on 1 August 2008. An after tax profit of $8.5m will be recognised in the results for the period ending 30 June 2009.

*Sale of interest in* Industria Petroli Meridionale Srl ("IPEM")

On 9 July 2008, the Group completed the sale of its 50% equity investment in IPEM. The sale resulted in proceeds of $25.9m. This will have nil impact on the results for the period ending 30 June 2009.

*Extension of senior banking facilities*

On 21 August 2008, the Group signed a new senior debt facility with its syndicate bankers. The new facility will be available for draw down once certain conditions precedent of an administrative nature are satisfied. The Group anticipates that these conditions will be satisfied by 31 August 2008.

The new senior debt facility replaces the three existing senior debt facilities and matches the outstanding drawings at the time. Key terms of the revised facility are as follows:

- The facility maturity date expires on 30 September 2009 and contains no market capitalisation review clause;
- An agreed repayment schedule paying down senior debt to $400.0m by June 2009;
- A margin above the relevant currency borrowing reference rate that reduces as the level of senior debt facility is reduced provided that the Group's gearing levels based on the value of its assets is not greater than certain target amount;
- The facility will be secured by guarantees and security provided by numerous subsidiaries including those which are already guarantors under the existing debt facilities;
- Apart from the debt repayment schedule, the new facility contains no events of default tied to gearing, interest coverage, debt service or other financial ratios;
- A review event will arise under the new facility if:
  a) The Company enters into a merger or consolidation;
  b) The Company becomes controlled by a person or group of persons acting together, with a relevant interest of at least 35% voting shares;
  c) The Company's shares are suspended from trading on the ASX for more than five consecutive days; or
  d) if two or more of more of the Acting Chairman and certain senior executives of the company leave within a twelve month period and a replacement is not appointed within ninety days.

  If a review event described in (a) or (b) were to occur, the Company must notify the bank syndicate, and will have four business days to repay each member of the syndicate its share of outstanding debt and other financial exposures (including hedges etc), unless the relevant bank syndicate member elects not to require that debt repayment acceleration.

  If a review event described in (c) or (d) were to occur, the Company must notify the bank syndicate, at which point the bank syndicate has twenty business days to inform the Company whether the review event is unacceptable or acceptable subject to revised finance terms. If the review event is unacceptable to either party, the Company would be required to repay the entire outstanding facility within ninety days.

**48. Matters subsequent to the end of the financial year (cont'd)**

*Call option on Re Leasing Shares*

On 1 May 2006, the Company entered into an Option Deed with Redshift Pty Limited ("Redshift"), pursuant to which it granted the Company an irrevocable option to acquire its 67% interest in Re Leasing Limited ("Re Leasing"), which the Company holds a 33% interest. The option is exercisable from 1 July 2008 to 1 July 2026. The option will lapse if not exercised at the end of the exercise period.

The Option effectively enables the Company to control the financial and operating policies of Re Leasing Limited. Under current Australian Accounting Standards, the Company is required to consolidate the financial results and financial position of Re Leasing from 1 July 2008.

*Repayment of corporate borrowings*

In accordance with the revised senior banking agreement, the Group has continued to make repayments to ensure the corporate borrowings are reduced to $400.0m by 30 June 2009. As at 25 August 2008, the Group has made further repayments since reporting date reducing corporate borrowings to $704.1m.

*Grant of Options under the EORP*

On 20 August 2008, the HRRC approved the grant of up to 69 million options to retain and incentivise select executives who have direct responsibility for setting and executing the business strategy to stabilise and rebuild the business, and for creating longer value for the benefit of shareholders. The options are to be granted under the Executive Options and Rights Plan (EORP) over a two year period (49 million options to be granted in financial year 2009, and 20 million options in financial year 2010).

The proposed allocation represents 18.5% of Company shares currently on issue. The Board recognises that the proposed direction of aggressive utilisation of equity is atypical and further impacts shareholders through an initial dilution of shareholder wealth. In developing this framework, the Board have reviewed a number of alternative solutions and believe that the strategy of delivering of a significant portion of total remuneration in the form of long term equity creates the highest probability of restoring shareholder value and retaining those senior executives with a strong influence on long term performance, within the short term economics of the business.

The grant is subject to shareholder approval, which will be sought at the AGM in October. While the terms of the grant are in final development, and will be presented in full in the Explanatory Memorandum, it is intended they will include a performance and service condition for vesting to ensure the ongoing alignment of executive interests with the restoration of shareholder value. The cost is anticipated to be no more than $17.25 million over five year period FY09 – FY13.

There were no other significant events or transactions that have arisen since 30 June 2008 which would affect significantly the operations of the Group, the results of those operations or state of affairs of the Group.

**Directors' Declaration**

1 In the opinion of the Directors of Allco Finance Group Limited ("the Company"):

(a) the financial statements and notes set out on pages 45 to 142 and the remuneration disclosures that are contained in the Remuneration report, set out on pages 23 to 43 of the Directors' report, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of the Company and the Group as at 30 June 2008 and of their performance, as represented by the results of their operations and cash flows, for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001;

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

(c) the remuneration disclosures set out on pages 23 to 43 of the Directors' report comply with Australian Accounting Standard AASB 124 Related Party Disclosures.

2 There are reasonable grounds to believe that the Company and the Group entities identified in Note 42 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those Group entities pursuant to ASIC Class Order 98/1418.

3 The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer for the financial year ended 30 June 2008.

Dated at Sydney this 29th day of August 2008.

Signed in accordance with a resolution of the Directors:

R. Mansfield

**Bob Mansfield**
Acting Chairman
Sydney, 29 August 2008

**David Clarke**
Chief Executive Officer and Managing Director

KPMG

## Independent auditor's report to the members of Allco Finance Group Limited

### Report on the financial report

We have audited the accompanying financial report of Allco Finance Group 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 48 and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

*Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

*Auditor's responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We 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 Group's financial position and of their performance

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

*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 Allco Finance Group Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Company's and the Group'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 2(a).

***Material uncertainty regarding continuation as a going concern***

Without qualification to the above opinion, we draw attention to Note 2(e) to the financial statements. Under the terms of the revised syndicate facility agreement the Group is required to reduce its corporate debt facility to $400 million by 30 June 2009 and is actively disposing of certain assets to meet this obligation. Further the Group must repay or refinance the remaining $400 million by 30 September 2009. The ability of the Group to meet its obligations under the revised syndicate facility agreement and to repay or refinance its obligations at 30 September 2009 cannot presently be determined with certainty, although as outlined in Note 2(e), the directors anticipate this will occur and accordingly the financial report has been prepared on a going concern basis. The existence of these uncertainties may cast significant doubt about the Group's ability to continue as a going concern and therefore whether the Group is able to realise its assets at the amounts recognised in the financial statements.

***Material uncertainty regarding carrying value of loan assets***

Without qualification to the above opinion, we draw attention to Note 15(e) and Note 26(c) to the financial statements. The Group manages certain mortgage securitisation programmes and is currently negotiating the re-finance of a number of limited recourse financing facilities in the ordinary course of business. The recoverability of the Group's loans to these vehicles of $70.5 million is dependent on their ongoing operation. The outcome of these negotiations cannot presently be determined with certainty.

## Report on the remuneration report

We have audited the Remuneration Report included in pages 23 to 42 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

*Auditor's opinion*

In our opinion, the remuneration report of Allco Finance Group Limited for the year ended 30 June 2008, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

C. Whittingham

Chris Whittingham
*Partner*

Sydney, 29 August 2008