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PearlStreet Annual Report 2008

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PearlStreet

PearlStreet provides the energy, resources and infrastructure sectors with testing, inspection and asset care services.

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Chairman's Report

David R Eiszele
Chairman

On behalf of the Directors of PearlStreet Limited I am pleased to provide our FY2008 Annual Report to shareholders. The past financial year has continued a period of rapid development for the Company.

During FY2008 PearlStreet's acquisitions established a market leading position in the testing and inspection services market and now provides our customers with an Australia wide branch network. We also added further capabilities to our asset care services. PearlStreet is now operating at a scale which provides greater internal resource leverage and flexibility that delivers greater service levels to our customers than was previously possible.

FY2008 revenue of $83.5 million was up 124% on the previous corresponding period reflecting both acquisitions and continued buoyant trading conditions for continuing operations. The reported financial performance for FY2008 reflects a number of expenses incurred as a result of our acquisition activities and associated accounting treatment. Underlying net profit after tax for FY2008 was $2.8m, up 71% on the previous corresponding period. A dividend of 1.05 cents per PST share was declared and is payable in September. The dividend payout takes account of the underlying cash earnings of the Company over the period.

Board and Management

PearlStreet's growth has resulted in a number of changes to our senior management during the year. Our Chief Operating Officer, Kristen Walsh is now responsible for the performance of the Company's extensive branch network with support from regional General Managers. We also strengthened our HR & IR function with the appointment of Clive Patman as Executive General Manager.

Metlab's long serving General Manager, Arthur Harvey retired in April 2008. I thank Arthur for his dedicated service, particularly through a second change of ownership of the Metlabs business.

Jim McDonald has advised the Board that he will step down as a director due to his heavy workload commitments. Jim was appointed as a director in the lead up to PearlStreet's ASX listing and has provided valuable experience and counsel through a period of significant activity for the Company.
I would like to thank him for his contribution over this period and wish him well with his continuing directorships.

Chairman's Report

FY2009

During FY2009 the Board will continue to focus on the operational and financial performance of the Company to ensure that the full benefits of the Company's increased scale are achieved. Performance improvement over the coming year will primarily focus on second order harmonization activities aimed at extracting further benefits, predominantly across the Testing and Inspection business. A number of these initiatives will be designed to deliver increasingly scalable business and technology solutions to accommodate the Company's growth and to position it for future market requirements.

While the Company will continue to look at potential acquisitions, PearlStreet's increased scale has necessarily resulted in a change in the characteristics of potential acquisition candidates. Increasingly, PearlStreet will be able to look at its greater internal capabilities and resources as a growth source.

Finally I thank my fellow Directors, senior management and our employees for their effort and contribution during FY2008. This has again been a year of continuing high activity levels that sees PearlStreet well positioned for the future.

D R Eiszele
Chairman

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Operational Highlights

- Established No 1 position in the Australian Non-Destructive Testing and Inspection services market
- Successful integration of three acquisitions. Single company approach to management and customer service
- Australia-wide branch network with over 500 employees
- Strengthened senior management through key appointments
- Continued to meet strong level of demand from new and existing customers across a blue-chip client base
- New Brisbane premises combines three service lines as a regional hub for the Queensland market
- Major training program expansion with over 50 trainees – including 40 NDT technicians
- Ongoing investment in technology including advanced digital imaging equipment

Anthony Wooles

Managing Director and Chief Executive Officer

Dear Shareholders,

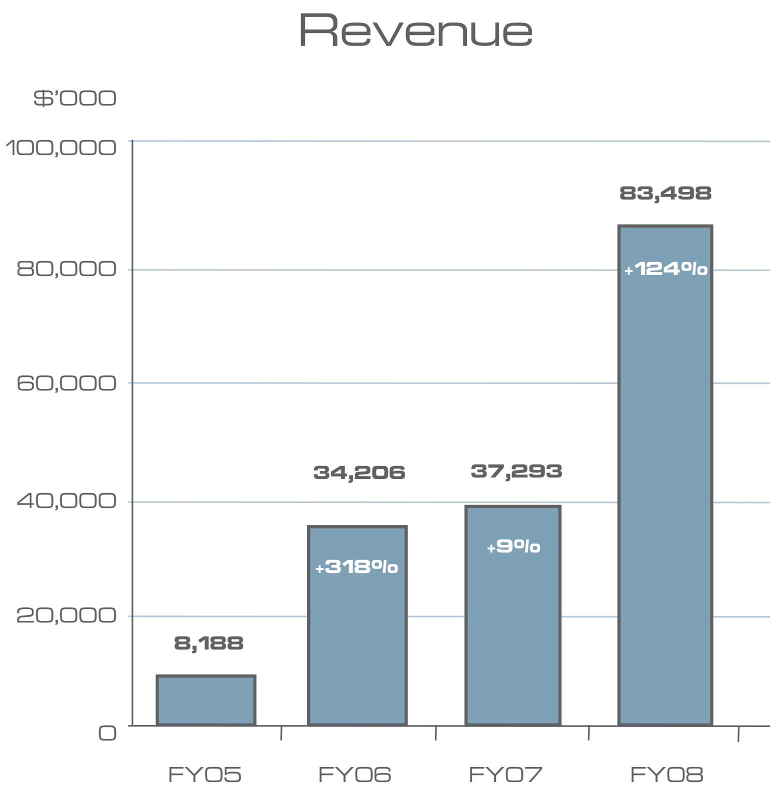
I am delighted to provide this report after what has been a very busy year for PearlStreet. During the recent fiscal year our focus has been on the integration of the acquisitions we made early in FY2008.

I am very pleased to report that this process has been successfully completed and that PearlStreet moves forward with the ability to leverage a market leadership position in the NDT Testing and Inspection industry, and a rapidly developing national profile in the buoyant engineering services sector.

Performance

At the completion of FY2008 we are delighted to report Revenue performance of $83.5M, an increase of 124% over FY2007.

We are also very pleased to report that the Underlying EBITDA result of $10.0m, which includes an adjustment for post acquisition integration costs amounting to $950K. The underlying EBITDA margin for 2008 was 12% which we regard as a sustainable performance target.



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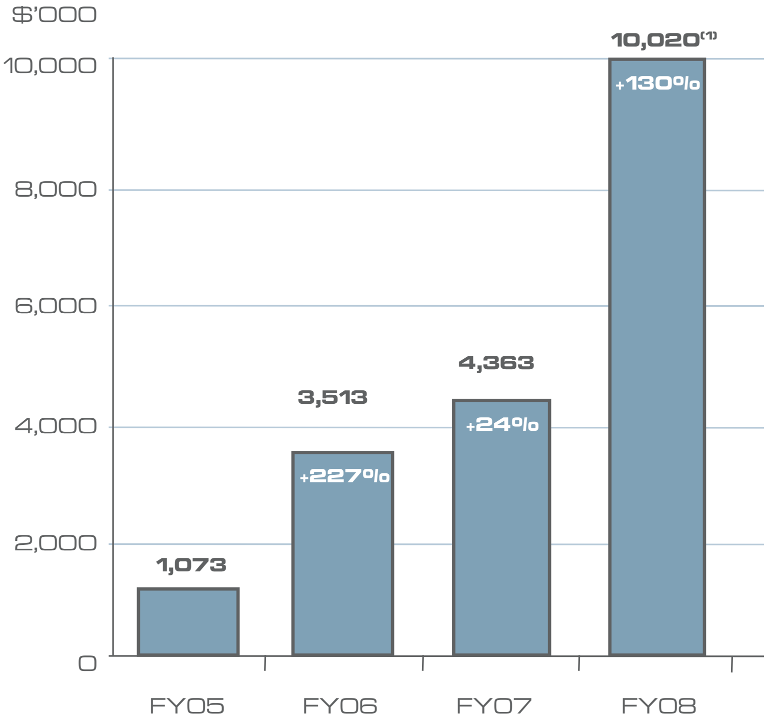
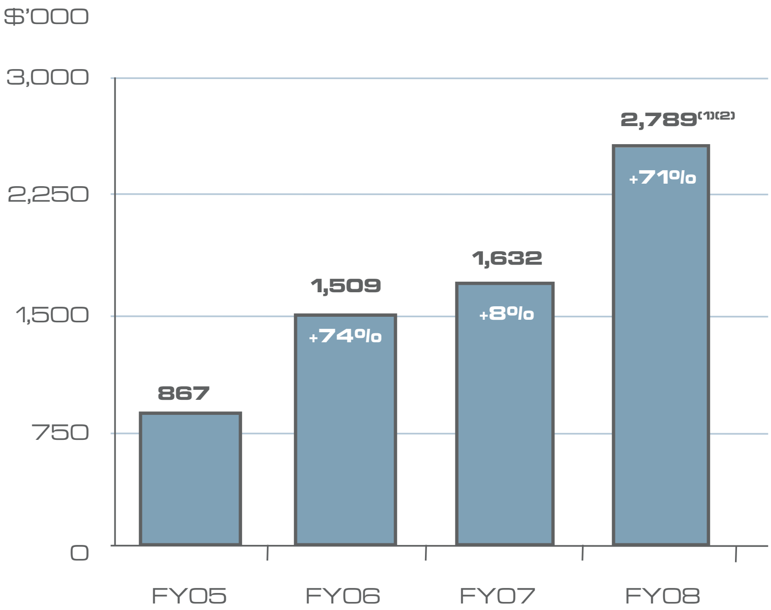
UNDERLYING EBITDA



1) Add back post-acquisition integration and redundancy costs of approximately $950,000.

UNDERLYING NET PROFIT AFTER TAX



1) Add back post-acquisition integration and redundancy costs of approximately $950,000.
2) Add back $1,047,000 amortisation of customer related intangibles under AASB3 Business Combinations and adjustment of tax payable.

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The previous Metlabs/ITS business has, for the 11 months, exceeded revenue and profitability targets and Accura has met revenue and profitability targets. The previous Australian NDT business that had underperformed to the half year has improved significantly in the second half.

Following the integration of all acquisitions a major focus has been placed on debtor collections and the debtors days outstanding continues to reduce. Our Work in Progress levels are continually scrutinized and remain below 1% of revenue.

The Directors, in light of ongoing capital markets volatility, have continued to closely monitor cash flow. Reduction in bank debt principal continues in line with banking and operational requirements. The Group has met and exceeded all the key commercial parameters established by our banking partners.

Operations

The focus of the management team for H1 FY2008 was the first order integration activity. From January 2008 the business adopted a regional structure designed to deliver the "one-company" strategy. The operation is led by Kristen Walsh, Chief Operating Officer, who joined the business in October 2007 to lead the integration program.

PearlStreet now operates as 4 business units; Testing & Inspection in Queensland, New South Wales & Victoria, and Western Australia & South Australia; and Asset Management & Analytical Services primarily in Western Australia.

The senior operations management team includes General Managers for Operations for each region and a national Business Development capability.

Our regional business units each leverage strong technical resource hubs in Perth, Brisbane, Gladstone, Melbourne, the Latrobe Valley and Sydney.

Each hub location houses technical capability and technology for each of our key service lines. Our hub locations provide the resource flexibility to meet customer demand for strong technical expertise and advanced technology across their region and these units work together to meet demand peaks in any one location.

We continue to be highly focused on retaining and expanding our blue chip energy and resources customer base. Following the renewal of our major Esso contract, existing contracts with Alcoa and BP Refinery (Kwinana) have also been extended, and we secured new contracts with AGL Torrens Island, Pilbara Iron, Goro Nickel, Wesfarmers (Curragh & Premier Coal) and Oz Minerals Prominent Hill.

Our corporate offices & branch locations

Branch Locations

Corporate Offices

Our major energy, resource and infrastructure customers

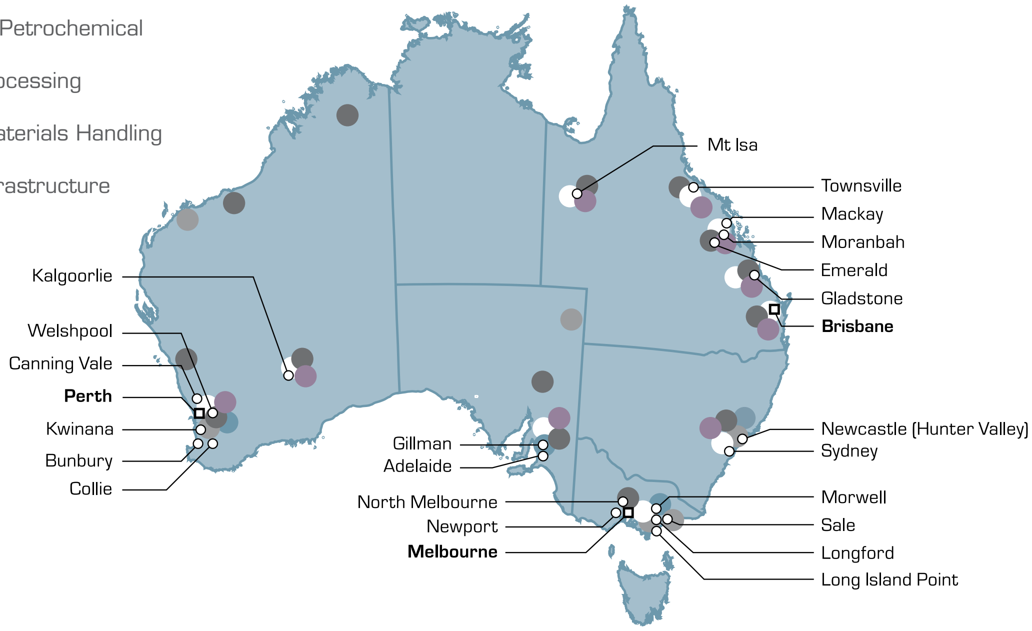
Power

Oil & Gas / Petrochemical

Minerals Processing

Mining & Materials Handling

Water & Infrastructure



People

The rapid growth at PearlStreet resulted in overall staffing numbers growing from 249 full time and casual employees to 544 full time and casual employees during FY2008. During the year, our employees worked in excess of 1.8 million hours.

Growth brings with it increased HR management complexities and to ensure we are positioned to meet these challenges, Clive Patman was appointed as Executive General Manager Human Resources and Industrial Relations, a part of the PearlStreet executive management team. Clive brings extensive experience in the areas of HR and IR management.

Attraction and retention of staff continues to be our biggest challenge and it comes into sharp focus as we grow organically and continue to win new work. During the year, 130 new employees were recruited while 167 employees departed. We regard this result as artificially elevated as a result of the acquisition integration programs. However, a number of initiatives have been implemented to address this ongoing challenge, the key initiative being the implementation of significant trainee programs in conjunction with various state based vocational training providers.

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We now have 53 Trainees working across the Company. Forty of these are engaged as NDT Trainees, the area where we experience our most significant recruitment and retention challenges. The success of these initiatives will be monitored and measured throughout 2008.

In June 2008, the Board approved the PearlStreet Employee Share Ownership Plan and this program was launched in August 2008. This plan will enable employees to purchase shares in PearlStreet using pre-tax salary and to receive a prescribed number of matching shares from PearlStreet. This capacity to share in the future growth of PearlStreet is an important opportunity for employees and a significant part of our response to the attraction and retention challenge.

During FY2009 PearlStreet is required to re-negotiate a range of industrial agreements in each of the States in which it operates. The number of agreements expiring over this period will require a higher level of management resources than previous years. Negotiations will also be required to take into account issues raised by the acquisition of businesses where there has been overlap in the PearlStreet operating subsidiaries. We fully expect to meet and manage this IR challenge and maintain our strong record as a fair and equitable employer that highly values our employees.

Safety

During FY2008 we were not able to maintain our exemplary FY2007 safety record and our LTI frequency rate increased from 2.09 to 4.64 LTIs per million hours worked.

The Company has been taking very strong steps in response to the increased rate of incidents. These include establishing a Safety Management System for the post-acquisition businesses, appointing a National Occupational Health & Safety Manager, and introducing monthly safety themes.

Pleasingly we maintained our nil LTI record at a number of major project sites, including Esso, BP, CBCI and KMK. During FY2008 our BP Kwinana Refinery site was recognised for excellence in both Health, Safety, Security and Environment (HSSE) performance and as best large contractor in the "Service to BP" category. Our largest branch, Welshpool (WA) achieved 1 million hours incident free which is a tremendous achievement on the part of all staff involved.

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Technical Capability

A key operational priority is to retain and strengthen our technical capability. Being a service business, our technology strategy is wholly about developing and leveraging the technical expertise of our people and embracing advanced technologies. We run two NDT trainee schemes, both aimed at establishing a strong technical foundation and a pathway for further engineering qualifications. In FY2008 we invested significantly in new technology and technical training. A hallmark of both the Metlabs and ANDT businesses was a strong technology-focus. We have recently formalised business partner relationships with leading inspection equipment providers and PearlStreet will soon lead the way in the use of digital radiography application during construction in the energy sector.

The technical quality of our work is of utmost importance to our customers. All of the PearlStreet testing and inspection laboratories are National Association of Testing Authorities [NATA] accredited. In FY2009 we are working toward corporate NATA and ISO9001 accreditation which will underpin our one-company strategy by ensuring a common set of policies and procedures across our business units.

Business Geographic Highlights

Queensland

In May 2008 PearlStreet was pleased to officially open a purpose built testing, inspection and asset care facility in Brisbane. The Carole Park branch enabled the amalgamation of NDT; Mechanical Testing; and Materials & Engineering service lines previously housed in separate facilities. The facility also includes a purpose built radiation exposure bay and development room. With the capacity to house up to 120 staff Carole Park also includes training facilities to allow trainees to work alongside a range of experienced staff.

Queensland operations provide exposure across all industry sectors experiencing a greater proportion of project and contract work. PearlStreet's alliance contract with CS Energy continues to mature and is delivering mutual benefits for all participants in the alliance group. Our relationship with Stanwell Corporation and Tarong Energy provide further energy sector exposure.

In addition to providing maintenance NDT for Rio Tinto Alcan's Yarwun refinery in Gladstone, PearlStreet was the successful tenderer to provide NDT services to the Yarwun Stage 2 construction project. Both Brisbane and Gladstone serve as technical hubs for the region, supplying equipment and resources to support our local operations.

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PearlStreet's condition monitoring capacity was substantially expanded through the capabilities and customer base of the former Industrial & Technical Services (ITS) business with Xstrata and BHP Billiton Mitsubishi Alliance among its larger customers. The business also includes an oil analysis laboratory at Mt Isa, enabling PearlStreet to provide this service on an in-house basis.

New South Wales & Victoria

During FY2008 we met or exceeded all contractual conditions with Esso Australia for whom we provide NDT and inspection services and we anticipate working closely with Esso during FY2009 to support their platform upgrades in Bass Strait.

The PearlStreet Sale and Morwell branches are the largest service provider in the Latrobe Valley power sector and during FY2008 we worked with all the power stations. In FY2009 we anticipate working with all the major fabrication businesses supporting the Bass Strait platform upgrades.

Our metropolitan Sydney and Melbourne branches provided important services to industry and particularly through contractual shutdown work for customers such as Shell Refining (Australia) Pty Ltd and Melbourne Water Corporation.

Western Australia & South Australia

The Metlabs acquisition provided PearlStreet with a major presence in the WA market through an established business with a long and respected heritage.

These operations benefited from continuing buoyant trading conditions across all major industry segments. Alcoa of Australia Limited extended its existing contract with PearlStreet to provide a range of services and BP Refinery (Kwinana) Pty Ltd also extended its existing contract. New customer relationships were established with Goro Nickel SAS, OZ Minerals Prominent Hill Operations Pty Ltd and AGL Torrens Island Pty Ltd.

Our Asset Management and Analytical Services Operations continued to support Verve Energy by Operating and Maintaining the Collie Basin Coal Infrastructure ("CBCI") plant at Collie, Western Australia and Operating and Maintaining the 38MW cogeneration plant at the KMK pigment plant at Kwinana, Western Australia. During FY2008 PearlStreet met all performance indicators on both contracts.

In addition, our Analytical Services operation continued to provide fly ash testing, physical ore testing and other associated services. Particularly pleasing was the extension of contract with Wesfarmers Premier Coal Limited.

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Growth

Whilst the focus for FY2008 was very much around post acquisition integrations we have worked closely, with key input from the Board, on a range of growth programs.

At PearlStreet, during FY2009, we will continue to drive strong organic growth opportunities, particularly looking to leverage our market leadership position, increasing industry profile and national operations footprint. We have optimised our corporate and operational cost position and we feel very confident that ongoing strong operations will support strong organic market and service line growth into FY2009.

Whilst recent capital market conditions have clearly impacted the market for acquisitions, we have not stalled in terms of internal analysis of opportunities. Further, as a result of our upgraded market presence, PearlStreet is experiencing an increased inquiry level with respect to potential corporate transactions. Through FY2009 our focus will however remain very firmly on performance optimisation, capital management and organic growth.

Anthony Wooles
Managing Director and CEO.

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David Eiszele

Chairman – Non-Executive

David Eiszele
Chairman – Non-Executive

Age: 67

Qualifications: Dip Civil Eng, MBus (Curtin), FAICD, Past FIE Aust

Experience and expertise: David retired as Managing Director of Western Power in December 2002, a position he held for eight years in a career spanning 38 years in the energy utility industry. He is a past Chairman of the Electricity Supply Association of Australia and a past member of the Business Council of Australia having served as Deputy Chairman of the Energy and Greenhouse task force.

Other current directorships: David is currently Chairman of the Lions Eye Institute Ltd in Western Australia and a Director of Torrens Energy Limited.

Former directorships (in 3 years): None.

Special responsibilities: None.

Interests in shares: 2,943,107 ordinary shares.

Anthony Wooles

Managing Director and Chief Executive Officer

Anthony Wooles
Managing Director and Chief Executive Officer

Age: 47

Qualifications: B Com, Dip App Finance, MBA (Wharton), MAICD, A Fin.

Experience and expertise: Prior to November 2006 Anthony was the Executive Chairman of the parent entity and prior to April 2004 he was the founder and Managing Director of TRUDO Consulting Pty Ltd, a corporate advisory firm specialising in shareholder value-based management consulting finance. TRUDO also undertook engagements in corporate restructuring, mergers and acquisitions and value-based incentive compensation.
Before founding TRUDO, Anthony was a principal consultant in Melbourne with Marakon Associates, a US based shareholder value consulting firm.
Anthony has extensive experience in corporate finance and strategy having acted as an advisor to, and managed large consulting teams in, major Australian companies including Coca-Cola Amatil, Telstra, Coles Myer, Cleanaway, Foodland and Western Power.

Other current directorships: None.

Former directorships (in 3 years): None.

Special responsibilities: None.

Interests in shares: 38,696,497 ordinary shares (51.52% of total ordinary shares issued).

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Phillip Campbell
Non-Executive Director

Phillip Campbell (Phil)

Non-Executive Director

Age: 56

Qualifications: B Eng (Uni of QLD), MAICD, MMESA

Experience and expertise: Phil has over 30 years experience in engineering fields largely related to the resources, industrial construction and technical services sectors of industry both in Australia and Southeast Asia.
His experience includes project management, industrial sales and marketing, R&D and operations management. Phil has spent the last fifteen years in executive management roles including the last ten years at Board level with industrial services businesses. Phil is currently developing a knowledge transfer business involved in strategic asset management for the resources, power and energy industries.

Other current directorships: Director of Transform Management Pty Limited, Fodder King Limited and Riyate Pty Ltd.

Former directorships (in 3 years): Through his past executive management and board positions, Phil has had an active role in shaping the industrial services sector in which PearlStreet now operates. His past roles have included Managing Director of HRL Services Pty Limited, ETRS Pty Limited, HRL Technology Pty Limited, ACIRL Limited, ACIRL Quality Testing Pty Limited, and CW Pope Pty Limited.

Special responsibilities: Member of the Audit and Risk Committee.

Interests in shares: 503,628 ordinary shares

James McDonald
Non-Executive Director

James McDonald (Jim)

Non-Executive Director

Age: 68

Qualifications: FAICD

Experience and expertise: Jim retired as Managing Director of the Australian Pipeline Trust in 2005, a position he held for five years in a career spanning 35 years in oil and gas production and pipeline operations. He has extensive experience in pipeline industry representation, having served as President of the Australian Pipeline Industry Association (APIA), as Councillor on The Australian Council for Infrastructure Development, and on the Board of the Australian Gas Association. He has been awarded life membership of APIA.

Other current directorships: Jim is Chairman of WDS Limited and a Director of Hastings Fund Management Limited.

Former directorships (in 3 years): Chairman of Vortex Pipes Limited.

Special responsibilities: Chairman of the Audit and Risk Committee.

Interests in shares: 35,743 ordinary shares.

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John Atkins

Non-Executive Director

Age: 53

Qualifications: LLB, LLM, FAICD

Experience and expertise: John recently retired as a partner with Freehills, one of Australia's leading law firms, as the head of the Perth office. John has over 25 years of commercial law experience including sophisticated financing and corporate transactions.

Other current directorships: John is Chairman of Breakaway Resources Limited, Deputy Chairman of Committee for Perth Ltd and a Director of Lions Eye Institute Ltd and the Chamber of Commerce and Industry of Western Australia and Australian Finance Group Limited.

Former directorships (in 3 years): Former Director of Alinta Infrastructure Holdings Ltd.

Special responsibilities: None.

Interests in shares: 217,097 ordinary shares.

John Atkins
Non-Executive Director

Company Secretary

Josephine Pane (Josie) has over 20 years experience in finance and administrative roles, including 13 years within the energy services sector. Josie has overall responsibility for the Company's finance and accounting functions including cash flow and capital budgeting. Josie also manages company secretarial functions, banking, insurance, IT, leasing, commercial and contract administration. Josie commenced with the former parent company of PearlStreet ETRS Pty Ltd in May 1995 and transferred to the company following its acquisition of PearlStreet ETRS Pty Ltd in July 2005. Josie is based in Melbourne, Victoria.

Josephine Pane
CFO and Company secretary

Meetings of Directors

The numbers of meetings of the Company's board of directors and of each board committee held during the year ended 30 June 2008, and the numbers of meetings attended by each director were:

	Full board		Audit and Risk Committee	
Name	Attended	Held	Attended	Held
David Eiszele	20	20	–	–
Anthony Wooles*	20	20	3	–
Phillip Campbell	18	20	3	3
James McDonald	19	20	3	3
John Atkins	20	20	–	–

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

*Anthony Wooles attended Audit and Risk Committee meeting as a guest.

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Corporate Governance Statement

The Board of Directors ("Board") has overall responsibility for the corporate governance of the Company. This responsibility is discharged through a variety of mechanisms including rules, policies, committees, systems and processes that provide a framework for authorising, monitoring and reviewing the activities of management, employees and the Company itself.

The Australian Securities Exchange published the Corporate Governance Principles and Recommendations 2nd Edition in August 2007. Other than the requirements prescribed by ASX LR 12.7 for companies within the S & P All Ordinaries Index, the Corporate Governance Principles and Recommendations take effect as guidelines and are not mandatory.

Pursuant to LR 4.10.3, the Company is required to publish a statement on the extent to which it has followed the best practice recommendations and if not, provide reasons for not following them.

Principle 1
Lay Solid Foundations for Management and Oversight

Principle 1 requires that the respective roles of the Board and management are clearly defined.

The Board operates within a Board Charter that is published on the Company's website. The Board Charter sets out the requirements for the:

- Composition of the Board;
- Role of the Board;
- Directors' term of office;
- Selection of new directors
- Delegation of Board functions
- Review of Board Charter

The Board is responsible for the adoption, review and monitoring of the Company's long-term strategy and providing strategic direction to management as required. Directors receive a letter of appointment and are also parties to Deeds of Indemnity, Insurance and Access with the Company. Subject to Board policies, directors are also entitled to receive independent advice with respect to the discharge of their responsibilities.

Board powers with respect to the day-to-day management of the Company are delegated in writing to the Managing Director and the Board is responsible for the monitoring of management performance under this delegation.

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Principle 2
Structure the Board to Add Value

The Board comprises a non-executive Chair, the Managing Director and three non-executive directors. The skills, experience and expertise of the Directors are set out in the Board of Directors section (pages 16-18).

The Board considers Mr Jim McDonald to be an independent director for the purposes of Principle 2. The Board acknowledges the recommendation that a majority of the Board should be independent directors, however, for a company of PST's size and history the Board regards the requirement that a majority of the members comprise independent directors as unduly onerous and potentially not in the best interests of the Company at its current state of development.

The Board considers the Chair David Eiszele to satisfy the requirements of independence and the recommendation 2.2 requirement that the Chair should be an independent director. Until September 2004 Mr Eiszele held an executive position with the Company prior to its conversion to a listed public company structure. Mr Eiszele's shareholding in the Company is below the 5% limit and he is not a "substantial" shareholder within the section 9 Corporations Act definition.

Phillip Campbell does not meet the Principle 2 definition of independence by virtue of executive service with the Company while it was a proprietary limited company. Based on current arrangements, he will become independent director for the purposes of Principle 2 with the effluxion of time.

John Atkins does not meet the Principle 2 definition of independence by virtue of his partnership in Freehills a material professional advisor to the Company. Mr Atkins retired from the Freehills partnership on 30 June 2008.

The Company departs from Recommendation 2.4 as it has not established a nomination committee. The Board considers that the functions of a nomination committee can be adequately discharged by the Board as and when required.

Subject to Board policies, directors are entitled to receive independent advice with respect to the discharge of their responsibilities to the Company. During 2008 no director sought such independent advice.

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Principle 3
Promote Ethical and Responsible Decision Making

The Company operates under a number of policies that address employee conduct, including a specific Securities Dealing Policy. All policies apply to directors and employees of the Company and selected policies are available on the Company website. All policies are available through an Integrated Management System via a company-wide intranet.

Directors' letters of appointment deal with the requirement to provide notification of potential conflicts. Directors may make both standing notices of conflict and specific notices as matters arise.

The Company's Securities Dealing Policy allows directors and senior management to trade in a 31 day window period 48 hours following the full and half year results announcements with the prior permission of the Chair or Board. Employees and contractors may trade in this window period without prior permission. Persons with inside information for the purposes of the Corporations Act may not trade at any time. During 2008 the Board allowed an application from the Managing Director Anthony Wooles to purchase shares outside the window period to maintain an orderly market in the Company's shares following the collapse of the Opes Prime stockbroking firm. This transaction was announced to the ASX on 8 April 2008.

Principle 4
Safeguard Integrity in Financial Reporting

Both the CEO and CFO are required to state in writing to the Board that the Company's financial statements present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards.

The Company has an audit and risk committee comprising Mr Jim McDonald (Chair) and Mr Phillip Campbell. The audit and risk committee operates under a written charter. The Audit and Risk Committee met three times in FY2008 and both members were present.

The Company departs from Recommendation 4.3 in that the audit committee does not have at least three members. The Board takes the view that, after excluding the Chair and Managing Director, the members of the Audit and Risk Committee comprise those directors whose experience and expertise are best able to discharge its functions.

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Principle 5
Make Timely and Balanced Disclosure

The Company has an Information Policy that deals with both confidential information and external information that may fall within the continuous disclosure regime established by ASX Listing Rule 3.1. The Information Policy is available on the Company's website and intranet.

The Information Policy covers directors and senior management. The Information Policy provides that the Company Secretary is the officer with primary responsibility for communications with the ASX and establishes a sign-off procedure for ASX announcements.

Principle 6
Respect the Rights of Shareholders

The primary communication with shareholders is through the Company's Annual Report and financial statements. Additional communication includes ASX interim reports and announcements under the continuous disclosure regime. The Company also publishes StreetTalk, a newsletter for stakeholders that provides updates on current activities and items of interest.

The Company maintains a corporate website. This has been progressively upgraded throughout the year. ASX announcements, broker presentations and other public communications are posted to the website at the earliest opportunity. The website also carries current and past copies of StreetTalk.

The Company's first AGM as an ASX listed entity was held on 26 November 2007.

Principle 7
Recognise and Manage Risk

Principle 7 requires that the Board establish a sound system of risk oversight and management and internal control. The Board has established an Audit and Risk Committee under a written charter that is available on the Company's website and internal intranet. The primary role of the Audit and Risk Committee is to monitor and review, on behalf of the Board, the effectiveness of the Company's internal environment. The Committee meets and receives regular reports from its external auditors and is responsible for the review of the external auditors' performance. Internal financial and NATA required audits are undertaken regularly. The Company engages external consultants to undertake health and safety audits.

The Company uses a structured risk management assessment to assess risks within its contractual relationships. The risk management assessment was developed in conjunction with the Company's insurance brokers and is an integral component of managing the Company's business undertakings.

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The Company maintains a range of insurance policies across its major risk areas. These are reviewed annually and may be varied based on changes in the Company's requirements or coverage available in the Australian insurance and re-insurance markets.

The Board requires that both the CEO and CFO provide a statement under Recommendation 7.2 to the effect that the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards and implements the policies adopted by the Board. The statement also requires an affirmation that the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

Principle 8
Encourage Enhanced Performance

The Board receives monthly reports from management on various dimensions of Company performance. Directors may also request additional information to supplement Board papers through the Chair.

CEO performance targets for FY2009 will be agreed and form part of the contractual arrangements with the CEO. These will be reset on an annual basis and subject to review by the Board. CEO performance payments when introduced will be determined by the Board against quantitative and qualitative targets.

The Board undertakes an annual structured self-assessment of Board effectiveness. The Board has not used any external assessment of Board performance as it is considered that the individual directors have sufficient external experience to make an objective assessment of the Company's Board performance. The Board reviews its performance at the conclusion of meetings.

Principle 9
Remunerate Fairly and Responsibly

The objectives of the Company's remuneration practices are to ensure individual remuneration is both market competitive and aligned with performance and overall Company results.

The Board assesses the Company's remuneration practices against a range of criteria including: external comparisons, nature of performance linkage, adequacy of performance linkage, alignment with strategic objectives and relationship to shareholder returns. These criteria are not exhaustive and may require the Board through the M.D. to balance potentially competing interests.

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Principle 10
Recognise the Legitimate Interests of Stakeholders

Recommendation 10.1 requires that a company establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders.

PearlStreet does not operate under a single code of conduct. The obligations identified under Principle 10 are contained within a suite of policies that address the Company's obligations to its wider stakeholders.

Employment practices are addressed by policies covering:

- Health & safety
- Drug & alcohol
- Equal opportunity and Affirmative Action
- Rehabilitation
- Personal Conduct
- Diversity

Employee conduct is covered by policies including: email and internet; mobile phone; company travel; securities dealing and annual leave.

The Company is committed to delivering the highest quality services and technical excellence to our customers. The Company maintains quality systems to ensure its operating subsidiaries meet the certification requirements of the National Association of Testing Authorities ("NATA") where these are required. A number of internal databases are maintained to log incidents including complaints and improvement opportunities.

The Company operates under a global environmental policy that commits the Company to meeting legislative and other regulatory guidelines. Depending upon the nature of the Company's contractual requirements individual environmental management plans may also be required on a site-by-site basis.

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Directors' Statutory Report

The directors present their report on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of PearlStreet Limited and the entities it controlled for the year ended 30 June 2008.

Directors

The following persons were directors of PearlStreet Limited during the financial year and up to the date of this report:

David Eiszele

Anthony Wooles

Phillip Campbell

James McDonald

John Atkins

Principal activities

During the financial year the principal continuing activities of the consolidated entity consisted of the provision of asset management, inspection, testing and asset care services to the energy, resources and infrastructure sectors.

Dividends – PearlStreet Limited

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

	2008 $	2007 $
Final ordinary dividend for the year ended 30 June 2007 of 1.6 cents per fully paid share paid on 28 September 2007	772	–
Interim ordinary dividend for the year ended 30 June 2007 of 2.925 cents per fully paid share paid on 30 September 2006	–	585
Interim ordinary dividend for the year ended 30 June 2008 of 0.6 cents per fully paid share paid on 3 April 2008	332	–
Special ordinary dividend for the year ended 30 June 2007 of 1.151 cents per fully paid share paid on 3 February 2007	–	250
	1,104	835

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Review of operations

The operating profit for the consolidated entity after providing for income tax amounted to $1,076,000 (2007: $1,632,000).

During FY08 PearlStreet Limited completed the integration of three key acquisitions, with the effect of more than doubling the scale of the business and securing a market leadership position in the Australian Non-Destructive Testing and Inspection industry.

Since completing the three key acquisitions in early FY08, PearlStreet has undertaken an intensive program of integration, at a cost of $950,000. This program, focused on payroll and accounting platform investment, management restructuring and company re-branding and is now complete. As a result we have effectively integrated and settled the operating and financial platform for the business nationally. Further, PearlStreet will enter FY09 with an optimal corporate and operating overhead position.

The previous Metlabs/ITS business has, for the 11 months, exceeded revenue and profitability targets and Accura has met revenue and profitability targets. The previous Australian NDT business that had underperformed to the half year has improved significantly in the second half.

The Directors, in light of ongoing capital markets volatility, have continued to closely monitor cash flow. The Group has met and exceeded all the key commercial parameters established by our banking partners. With the strong performance evident in late FY08, the Directors look forward to a strong FY09 result and confirm the previous guidance of strong single digit revenue growth and sustainable 12% EBITDA margins.

Significant changes in the state of affairs

Accura

On 1 July 2007 PearlStreet Limited acquired PearlStreet Accura Pty Limited (formerly known as Accura Analytical Laboratories Pty Limited), a subsidiary, for $5,785,000. The principal activity of this subsidiary is chemical testing services to the coalpowered electricity market.

Australian NDT

On 1 July 2007 PearlStreet ETRS Pty Limited, a subsidiary, acquired the business of Australian NDT for $5,564,000. The principal activity of this business is non-destructive testing.

Metlabs and ITS

On 1 August 2007 PearlStreet Metlabs Pty Limited, a subsidiary, acquired the businesses of Metlabs and ITS from Leighton Holdings for $36,691,000. The principal activity of the Metlabs business is engineering analysis, condition monitoring, non-destructive testing, metallurgical services and lubrication services. The principal activity of the ITS business is condition monitoring.

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Matters subsequent to the end of the financial year

As part of the final completion of the share purchase plan which commenced June 2008, in July 2008 7,452,770 ordinary shares were issued to director Anthony Wooles as sub-underwriter. As part of the director's placement, in July 2008 2,677,778 ordinary shares were issued to the following directors: Anthony Wooles 2,647,778 ordinary shares and Phillip Campbell 30,000 ordinary shares. These share transactions raised $3,331,000 and the related transaction costs were $77,000.

On 27 August 2008 the directors declared a fully franked dividend of 1.05 cents per ordinary share to be paid on 26 September 2008, a total estimated distribution of $676,000 based on the number of ordinary shares on issue as at 27 August 2008.

Apart from the matters discussed above, no other matter or circumstance has arisen since 30 June 2008 that has significantly affected, or may significantly affect the consolidated entity's operations in future financial years, the results of those operations in future financial years, or the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations

Please refer to the chairman's report and managing director's report.

Further information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this annual report because the directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

Environmental regulation

The consolidated entity is subject to various environmental regulations in respect of its branch operations.

The consolidated entity holds licenses for dangerous goods and radioactive isotopes. These licenses arise under the requirements of various State and Commonwealth government regulations.

Management has set out a number of operational systems and controls to ensure compliance with the various environmental regulations.

The consolidated entity had no adverse environmental issues during the year.

Remuneration report (audited)

The remuneration report is set out under the following main headings:

A. Principles used to determine the nature and amount of remuneration

B. Details of remuneration

C. Service agreements

D. Share-based compensation

The information provided under headings A-D includes remuneration disclosures that are required under Accounting Standard AASB 124 Related Party Disclosures. These disclosures have been transferred from the financial report and have been audited.

A) Principles used to determine the nature and amount of remuneration

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms with market best practice for delivery of reward. There is no direct link between remuneration of executive directors' and other key management personnel and the share price movement. Remuneration is based on management key performance indicators, targets and other benchmarks as determined by the Board or the Managing Director. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- transparency
- capital management

In consultation with external remuneration consultants, the Group has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the organisation.

Alignment to shareholders' interests:

- has economic profit as a core component of plan design
- focuses on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant return on assets as well as focusing the executive on key non-financial drivers of value
- attracts and retains high calibre executives

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Alignment to program participants' interests:

• rewards capability and experience

• reflects competitive reward for contribution to growth in shareholder wealth

• provides a clear structure for earning rewards

• provides recognition for contribution

Non-executive directors' fees

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the board. The Board has also agreed to the advice of independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. The chairman's fees are determined independently to the fees of non-executive directors based on comparative roles in the external market. The chairman is not present at any discussions relating to determination of his own remuneration. Non-executive directors do not receive share options.

The non-executive directors received the following fees:

• base fee of $30,000 per annum plus superannuation

• chairman receives an additional fee of $10,000 per annum plus superannuation

The remuneration payable from time to time to non-executive directors shall be in an amount not exceeding in aggregate a maximum sum that is from time to time approved by resolution of the Company, currently $200,000 per annum.

Executive pay

The executive pay and reward framework has four components:

• base pay and benefits

• short-term performance incentives

• share issues

• other remuneration such as superannuation

The combination of these comprises the executive's total remuneration.

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B) Details of Remuneration

Amounts of remuneration

Details of the remuneration of the directors, the key management personnel of the consolidated entity (as defined in AASB 124. Related Party Disclosures) and specified executives of PearlStreet Limited are set out in the following tables.

The key management personnel of the consolidated entity are the directors of PearlStreet Limited and the following executives:

- Josephine Pane – Chief Financial Officer and Company Secretary
- Wayne Martyn – General Manager – Asset Management and Engineering (resigned on 7 January 2008)
- Eric Kreutzer – General Manager – Business Development
- Tina Rigoli – National Manager – Human Resources (change in role on 28 March 2008)
- Kristen Walsh – Chief Operating Officer (appointed on 1 October 2007)
- Arthur Harvey – Metlabs General Manager (retired on 2 April 2008)
- Clive Patman – Executive General Manager HR and IR (appointed on 28 March 2008)

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2008	Short-term benefits		Post employment benefits	Termination benefits	Share-based payments	Total
Name	Salary $	Bonus $	Superannuation $	Termination $	Shares $	$
Non-executive directors:						
David Eiszele	40,000	–	3,600	–	–	43,600
Phillip Campbell	30,000	–	2,700	–	–	32,700
James McDonald	30,000	–	2,700	–	–	32,700
John Atkins	30,000	–	2,700	–	–	32,700
Executive directors:						
Anthony Wooles	298,077	–	26,415	–	–	324,492
Other key management personnel:						
Josephine Pane	225,000	55,000	27,450	–	–	307,450
Wayne Martyn	138,865	55,000	15,011	–	–	208,876
Eric Kreutzer	180,060	30,000	21,155	–	–	231,215
Tina Rigoli	88,721	7,000	8,590	–	–	104,311
Kristen Walsh	179,040	–	16,113	–	–	195,153
Arthur Harvey	271,023	–	24,957	–	–	295,980
Clive Patman	52,224	–	4,700	–	–	56,924

2007	Short-term benefits		Post employment benefits	Termination benefits	Share-based payments	Total
Name	Salary $	Bonus $	Superannuation $	Termination $	Shares $	$
Non-executive directors:						
David Eiszele	28,678	–	2,851	–	–	31,529
Phillip Campbell*	122,423	20,000	11,018	13,753	–	167,194
James McDonald	17,500	–	1,575	–	–	19,075
John Atkins	17,500	–	1,575	–	–	19,075
Executive directors:						
Anthony Wooles	215,948	–	19,379	–	–	235,327
Garry Gillies	30,057	2,936	2,705	–	–	35,698
Other key management personnel:						
Josephine Pane	155,963	35,000	14,036	–	1,000	205,999
Wayne Martyn	155,963	35,000	17,186	–	1,000	209,149
Eric Kreutzer	148,958	35,000	13,406	–	1,000	198,364
Robin Malcolm	56,365	20,000	7,313	91,851	–	175,529
Tina Rigoli	79,910	5,000	7,692	–	750	93,352

*Ceased being an executive during the year.

C) Service Agreements

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

Name:	Anthony Wooles
Title:	Managing Director
Agreement commenced:	8 July 2006
Term of agreement:	5 years
Details:	6 month termination notice, bonus payment as per Board approval, non-solicitation and non-competition clauses.

Name:	Josephine Pane
Title:	Chief Financial Officer and Company Secretary
Agreement commenced:	2 May 1995
Term of agreement:	Not specified.
Details:	3 month termination notice, bonus of 15–30% as per Board approval and KPI achievement, non-solicitation and non-competition clauses

Name:	Eric Kreutzer
Title:	General Manager – Business Development
Agreement commenced:	8 December 2003
Term of agreement:	Not specified.
Details:	3 month termination notice, bonus of 5–30% as per Board approval and KPI achievement, non-solicitation and non-competition clauses.

Name:	Kristen Walsh
Title:	Chief Operating Officer
Agreement commenced:	1 October 2007
Term of agreement:	Not specified.
Details:	12 weeks termination notice, bonus of 15–25% on achievement of Project Outcomes at the discretion of the Managing Director, non-solicitation and non-competition clauses.

Name:	Clive Patman
Title:	Executive General Manager HR and IR
Agreement commenced:	28 March 2008
Term of agreement:	Not specified.
Details:	12 weeks termination notice, bonus of 5–15% on achievement of KPI's at the discretion of the Managing Director, non-solicitation and non-competition clauses.

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D) Share-based Compensation

Issue of shares

There were no shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2008.

Options

There were no options outstanding as at 30 June 2008.

There were no options granted or exercised during the year ended 30 June 2008.

Insurance of officers

During the financial year, the Company paid a premium in respect of a contract to insure the directors of the Company against a liability as such a director to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of liability and the amount of the premium.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 35 in the financial report.

The directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 35 in the financial report do not compromise the external auditor's independence for the following reasons:

- all non-audit services have been reviewed and approved to ensure that 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 Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

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Auditor's independence declaration

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

Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding-off' of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of directors.

On behalf of the directors

Anthony Wooles
Director

Dated this 28th day of August 2008
Melbourne

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
ABN 52 780 433 757

Freshwater Place
2 Southbank Boulevard
SOUTHBANK VIC 3006
GPO Box 1331L
MELBOURNE VIC 3001
DX 77
Telephone 61 3 8603 1000
Facsimile 61 3 8603 1999

Auditor's Independence Declaration

As lead auditor for the audit of PearlStreet Limited for the year ended 30 June 2008, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of PearlStreet Limited and the entities it controlled during the period.

Chris Dodd
Partner
PricewaterhouseCoopers

Melbourne
28 August 2008

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General Information

This financial report covers both PearlStreet Limited as an individual entity and the consolidated entity consisting of PearlStreet Limited and its subsidiaries. The financial report is presented in Australian currency.

PearlStreet Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 19
HWT Tower
40 City Road
Southbank VIC 3006

A description of the nature of the consolidated entity's operations and its principal activities is included in the directors' report, which is not part of this financial report.

The financial report was authorised for issue by the directors on 27 August 2008.

Through the use of the internet, we have ensured that our corporate reporting is timely and complete. All press releases, financial reports and other information are available at our Investor Relations page on our website: www.pearlstreet.com.au

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PearlStreet Limited (formerly known as PearlStreet Energy Pty Ltd) Income Statement for the year ended 30 June	Note	Consolidated 2008 $'000	Consolidated 2007 $'000	Parent entity 2008 $'000	Parent entity 2007 $'000
Revenue from continuing operating activities	4	83,498	37,293	3	274
Other income	5	307			
Expenses					
Raw materials and consumables used		(9,700)	(2,439)	–	–
Employee benefits expense		(53,429)	(25,832)	(1,812)	(918)
Depreciation and amortisation expense		(3,718)	(1,106)	(13)	(14)
Consultancy and professional expenses		(1,953)	(829)	(384)	(140)
Rent and outgoings		(1,826)	(870)	(1)	(5)
Other expenses		(7,766)	(2,959)	(875)	(112)
Finance costs	6	(3,701)	(696)	(3,489)	(610)
Profit/(loss) before income tax (expense)/benefit		1,712	2,562	(6,571)	(1,525)
Income tax (expense)/benefit	7	(636)	(930)	1,981	529
Profit/(loss) after income tax (expense)/benefit attributable to members of PearlStreet Limited		1,076	1,632	(4,590)	(996)

		Cents	Cents
Basic earnings per share	45	1.96	5.06
Diluted earnings per share	45	1.96	5.06

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PearlStreet Limited (formerly known as PearlStreet Energy Pty Ltd)

Balance Sheet as at 30 June

		Consolidated		Parent entity	
		2008	2007	2008	2007
	Note	$'000	$'000	$'000	$'000
Current assets					
Cash and cash equivalents	8	227	6	–	–
Trade and other receivables	9	19,343	5,997	1,867	50
Inventories	10	514	187	–	–
Derivative financial instruments	11	253	–	253	–
Income tax receivable	12	979	–	863	–
Other	13	887	655	23	–
Total current assets		22,203	6,845	3,006	50
Non-current assets					
Receivables	14	–	–	507	1,170
Other financial assets	15	–	–	55,460	7,420
Property, plant and equipment	16	10,541	4,043	104	59
Intangible assets	17	43,566	4,622	–	–
Deferred tax assets	18	2,109	1,295	468	405
Other	19	–	341	–	341
Total non-current assets		56,216	10,301	56,539	9,395
Total assets		78,419	17,146	59,545	9,445
Current liabilities					
Trade and other payables	20	5,779	2,443	218	256
Borrowings	21	15,228	1,448	15,821	1,762
Income tax	22	–	751	–	751
Provisions	23	4,495	2,548	172	105
Other	24	1,380	449	628	5
Total current liabilities		26,882	7,639	16,839	2,879
Non-current liabilities					
Borrowings	25	32,992	2,816	35,088	2,441
Deferred tax	26	2,409	82	84	–
Provisions	27	1,407	898	53	17
Retirement benefit obligations	28	60	–	–	–
Total non-current liabilities		36,868	3,796	35,225	2,458
Total liabilities		63,750	11,435	52,064	5,337
Net assets		14,669	5,711	7,481	4,108
Equity					
Contributed equity	29	13,767	4,877	13,767	4,887
Reserves	30	96	–	177	–
Retained profits/(accumulated losses)	31	806	834	(6,463)	(769)
Total equity		14,669	5,711	7,481	4,108

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Statements of recognised income and expense For the year ended 30 June	Consolidated 2008	 2007	Parent entity 2008	 2007
	$'000	$'000	$'000	$'000
Cash flow hedges, net of tax	177	–	177	–
Actuarial (losses)/gains on retirement benefit obligation, net of tax	(81)	–	–	–
Net income recognised directly in equity	96	–	177	–
Profit/(loss) after income tax (expense)/benefit	1,076	1,632	(4,590)	(996)
Total recognised income and expense for the year	1,172	1,632	(4,413)	(996)

PearlStreet Limited (formerly known as PearlStreet Energy Pty Ltd) Cash flow statement for the year ended 30 June	Note	Consolidated 2008	 2007	Parent entity 2008	 2007
	Note	$'000	$'000	$'000	$'000
Cash flows from operating activities					
Receipts from customers (inclusive of GST)		86,977	40,280	–	–
Payments to suppliers (inclusive of GST)		(81,188)	(36,783)	(2,316)	(1,105)
		5,789	3,497	(2,316)	(1,105)
Interest received		61	35	3	24
Other revenue		11	18	–	–
Interest and other finance costs paid		(3,701)	(696)	(3,489)	(610)
Income taxes paid		(1,639)	(599)	(1,523)	(599)
Net cash inflow/(outflow) from operating activities	43	521	2,255	(7,325)	(2,290)
Cash flows from investing activities					
Payment for expenses relating to acquisitions		(46,642)	(342)	(46,800)	(341)
Payments for property, plant and equipment	16	(2,898)	(987)	(57)	–
Proceeds from sale of property, plant and equipment		1,307	–	–	–
Net cash inflow/(outflow) from investing activities		(48,233)	(1,329)	(46,857)	(341)
Cash flows from financing activities					
Proceeds from issue of shares	29	8,008	5,000	8,008	5,000
Proceeds from borrowings		42,270	–	46,009	2,666
Share issue transaction costs		(494)	(1,441)	(494)	(1,441)
Dividends paid	32	(352)	(835)	(352)	(835)
Repayment of borrowings		(5,049)	(4,645)	(3,600)	(3,511)
Net cash inflow/(outflow) from financing activities		44,383	(1,921)	49,571	1,879
Net increase/(decrease) in cash and cash equivalents		(3,329)	(995)	(4,611)	(752)
Cash and cash equivalents at the beginning of the financial year		(3)	992	(460)	292
Cash and cash equivalents at the end of the financial year	8	(3,332)	(3)	(5,071)	(460)
Financing arrangements	25				
Non-cash investing and financing activities	44				

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Note 1. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Comparative information

To ensure consistency with the current financial year, comparative information may have been reclassified to ensure comparability.

Basis of accounting

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRSs), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001.

Compliance with IFRSs

Australian Accounting Standards include AIFRSs. Compliance with AIFRSs ensures that the consolidated entity financial report conforms with International Financial Reporting Standards (IFRSs).

Historical cost convention

This financial report has been prepared under the historical cost convention, as modified where applicable by the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss, investment property and certain classes of property, plant and equipment.

Critical accounting estimates

The preparation of this financial report in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial report, are disclosed in note 2.

Principles of consolidation

The consolidated financial report incorporate the assets and liabilities of all subsidiaries of PearlStreet Limited ('company' or 'parent entity') as at 30 June 2008 and the results of all subsidiaries for the year then ended. PearlStreet Limited and its subsidiaries together are referred to in this financial report as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the consolidated entity.

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Principles of consolidation (continued)

Intercompany transactions, balances and unrealised gains on transactions between companies in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.

Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different to those of segments operating in other economic environments.

Revenue recognition

Sales revenue represents revenue earned from the consolidated entity's services provided by both internal and external sources, net of discounts and taxes paid.

Sales revenue is recognised when the service is completed, the amount of revenue can be reliably measured and it is probable that the economic benefits associated with the transaction will flow to the consolidated entity. For long-term contracts, progress billing is undertaken monthly for completed work to clear the work in progress account accumulated during the month and an estimation of the profit or loss is recognised at that time. For other contracts and service agreements, progress billing may occur periodically for completed work as undertaken by the consolidated entity. All other services are invoiced subsequent to completion.

Interest revenue is recognised using the effective interest method. It includes amortisation of any discount or premium.

Other revenue is recognised when it is received or when the right to receive payment is established.

Income tax

The income tax expense or benefit for the period is the tax payable on the current year's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted.

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Income tax (continued)

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.

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

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

PearlStreet Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime from 1 July 2004. Each entity in the group recognises its own current and deferred tax liabilities, except for any deferred tax liabilities resulting from unused tax losses and tax credits which are immediately assumed by the parent entity. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right. The current tax liability of each group entity is then subsequently assumed by the parent entity. In addition to its own current and deferred tax amounts, PearlStreet Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax credits assumed from subsidiaries in the tax consolidated group. The tax consolidated group has entered a tax funding agreement whereby each company in the group contributes to the income tax payable in proportion to their tax payable.

Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

Trade receivables

All trade debtors are recognised at the amounts receivable as they are due for settlement by no more than 30 days.

Collectibility of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impairment of receivables is raised when there is objective evidence that it will not be collected.

The amount of the impairment loss is recognised in the income statement within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the income statement.

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Inventories

Work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Derivatives not designated into an effective hedge relationship are classified as a current asset or current liability.

Investments and other financial assets

Investments and other financial assets are stated at the lower of their carrying amount and fair value less costs to sell. The fair values of quoted investments are based on current bid prices. For unlisted investments, the consolidated entity establishes fair value by using valuation techniques. These include the use of recent arms length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models.

Property, plant and equipment

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

Plant and equipment is measured on the cost basis less depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually by directors for indications of impairment. If any such indications exist, an impairment test is carried out, and any impairment losses on the assets recognised.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, 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 measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

The depreciable amount of all fixed assets including buildings and capitalised lease assets, but excluding land, is depreciated on a straight line basis over their useful lives (commencing from the time the asset is ready for use). Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

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Property, plant and equipment (continued)

The depreciable amount is the carrying value of the asset less estimated residual amounts. The residual amount is based on what a similar asset of the expected condition of the asset at the end of its useful life could be sold for.

Property plant and equipment is measured initially at cost. Cost includes all directly attributable expenditure incurred including costs to get the asset ready for its use as intended by management. Cost includes an estimate of any expenditure expected to be incurred at the end of the asset's useful life, including restoration, rehabilitation and decommissioning costs.

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

Buildings	2.50%
Leasehold improvements	10 – 33%
Plant and equipment	5 – 33%
Motor vehicles	15%

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

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement.

Leases

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incident to ownership of leased non-current assets, and operating leases under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs.

The leased asset is depreciated on a straight line basis over the term of the lease, or where it is likely that the consolidated entity will obtain ownership of the asset, the life of the asset.

Operating lease payments are charged to the income statement in the periods in which they are incurred, as this represents the pattern of benefits derived from the leased assets.

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Intangible assets

Goodwill

Where an entity or operation is acquired, the identifiable net assets acquired are measured at fair value. The excess of the fair value of the cost of acquisition over the fair value of the identifiable net assets acquired is brought to account as goodwill. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the consolidated entity's investment in each subsidiary.

Customer contracts

Customer contracts acquired as part of a business combination are recognised separately from goodwill. The customer contracts are carried at their fair value at the date of acquisition less accumulated amortisation and impairment losses. Amortisation is calculated based on the timing of projected cash flows of the contracts over their estimated useful lives, which currently vary from 1 to 10 years.

Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Other assets are reviewed for impairment 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. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 60 days of recognition.

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Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities, which are not an incremental cost relating to the actual draw-down of the facility, are recognised as prepayments and amortised on a straight-line basis over the term of the facility.

Borrowings are classified as current liabilities unless the consolidated entity has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Finance costs

Finance costs are recognised as expenses in the period in which they are incurred. Finance costs include interest on:

- the bank overdraft
- short-term and long-term borrowings
- finance leases

Provisions

Provisions are recognised when the consolidated entity has a present obligation (legal or constructive) as a result of a past event, it is probable the consolidated entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation.

Employee benefits

Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables and provisions 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 liability for long service leave is recognised in provisions and 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.

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Retirement benefit obligations

Certain employees of PearlStreet Metlabs Pty Limited (formerly Mayfield Engineering Pty Ltd T/As Metlabs a wholly owned subsidiary of Leighton Contractors), a subsidiary, are entitled to benefits from the sub-plan of the Leighton's superannuation plan on retirement, disability or death. The defined benefit section provides defined lump sum benefits based on years of service and final average salary.

A liability or asset in respect of defined benefit superannuation plans is recognised in the balance sheet, and is measured as the present value of the defined benefit obligation at the reporting date less the fair value of the superannuation fund's assets at that date and any unrecognised past service cost. The present value of the defined benefit obligation is based on expected future payments which arise from membership of the fund to the reporting date, calculated annually by independent actuaries 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 national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, outside profit or loss directly in the statement of recognised income and expense.

Past service costs are recognised immediately in income, unless the changes to the superannuation fund are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

Share-based payments

Share-based compensation benefits are provided to employees. The fair value of options granted is recognised as an expense with a corresponding increase in equity.

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

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Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are included in the cost of the acquisition as part of the purchase consideration.

Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the company, on or before the end of the financial year but not distributed at balance date.

Business combinations

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the consolidated entity's share of the identifiable net assets acquired is recorded as goodwill (refer to note 1). If the cost of acquisition is less than the consolidated entity's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

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Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial 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.

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the Australian Taxation Office (ATO). In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included in other receivables or other payables in the balance sheet.

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

Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding-off' of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

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New accounting standards and interpretations

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

AASB 8 Operating Segments and AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8

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

Revised AASB 123 Borrowing Costs and AASB 2007-6 Amendments to Australian Accounting Standards arising from AASB 123 (AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12)

The revised AASB 123 is applicable to annual reporting periods commencing on or after 1 January 2009. It has removed the option to expense all borrowing costs and – when adopted – will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. There will be no impact on the financial report of the consolidated entity, as the consolidated entity already capitalises borrowing costs relating to qualifying assets.

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

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

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Revised AASB 3 Business Combinations

A revised AASB 3 was issued in March 2008 and is applicable for annual reporting periods beginning on or after 1 July 2009. There are a number of changes in this standard. For example, it requires the expensing of transaction costs relating to acquisitions. Currently these costs are included in the cost of acquisitions. This standard will impact the consolidated entity's accounting for acquisitions made after 1 July 2009.

AASB-I 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

AASB-I 14 will be effective for annual reporting periods commencing on or after 1 January 2008. It provides guidance on the maximum amount that may be recognised as an asset in relation to a defined benefit plan and the impact of minimum funding requirements on such an asset. The Metlabs related sub-plan of the Leighton's defined benefit plan is not subject to minimum funding requirements and it is not in a surplus position. The consolidated entity will apply AASB-I 14 from 1 July 2008, but it is not expected to have any impact on the consolidated entity's financial statements.

Note 2. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the consolidated entity and that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The consolidated entity makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. 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 discussed below.

The consolidated entity tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 1. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates, as detailed in note 17. If these assumptions prove to be incorrect in the future in a negative aspect, then goodwill may have been subject to impairment during the current financial year but this is not recognised due to these assumptions. Based on current budgets in place and the probability of continued growth and service provided by the consolidated group management considers that the assumptions applied are reasonable and sustainable; and considers this possibility unlikely.

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Critical accounting estimates and assumptions (continued)

The consolidated entity is subject to income taxes in Australia. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The consolidated entity recognises liabilities for anticipated tax audit issues based on the consolidated entity's current understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Critical judgements in applying the consolidated entity's accounting policies

There are no critical judgements that are likely to affect the current or future financial years.

Note 3. Segment information

Primary reporting – business segments

The consolidated entity operates in one business segment being the provision of asset management, inspection, testing and asset care services to the energy, resources and infrastructure sectors.

Secondary reporting – geographical segments

The consolidated entity only operates in one geographical segment being Australia.

Note 4. Revenue

	Consolidated		Parent entity	
	2008	2007	2008	2007
From continuing operations	$'000	$'000	$'000	$'000
Sales revenue				
Services	83,426	37,240	–	–
	83,426	37,240	–	–
Other revenue				
Dividends received	–	–	–	250
Interest received	61	35	3	24
Other revenue	11	18	–	–
	72	53	3	274
Revenue from continuing operations	83,498	37,293	3	274

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Note 5. Other income

	Consolidated 2008	Consolidated 2007	Parent entity 2008	Parent entity 2007
	$'000	$'000	$'000	$'000
Net gain on sale of property, plant and equipment	307	–	–	–
Other income	307	–	–	–

Note 6. Expenses

	Consolidated 2008	Consolidated 2007	Parent entity 2008	Parent entity 2007
	$'000	$'000	$'000	$'000
Profit/(loss) before income tax expense/(benefit) includes the following specific expenses:				
Depreciation				
Buildings	27	–	–	–
Leasehold improvements	157	113	11	13
Plant and equipment	2,164	848	2	1
Motor vehicles	322	13	–	–
Total depreciation	2,670	974	13	14
Amortisation				
Customer contracts	1,048	132	–	–
Total amortisation	1,048	132	–	–
Finance costs				
Interest and finance charges paid/payable	3,701	696	3,489	610
Finance costs expensed	3,701	696	3,489	610
Rental expense relating to operating leases				
Minimum lease payments	1,462	543	–	–
Total rental expense relating to operating leases	1,462	543	–	–
Superannuation expense				
Defined contribution superannuation expense	2,695	1,390	118	49
Defined benefit superannuation expense	64	–	–	–
Total superannuation expense	2,759	1,390	118	49
Bad debts expense				
Bad debts expense	97	25	–	–

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Note 7. Income tax expense/(benefit)

	Consolidated		Parent entity	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Income tax expense/(benefit)				
Current tax	175	719	(1,926)	(646)
Deferred tax	693	211	(55)	117
Under/(over) provision in prior years	(232)	–	–	–
Aggregate income tax expense/(benefit)	636	930	(1,981)	(529)
Deferred income tax expense/(benefit) included in income tax expense/(benefit) comprises:				
Decrease/(increase) in deferred tax assets (note 18)	185	129	(63)	117
(Decrease)/increase in deferred tax liabilities (note 26)	508	82	8	–
	693	211	(55)	117
Numerical reconciliation of income tax expense/(benefit) to prima facie tax payable				
Profit/(loss) before income tax (expense)/benefit	1,712	2,562	(6,571)	(1,525)
Tax at the Australian tax rate of 30%	514	769	(1,971)	(458)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:				
Amortisation of intangibles	370	40	–	–
Non-taxable dividends	–	–	–	(75)
Sundry items	(16)	48	(10)	1
	868	857	(1,981)	(532)
Under/(over) provision in prior years	(232)	–	–	–
Prior year temporary differences not recognised now recognised	–	73	–	3
Income tax expense/(benefit)	636	930	(1,981)	(529)

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Note 8. Current assets – cash and cash equivalents

	Consolidated 2008	Consolidated 2007	Parent entity 2008	Parent entity 2007
	$'000	$'000	$'000	$'000
Cash on hand	17	5	–	–
Cash at bank	210	1	–	–
	227	6	–	–
Reconciliation to cash at the end of the year. The above figures are reconciled to cash at the end of the financial year as shown in the cash flow statement as follows:				
Balances as above	227	6	–	–
Bank overdraft (note 21)	(3,559)	(9)	(5,071)	(460)
Balance as per cash flow statement	(3,332)	(3)	(5,071)	(460)

The weighted average interest rate as at 30 June 2008 on the cash at bank was 8.70% (2007: 3.50%). An official increase in interest rates of one percentage point would have a favourable affect on profit of $2,000 per annum.

Note 9. Current assets – trade and other receivables

	Consolidated 2008	Consolidated 2007	Parent entity 2008	Parent entity 2007
	$'000	$'000	$'000	$'000
Trade receivables	15,865	5,909	–	–
Less: Provision for impairment of receivables	(5)	(6)	–	–
	15,860	5,903	–	–
Other receivables	3,483	94	6	26
Receivable from wholly-owned subsidiaries – tax related	–	–	1,836	–
BAS receivable	–	–	25	24
	19,343	5,997	1,867	50

Bad and doubtful trade receivables

The consolidated entity has recognised a loss of $97,000 (2007: $25,000) in respect of bad and doubtful trade receivables during the year ended 30 June 2008. The loss has been included in "other expenses" in the income statement.

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Note 9 Current Assets – trade and other receivables (continued)

Impairment of receivables

The aging of the impairment of receivables recognised above is as follows:

	Consolidated		Parent entity	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
1 to 3 months	5	6	–	–

Movements in the provision for impairment of receivables are as follows:

	Consolidated		Parent entity	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Opening balance	6	–	–	–
Additional provisions recognised	97	31	–	–
Receivables written off during the year as uncollectible	(97)	(25)	–	–
Unused amounts reversed	(1)	–	–	–
Closing balance	5	6	–	–

Past due but not impaired

Customers with balances past due but without provision for doubtful debts amount to $5,934,000 at 30 June 2008. Management did not consider a credit risk on the aggregate balances after reviewing agency credit information and recognising a tacit extension to the recorded credit terms of customers based on recent collection practices.

The aging of the past due but not impaired receivables is as follows:

	Consolidated		Parent entity	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
1 to 3 months	5,323	1,310	–	–
3 to 6 months	387	50	–	–
Over 6 months	224	53	–	–
	5,934	1,413	–	–

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Note 10. Current assets – inventories

	Consolidated 2008	Consolidated 2007	Parent entity 2008	Parent entity 2007
	$'000	$'000	$'000	$'000
Work in progress – at cost	470	183	–	–
Finished goods – at cost	44	4	–	–
	514	187	–	–

Note 11. Current assets – derivative financial instruments

	Consolidated 2008	Consolidated 2007	Parent entity 2008	Parent entity 2007
	$'000	$'000	$'000	$'000
Interest rate swap contracts – cash flow hedges	253	–	253	–

The parent entity and consolidated entity have entered into interest rate swap contracts. These contracts hedge approximately 50% of the variable rate bank overdraft and loans, so approximately 50% of these borrowings are at fixed interest rates. Refer to note 33 for further information.

Note 12. Current assets – income tax receivable

	Consolidated 2008	Consolidated 2007	Parent entity 2008	Parent entity 2007
	$'000	$'000	$'000	$'000
Income tax refund due	979	–	863	–

Note 13. Current assets – other

	Consolidated 2008	Consolidated 2007	Parent entity 2008	Parent entity 2007
	$'000	$'000	$'000	$'000
Accrued income	606	373	–	–
Prepayments	281	282	23	–
	887	655	23	–

Note 14. Non-current assets – receivables

	Consolidated 2008	Consolidated 2007	Parent entity 2008	Parent entity 2007
	$'000	$'000	$'000	$'000
Receivable from wholly owned subsidiaries	–	–	507	1,170

None of the non-current receivables are past due and no impairment is required.

Note 15. Non-current assets – other financial assets

	Consolidated 2008	Consolidated 2007	Parent entity 2008	Parent entity 2007
	$'000	$'000	$'000	$'000
Shares in subsidiaries – at cost (note 40)	–	–	55,460	7,420

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Note 16. Non-current assets – property, plant and equipment

	Consolidated 2008	Consolidated 2007	Parent entity 2008	Parent entity 2007
	$'000	$'000	$'000	$'000
Land and buildings – at cost	1,762	–	–	–
Less: Accumulated depreciation	(27)	–	–	–
	1,735	–	–	–
Leasehold improvements – at cost	433	585	77	77
Less: Accumulated depreciation	(52)	(314)	(29)	(19)
	381	271	48	58
Plant and equipment – at cost	14,219	8,081	61	4
Less: Accumulated depreciation	(6,379)	(4,339)	(5)	(3)
	7,840	3,742	56	1
Motor vehicles – at cost	707	99	–	–
Less: Accumulated depreciation	(122)	(69)	–	–
	585	30	–	–
	10,541	4,043	104	59

Reconciliations

Reconciliations of the book values at the beginning and end of the current and previous financial year are set out below:

	Land and buildings	Leasehold improvements	Plant and equipment	Motor vehicles	Consolidated
	$'000	$'000	$'000	$'000	$'000
Consolidated					
Balance 1 July 2006	–	174	3,264	42	3,480
Additions	–	210	1,326	1	1,537
Depreciation expense	–	(113)	(848)	(13)	(974)
Balance 30 June 2007	–	271	3,742	30	4,043
Additions	1,678	418	2,352	14	4,462
Additions through business combinations (note 39)	84	57	3,918	1,647	5,706
Disposals	–	(208)	(8)	(784)	(1,000)
Depreciation expense	(27)	(157)	(2,164)	(322)	(2,670)
Balance 30 June 2008	1,735	381	7,840	585	10,541

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Note 16 Non-current assets – property and equipment (continued)

	Land and buildings	Leasehold improvements	Plant and equipment	Motor vehicles	Consolidated
	$'000	$'000	$'000	$'000	$'000
Parent entity					
Balance 1 July 2006	–	71	2	–	73
Depreciation expense	–	(13)	(1)	–	(14)
Balance 30 June 2007	–	58	1	–	59
Additions	–	–	57	–	57
Depreciation expense	–	(10)	(2)	–	(12)
Balance 30 June 2008	–	48	56	–	104

Included in plant and equipment and motor vehicles are leased non-current assets with a book value of $3,642,000 (2007:$677,000).

Note 17. Non-current assets – intangibles

	Consolidated 2008	Consolidated 2007	Parent entity 2008	Parent entity 2007
	$'000	$'000	$'000	$'000
Goodwill – at cost	41,149	3,427	–	–
	41,149	3,427	–	–
Customer contracts – at cost	3,730	1,460	–	–
Less: Accumulated amortisation	(1,313)	(265)	–	–
	2,417	1,195	–	–
	43,566	4,622	–	–

Reconciliations

Reconciliations of the book values at the beginning and end of the current and previous financial year are set out below:

	Goodwill	Customer contracts	Consolidated
	$'000	$'000	$'000
Consolidated			
Balance 1 July 2006	3,346	1,327	4,673
Additions through business combinations (note 39)	81	–	81
Amortisation expense	–	(132)	(132)
Balance 30 June 2007	3,427	1,195	4,622
Additions through business combinations (note 39)	37,722	2,270	39,992
Amortisation expense	–	(1,048)	(1,048)
Balance 30 June 2008	41,149	2,417	43,566

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Note 17 Non-current assets – intangibles (continued)

Impairment tests for goodwill

Goodwill is allocated to the consolidated entity's cash-generating units (CGUs) identified according to each subsidiary. The book value of goodwill is allocated to each of the cash generating units is as follows:

	Consolidated 2008	2007
	$'000	$'000
PearlStreet Energy Services Pty Limited	123	123
PearlStreet ETRS Pty Limited	8,214	3,304
PearlStreet Accura Pty Limited	4,616	–
PearlStreet Metlabs Pty Limited	28,196	–
	41,149	3,427

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below.

Key assumptions used for value-in-use calculations

The discount rate applied to cash flow projections is 11% pre-tax (2007: 11% pre-tax). A growth rate of 8% has been applied for the first five years and then a growth rate of 4% thereafter.

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Note 18. Non-current assets – deferred tax

	Consolidated		Parent entity	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss:				
Employee benefits	1,496	910	55	31
Retirement benefit obligations	18	–	–	–
Provision for repairs and maintenance	–	–	5	–
Accrued expenses	251	39	65	27
Borrowing costs	340	–	340	–
Other	4	–	3	1
	2,109	949	468	59
Amounts recognised in equity:				
Transaction costs on share issue	–	346	–	346
	–	346	–	346
Deferred tax asset	2,109	1,295	468	405
Movements:				
Opening balance	1,295	1,001	405	99
Credited/(charged) to the income statement (note 7)	(185)	(129)	63	(117)
Credited/(charged) to equity	–	423	–	423
Acquired in business combinations	999	–	–	–
Closing balance	2,109	1,295	468	405

Note 19. Non-current assets – other

	Consolidated		Parent entity	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Deferred acquisition costs	–	341	–	341

Note 20. Current liabilities – trade and other payables

	Consolidated		Parent entity	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Trade payables	4,120	1,546	89	186
BAS payable	302	349	–	–
Other payables	1,357	548	129	70
	5,779	2,443	218	256

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Note 21. Current liabilities – borrowings

	Consolidated 2008	Consolidated 2007	Parent entity 2008	Parent entity 2007
	$'000	$'000	$'000	$'000
Bank overdraft	3,559	9	5,071	460
Bank loans	10,750	1,302	10,750	1,302
Lease liability	919	137	–	–
	15,228	1,448	15,821	1,762

The bank overdraft is subject to an offset arrangement facility whereby bank accounts (whether in funds or in overdraft) are offset to a net position.
The total facility available is $6,200,000. The parent entity bank overdraft is offset by subsidiary cash at bank balances. For this reason, the parent entity bank overdraft balance is higher than the consolidated bank overdraft balance.

Refer to note 25 for further information.

Note 22. Current liabilities – income tax

	Consolidated 2008	Consolidated 2007	Parent entity 2008	Parent entity 2007
	$'000	$'000	$'000	$'000
Provision for income tax	–	751	–	751

Note 23. Current liabilities – provisions

	Consolidated 2008	Consolidated 2007	Parent entity 2008	Parent entity 2007
	$'000	$'000	$'000	$'000
Provisions – employee benefits	4,349	2,424	172	105
Provisions – repairs and maintenance	146	124	–	–
	4,495	2,548	172	105

Repairs and maintenance

The provision represents likely expenses to make good the premises leased by the consolidated entity.

Movements in provisions

Movements in each class of provision during the current financial year, other than employee benefits, are set out below

	Repairs and maintenance	Consolidated
Consolidated – 2008	$'000	$'000
Carrying amount at the start of the year	124	124
Additional provisions recognised	22	22
Carrying amount at the end of the year	146	146

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Note 23 Current liabilities – provisions (continued)

Amounts not expected to be settled within the next 12 months

The current provision for annual leave is presented as current, since the consolidated entity does not have an unconditional right to defer settlement. However, based on past experience, the consolidated entity does not expect all employees to take the full amount of accrued leave within the next 12 months.

The current provision for long service leave includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the consolidated entity does not have an unconditional right to defer settlement. However, based on past experience, the consolidated entity does not expect all employees to take the full amount of accrued long service leave or require payment within the next 12 months.

The following amounts reflect leave that is not expected to be taken within the next 12 months:

	Consolidated		Parent entity	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Annual leave obligation expected to be settled after 12 months	537	236	–	–
Long service leave obligation expected to be settled after 12 months	1,385	873	88	52
Total obligations expected to be settled after 12 months	1,922	1,109	88	52

Note 24. Current liabilities – other

	Consolidated		Parent entity	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Accrued expenses	1,380	449	628	5

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Note 25. Non-current liabilities – borrowings

	Consolidated 2008	Consolidated 2007	Parent entity 2008	Parent entity 2007
	$'000	$'000	$'000	$'000
Bank loans	31,055	2,441	31,055	2,441
Payable to wholly-owned subsidiaries	–	–	4,033	–
Lease liability	1,937	375	–	–
	32,992	2,816	35,088	2,441

Total secured liabilities

The total secured liabilities (current and non-current) are as follows:

	Consolidated 2008	Consolidated 2007	Parent entity 2008	Parent entity 2007
	$'000	$'000	$'000	$'000
Bank overdraft	3,559	9	5,071	460
Bank loans	41,805	3,743	41,805	3,743
Lease liability	2,856	512	–	–
	48,220	4,264	46,876	4,203

Assets pledged as security

The bank loan and overdraft of the parent entity are secured by a first ranking fixed and floating charge over the assets and undertakings of the parent entity and subsidiaries, a first ranking share mortgage over the parent entity's shares in subsidiaries, a first ranking mortgage over the consolidated entity's land and buildings and unlimited guarantees and indemnities from the parent entity and subsidiaries.

The lease liabilities are effectively secured as the rights to the leased assets recognised in the balance sheet revert to the lessor in the event of default.

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Note 25 Non-current liabilities – borrowings (continued)

Financing arrangements

Unrestricted access was available at balance date to the following lines of credit:

	Consolidated		Parent entity	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Total facilities				
Bank overdraft	6,200	1,100	6,200	1,100
Bank loans	42,038	3,812	42,038	3,812
	48,238	4,912	48,238	4,912
Used at balance date				
Bank overdraft	3,559	9	5,071	460
Bank loans	42,038	3,812	42,038	3,812
	45,597	3,821	47,109	4,272
Unused at balance date				
Bank overdraft	2,641	1,091	1,129	640
	2,641	1,091	1,129	640

The bank loan as at 30 June 2008 stated in the balance sheet included capitalised borrowing costs of $233,000 (2007: $69,000) which were offset in the balance sheet but not in the table above to reflect the amount used at balance date.

There have been no breaches in the financing arrangement covenants during the financial year.

Note 26. Non-current liabilities – deferred tax

	Consolidated		Parent entity	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss:				
Work in progress	1,264	55	–	–
Prepayments	6	24	–	–
Property, plant and equipment	338	–	–	–
Intangible assets	725	–	–	–
Cash flow hedges	76	–	76	–
Other	–	3	8	–
Deferred tax liability	2,409	82	84	–
Movements:				
Opening balance	82	–	–	–
Charged/(credited) to the income statement (note 7)	508	82	8	–
Charged/(credited) to equity (note 30)	111	–	76	–
Acquired in business combinations	1,743	–	–	–
Closing balance	2,444	82	84	–

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Note 27. Non-current liabilities – provisions

	Consolidated		Parent entity	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Provisions – employee benefits	1,254	609	36	–
Provisions – repairs and maintenance	153	289	17	17
	1,407	898	53	17

Repairs and maintenance

The provision represents likely expenses to make good the premises leased by the consolidated entity.

Movements in provisions

Movements in each class of provision during the current financial year, other than employee benefits, are set out below:

	Repairs and maintenance	Consolidated
Consolidated – 2008	$'000	$'000
Carrying amount at the start of the year	289	289
Unused amounts reversed	(136)	(136)
Carrying amount at the end of the year	153	153

	Repairs and maintenance	Parent
Parent entity – 2008	$'000	$'000
Carrying amount at the start of the year	17	17
Carrying amount at the end of the year	17	17

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Note 28. Non-current liabilities – retirement benefit obligations

Superannuation plan

Certain employees of PearlStreet Metlabs Pty Limited (formerly Mayfield Engineering Pty Ltd T/As Metlabs a wholly owned subsidiary of Leighton Contractors), a subsidiary, are entitled to benefits from the sub-plan of the Leightons superannuation plan on retirement, disability or death. The defined benefit section provides lump sum benefits based on years of service and final average salary.

The following sets out details in respect of the defined benefit section only. The expense recognised in relation to the defined contribution plan is disclosed in note 6.

Balance sheet amounts

The amounts recognised in the balance sheet are determined as follows:

	Consolidated		Parent entity	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Present value of the defined benefit	1,453	–	–	–
Fair value of defined benefit plan	(1,393)	–	–	–
Net liability in the balance sheet	60	–	–	–

The consolidated entity has no legal obligation to settle this liability with an immediate contribution or additional one-off contributions. The consolidated entity intends to continue to contribute to the defined benefit section of the plan at a rate of 12% of salaries in line with the actuary's latest recommendations.

Categories of plan assets

The major categories of plan assets are as follows:

	Consolidated		Parent entity	
	2008	2007	2008	2007
	%	%	%	%
Australian equity	35.0	–	–	–
International equity	24.0	–	–	–
Fixed income	12.0	–	–	–
Property	14.0	–	–	–
Alternatives	8.0	–	–	–
Cash	7.0	–	–	–
	100.0	–	–	–

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Note 28 Non-current liabilities – retirement benefit obligations (continued)

Reconciliations

	Consolidated		Parent entity	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Reconciliation of the present value of the defined benefit obligation, which is partly funded:				
Balance at the beginning of the year	–	–	–	–
Current service cost	94	–	–	–
Interest cost	102	–	–	–
Actuarial losses/(gains)	(232)	–	–	–
Benefits paid	(2,035)	–	–	–
Acquired in business combinations	3,333	–	–	–
Contributions by plan participants	46	–	–	–
Taxes and premiums paid	(15)	–	–	–
Transfers in	160	–	–	–
Balance at the end of the year	1,453	–	–	–
Reconciliation of the fair value of plan assets:				
Balance at the beginning of the year	–	–	–	–
Expected return on plan assets	132	–	–	–
Actuarial gains/(losses)	(348)	–	–	–
Contributions by consolidated entity companies	182	–	–	–
Benefits paid	(2,035)	–	–	–
Acquired in business combinations	3,333	–	–	–
Contributions by plan participants	46	–	–	–
Taxes and premiums paid	(15)	–	–	–
Transfers in	160	–	–	–
Funded on transfer	(62)	–	–	–
Balance at the end of the year	1,393	–	–	–

Amounts recognised in income statement

The amounts recognised in the income statement are as follows:

	Consolidated		Parent entity	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Current service cost	94	–	–	–
Interest cost	102	–	–	–
Expected return on plan assets	(132)	–	–	–
Total included in employee benefits expense	64	–	–	–
Actual return on plan assets	(216)	–	–	–

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Note 28 Non-current liabilities – retirement benefit obligations (continued)

Amounts recognised in statements of recognised income and expense

	Consolidated		Parent entity	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Actuarial (loss)/gain recognised in the year	(116)	–	–	–
Cumulative actuarial (losses)/gains recognised in the statement of recognised income and expense	(116)	–	–	–

Principal actuarial assumptions

The principal actuarial assumptions used (expressed as weighted averages) were as follows:

	Consolidated		Parent entity	
	2008	2007	2008	2007
	%	%	%	%
Discount rate	5.9	–	–	–
Expected return on plan assets	7.0	–	–	–
Future salary increases	4.0	–	–	–

Employer contributions

Employer contributions to the defined benefit section of the plan are based on recommendations by the plan's actuary. Actuarial assessments are made on an annual basis and the last such assessment was made as at 30 June 2008.

Total employer contributions expected to be paid by consolidated entity companies for the year ending 30 June 2009 are $103,000 (parent entity: $Nil).

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Note 29. Equity – contributed

	Parent entity 2008	Parent entity 2007	Parent entity 2008	Parent entity 2007
	Shares	Shares	$'000	$'000
Ordinary shares – fully paid	64,976,408	47,550,877	13,767	4,877

Movements in ordinary share capital

Details	Date	No. of shares	Issue price	$'000
Balance	1 July 2006	20,000,000		–
Conversion of convertible notes	13 November 2006	1,722,603	$0.46	801
Share conversion (43:25 split)	8 January 2007	15,640,274	$0.00	–
Share issue	19 February 2007	10,000,000	$0.50	5,000
Transaction costs on share issue	19 February 2007	–	$0.00	(1,018)
Employee loyalty share issue	19 February 2007	188,000	$0.50	94
Balance	30 June 2007	47,550,877		4,877
Shares issued on acquisition of Australian NDT	1 July 2007	704,601	$0.78	550
Dividend reinvestment plan	28 September 2007	719,876	$0.74	538
Share issue	31 October 2007	6,428,030	$0.75	4,821
Transaction costs on share issue	31 October 2007	–	$0.00	(277)
Dividend reinvestment plan	3 April 2008	481,967	$0.44	214
Placement	15 April 2008	8,382,802	$0.36	3,018
2nd round Employee loyalty share issue	28 April 2008	189,500	$0.39	74
Transaction costs on share issue	30 April 2008	–	$0.00	(168)
Share purchase plan	27 June 2008	418,755	$0.32	133
Placement	27 June 2008	100,000	$0.36	36
Transaction costs on share issue	30 June 2008	–	$0.00	(49)
Balance	30 June 2008	64,976,408		13,767

Ordinary shares

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

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 the market price of the shares sold on the ASX during the 5 days preceding the issue date. No discount is currently given under the plan. This plan is presently suspended.

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Note 30. Equity – reserves

	Consolidated 2008	Consolidated 2007	Parent entity 2008	Parent entity 2007
	$'000	$'000	$'000	$'000
Hedging reserve – cash flow hedges	177	–	177	–
Retirement benefit obligation reserve	(81)	–	–	–
	96	–	177	–

	Cash flow hedges	Retirement benefit obligation	Consolidated
	$'000	$'000	$'000
Consolidated			
Balance 1 July 2006	–	–	–
Balance 30 June 2007	–	–	–
Revaluation – gross	253	–	253
Deferred tax	(76)	–	(76)
Actuarial (losses)/gains on retirement benefit obligation	–	(116)	(116)
Deferred tax	–	35	35
Balance 30 June 2008	177	(81)	96

	Cash flow hedges	Retirement benefit obligation	Parent
	$'000	$'000	$'000
Parent entity			
Balance 1 July 2006	–	–	–
Balance 30 June 2007	–	–	–
Revaluation – gross	253	–	253
Deferred tax	(76)	–	(76)
Balance 30 June 2008	177	–	177

Hedging reserve – cash flow hedges

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in equity, as described in note 1. Amounts are recognised in profit and loss when the associated hedged transaction affects profit and loss.

Retirement benefit obligation reserve

The retirement benefit obligation reserve the actuarial gains and losses on the retirement benefit obligation in accordance with AASB 119 Employee Benefits.

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Note 31. Equity – retained profits/ (accumulated losses)

	Consolidated 2008	Consolidated 2007	Parent entity 2008	Parent entity 2007
	$'000	$'000	$'000	$'000
Retained profits/(accumulated losses) at the beginning of the financial year	834	37	(769)	1,062
Profit/(loss) after income tax (expense)/benefit	1,076	1,632	(4,590)	(996)
Dividends paid (note 32)	(1,104)	(835)	(1,104)	(835)
Retained profits/(accumulated losses) at the end of the financial year	806	834	(6,463)	(769)

Note 32. Equity – dividends

	Parent entity 2008	Parent entity 2007
	$'000	$'000
Final ordinary dividend for the year ended 30 June 2007 of 1.6 cents per fully paid share paid on 28 September 2007	772	–
Interim ordinary dividend for the year ended 30 June 2007 of 2.925 cents per fully paid share paid on 30 September 2006	–	585
Interim ordinary dividend for the year ended 30 June 2008 of 0.6 cents per fully paid share paid on 3 April 2008	332	–
Special ordinary dividend for the year ended 30 June 2007 of 1.151 cents per fully paid share paid on 3 February 2007	–	250
	1,104	835
Franking credits available for subsequent financial years based on a tax rate of 30%	682	1,244

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

- franking credits that will arise from the payment of the amount of the provision for income tax
- franking credits that will arise from the payment of dividends recognised as a liability at the reporting date
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date

Note 33. Financial instruments

Financial risk management objectives

The consolidated entity's activities exposes it to a variety of financial risks: market risk (including interest rate risk), credit risk, and liquidity risk.

The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity.

The consolidated entity uses derivative financial instruments such as interest rate swaps to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, ie not as trading or other speculative instruments.

The consolidated entity uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and other price risks, aging analysis for credit risk and beta analysis in respect of investment portfolios to determine market risk.

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Note 33 Financial instruments (continued)

Risk management is carried out by senior finance executives (finance) under policies approved by the Board of directors. Finance identifies, evaluates and hedges financial risks within the consolidated entity's operating units.

Market risk

Foreign currency risk

The consolidated entity and parent entity are not exposed to foreign currency risk.

Price risk

The consolidated entity and parent entity are not exposed to price risk.

Interest rate risk

The consolidated entity and parent entity's main interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the consolidated entity and parent entity to cash flow interest rate risk. Borrowings issued at fixed rates expose the consolidated entity and parent entity to fair value interest rate risk. The consolidated entity's policy is to maintain approximately 50% of its borrowings at fixed rate using interest rate swaps to achieve this when necessary.

As at the reporting date, the consolidated and entity and parent entity had the following variable rate borrowings and interest rate swap contracts outstanding:

	2008		2007	
	Weighted average interest rate	Balance	Weighted average interest rate	Balance
	%	$'000	%	$'000
Consolidated				
Bank overdraft and bank loans	9.57	45,597	–	–
Interest rate swaps (notional principal amount)	7.89	(23,674)	–	–
Net exposure to cash flow interest rate risk		21,923		–

	2008		2007	
	Weighted average interest rate	Balance	Weighted average interest rate	Balance
	%	$'000	%	$'000
Parent entity				
Bank overdraft and bank loans	9.61	47,109	–	–
Interest rate swaps (notional principal amount)	7.89	(23,674)	–	–
Net exposure to cash flow interest rate risk		23,435		–

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Note 33 Financial instruments (continued)

An analysis by remaining contractual maturities is shown in "liquidity and interest rate risk management" below.

For the consolidated entity the bank overdraft and bank loans outstanding, totalling $45,597,000, are principal and interest payment borrowings. Monthly cash outlays of approximately $350,000 per month are required to service the interest payments. An official increase in interest rates of one percentage point would have an adverse affect on profit of $460,000 per annum. In addition, in the next 12 months minimum principal repayments of $11,500,000 are due over the course of the year up to 30 June 2009.

For the parent entity the bank overdraft and bank loans outstanding, totalling $47,109,000, are principal and interest payment borrowings. Monthly cash outlays of approximately $350,000 per month are required to service the interest payments. An official increase in interest rates of one percentage point would have an adverse affect on profit of $470,000 per annum. In addition, in the next 12 months minimum principal repayments of $11,500,000 are due over the course of the year up to 30 June 2009.

Credit risk

Credit risk is managed on a consolidated entity basis. Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has a strict code of credit and obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheets and notes to the financial statements.

The consolidated entity does have material credit risk exposure with three receivables as part of long-term contracts. There are no guarantees against these receivables but management closely monitors the receivables balances on a monthly basis and is in regular contact with these customers to mitigate risk.

Liquidity risk

The consolidated entity manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Financing arrangements

Undrawn borrowing facilities at the reporting date to which the consolidated entity and the parent entity had access to are disclosed in note 25.

The bank overdraft facilities may be drawn at any time and may be terminated by the bank without notice. Subject to the continuance of satisfactory credit ratings, the bank loan facilities may be drawn at any time and have an average maturity of 4 years (2007: 2 years). There have been no breaches in the financing arrangement covenants during the financial year.

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Note 33 Financial instruments (continued)

Liquidity and interest rate risk management

The following tables detail the consolidated entity's and parent entity's remaining contractual maturity for its derivative and nonderivative financial instruments. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the consolidated entity and parent entity can be required to pay. The tables include both interest and principal cash flows, disclosed as remaining contractual maturities and these totals differ from their carrying amount in the balance sheet for interest-bearing liabilities due to the interest component.

Consolidated – 2008	Weighted average interest rate	1 year or less	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Remaining contractual maturities
	%	$'000	$'000	$'000	$'000	$'000
Non-derivatives						
Non-interest bearing						
Trade payables	–	4,120	–	–	–	4,120
BAS payable	–	302	–	–	–	302
Other payables	–	1,357	–	–	–	1,357
Interest bearing – variable rate						
Bank overdraft	10.65	3,749	–	–	–	3,749
Bank loans	9.48	14,226	7,634	7,169	22,507	51,536
Interest bearing – fixed rate						
Lease liability	10.40	1,167	2,123	–	–	3,290
Total non-derivatives		24,921	9,757	7,169	22,507	64,354
Derivatives						
Interest rate swaps	7.89	(253)	(114)	–	–	(367)
Total derivatives		(253)	(114)	–	–	(367)

Consolidated – 2007	Weighted average interest rate	1 year or less	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Remaining contractual maturities
	%	$'000	$'000	$'000	$'000	$'000
Non-derivatives						
Non-interest bearing						
Trade payables	–	1,546	–	–	–	1,546
BAS payable	–	349	–	–	–	349
Other payables	–	548	–	–	–	548
Interest bearing – variable rate						
Bank overdraft	9.50	9	–	–	–	9
Bank loans	7.65	1,539	2,534	–	–	4,073
Interest bearing – fixed rate						
Lease liability	6.05	178	424	–	–	602
Total non-derivatives		4,169	2,958	–	–	7,127

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Note 33 Financial instruments (continued)

Parent entity – 2008	Weighted average interest rate	1 year or less	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Remaining contractual maturities
	%	$'000	$'000	$'000	$'000	$'000
Non-derivatives						
Non-interest bearing						
Trade payables	–	89	–	–	–	89
Other payables	–	129	–	–	–	129
Other loans	–	–	–	–	4,033	4,033
Interest bearing – variable rate						
Bank overdraft	10.65	5,341	–	–	–	5,341
Bank loans	9.48	14,226	7,634	7,169	22,507	51,536
Total non-derivatives		19,785	7,634	7,169	26,540	61,128
Derivatives						
Interest rate swaps	7.89	(253)	(114)	–	–	(367)
Total derivatives		(253)	(114)	–	–	(367)

Parent entity – 2007	Weighted average interest rate	1 year or less	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Remaining contractual maturities
	%	$'000	$'000	$'000	$'000	$'000
Non–derivatives						
Non-interest bearing						
Trade payables	–	186	–	–	–	186
Other payables	–	70	–	–	–	70
Interest bearing – variable rate						
Bank overdraft	9.50	482	–	–	–	482
Bank loans	7.65	1,539	2,534	–	–	4,073
Total non-derivatives		2,277	2,534	–	–	4,811

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Note 33 Financial instruments (continued)

Fair value of financial instruments

The carrying amounts of financial instruments reflect their fair value.

Capital risk management

The consolidated entity's and parent entity's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. In order to maintain costs, in the current market, the consolidated entity is presently focused on reducing the cost of debt and this may occur through the issue of new shares or a reduction in dividends paid. All free cash flows, after scheduled and pre-committed debt repayments, dividend payments and other capital commitments, are intended to be applied to additional debt repayments. The Board believes that will maximise shareholder returns over the long-term.

The consolidated entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current parent entity's share price at the time of the investment. The consolidated entity is not actively pursuing additional investments in the short-term as it continues to integrate and grow its existing businesses in order to maximise synergies.

The consolidated entity is subject to certain financing arrangements covenants and meeting these are given priority in all capital risk management decisions. There have been no breaches in the financing arrangement covenants during the financial year.

The Directors have followed the recent volatility in global credit markets very closely. On the basis that the acquisitions during the financial year were primarily funded with debt facilities the Board has closely monitored cash flow, remained in close contact with our banking partners and closely monitored the capital risk management implications of these business acquisitions throughout the integration process. Shortly after financial year end the consolidated entity varied their finance facility and this was as a consequence of strong performance during the last quarter, the reduction of debt and good relationships with bankers.

The Board retains an active commitment to capital risk management and the overall strategy remains unchanged from the December 2007 half-year report.

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Note 34. Key management personnel disclosures

Directors

The following persons were directors of PearlStreet Limited during the financial year:

David Eiszele	Chairman – Non-Executive
Anthony Wooles	Managing Director and Chief Executive Officer
Phillip Campbell	Non-Executive Director
James McDonald	Non-Executive Director
John Atkins	Non-Executive Director

Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the consolidated entity, directly or indirectly, during the financial year:

Josephine Pane	Company Secretary and Chief Financial Officer
Wayne Martyn (resigned on 7 January 2008)	Asset Management and Engineering
Eric Kreutzer	General Manager – Business Development
Tina Rigoli (change in role on 28 March 2008)	National Manager – Human Resources
Kristen Walsh (appointed on 1 October 2007)	Chief Operating Officer
Arthur Harvey (retired on 2 April 2008)	Metlabs General Manager
Clive Patman (appointed on 28 March 2008)	Executive General Manager HR and IR

Compensation

The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

	Consolidated		Parent entity	
	2008	2007	2008	2007
	$	$	$	$
Short-term employee benefits	1,710,010	1,182,201	1,710,010	730,915
Post-employment benefits	156,091	98,736	156,091	60,831
Termination benefits	–	105,604	–	13,753
Share-based payments	–	3,750	–	1,750
	1,866,101	1,390,291	1,866,101	807,249

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Note 34. Key management personnel disclosures (continued)

Shareholding

The number of shares in the parent entity held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

2008	Balance at the start of the year	Shares conversions	Received as part of remuneration	Additions	Disposals	Balance at the end of the year
Ordinary shares						
David Eiszele	1,861,769	–	–	81,338	–	1,943,107
Anthony Wooles	28,400,000	–	–	1,195,949	–	29,595,949
Phillip Campbell	473,628	–	–	–	–	473,628
James McDonald	20,000	–	–	15,743	–	35,743
John Atkins	100,000	–	–	117,097	–	217,097
Josephine Pane	22,000	–	–	24,753	–	46,753
Wayne Martyn	2,000	–	–	–	–	2,000
Eric Kreutzer	32,000	–	–	47,794	–	79,794
Tina Rigoli*	11,500	–	–	6,310	(17,810)	–
Kristen Walsh	–	–	–	61,562	–	61,562
Arthur Harvey*	–	–	–	12,000	(12,000)	–

*Ceased being a key management personnel and disposals represents shareholding at the date of cessation (but not disposed of at that time).

2007	Balance at the start of the year	Shares conversions	Received as part of remuneration	Additions	Disposals	Balance at the end of the year
Ordinary shares						
David Eiszele*	–	653,764	–	1,208,005	–	1,861,769
Anthony Wooles	20,000,000	14,400,000	–	–	(6,000,000)	28,400,000
Phillip Campbell*	–	156,402	–	317,226	–	473,628
James McDonald	–	–	–	20,000	–	20,000
John Atkins	–	–	–	100,000	–	100,000
Garry Gillies*	–	430,108	–	627,372	–	1,057,480
Josephine Pane	–	–	2,000	20,000	–	22,000
Wayne Martyn	–	–	2,000	–	–	2,000
Eric Kreutzer	–	–	2,000	30,000	–	32,000
Tina Rigoli	–	–	1,500	10,000	–	11,500

*Additions include conversion of convertible notes: David Eiszele 908,005 shares, Phillip Campbell 217,226 shares and Garry Gillies 597,372 shares (total of 1,722,603 shares as identified in note 25).

Further disclosures

The consolidated entity has applied the relief outlined in AASB 2008-4, by disclosing the full key management personnel disclosures in the directors' report only, thus not duplicating that information in the financial report. These transferred disclosures have been audited.

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Note 35. Remuneration of auditors

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

	Consolidated		Parent entity	
	2008	2007	2008	2007
	$	$	$	$
Audit services – PricewaterhouseCoopers (2007: Bentleys MRI Perth Partnership)				
Audit or review of the financial report	99,000	67,615	99,000	67,615
	99,000	67,615	99,000	67,615
Other services – PricewaterhouseCoopers (2007: Bentleys MRI Perth Pty Ltd)				
Due diligence	–	123,850	–	123,850
Taxation compliance	–	34,220	–	19,670
Taxation advice	4,500	22,360	4,500	21,370
Financial reporting assistance	–	37,840	–	36,440
Secretarial	–	9,570	–	8,870
	4,500	227,840	4,500	210,200
	103,500	295,455	103,500	277,815

Note 36. Contingent liabilities

	Consolidated		Parent entity	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Bank guarantees	259	94	259	45

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Note 37. Commitments for expenditure

	Consolidated		Parent entity	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Capital commitments – Property, plant and equipment				
Committed at reporting date but not recognised as liabilities, payable:				
Within one year	50	–	–	–
One to five years	251	–	–	–
	301	–	–	–
Lease commitments – operating				
Committed at reporting date but not recognised as liabilities, payable:				
Within one year	2,255	778	76	85
One to five years	4,198	1,487	85	379
More than five years	651	202	–	202
	7,104	2,467	161	666
Lease commitments – finance				
Committed at reporting date and recognised as liabilities, payable:				
Within one year	1,167	178	–	–
One to five years	2,123	424	–	–
Total commitment	3,290	602	–	–
Less: Future finance charges	(434)	(90)	–	–
Net commitment recognised as liabilities	2,856	512	–	–
Representing:				
Lease liability – current (note 21)	919	137	–	–
Lease liability – non-current (note 25)	1,937	375	–	–
	2,856	512	–	–

Note 38. Related party transactions

Parent entity

PearlStreet Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 40.

Key management personnel

Disclosures relating to key management personnel are set out in note 34 and the directors' report.

Transactions with related parties

The following transactions occurred with related parties:

	Consolidated 2008	Consolidated 2007	Parent entity 2008	Parent entity 2007
	$	$	$	$
Other income:				
Dividends received from subsidiaries	–	–	–	250,000
Payment for other expenses:				
Interest paid to key management personnel	–	50,410	–	50,410

Receivable from and payable to related parties

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	Consolidated 2008	Consolidated 2007	Parent entity 2008	Parent entity 2007
	$	$	$	$
Current receivables:				
Receivable from subsidiaries – tax related	–	–	1,836	–

Loans to/from related parties

The following balances are outstanding at the reporting date in relation to loans with related parties:

	Consolidated 2008	Consolidated 2007	Parent entity 2008	Parent entity 2007
	$	$	$	$
Non-current receivables:				
Loan to subsidiaries	–	–	856,465	1,169,714
Non-current borrowings:				
Loan from subsidiaries	–	–	4,032,972	–

Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

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Note 39. Business combinations

Accura

On 1 July 2007 PearlStreet Limited acquired PearlStreet Accura Pty Limited (formerly known as Accura Analytical Laboratories Pty Limited), a subsidiary, for $5,785,000. The principal activity of this subsidiary is chemical testing services to the coalpowered electricity market.

Australian NDT

On 1 July 2007 PearlStreet ETRS Pty Limited, a subsidiary, acquired the business of Australian NDT for $5,564,000. The principal activity of this business is non-destructive testing.

Metlabs and ITS

On 1 August 2007 PearlStreet Metlabs Pty Limited, a subsidiary, acquired the businesses of Metlabs and ITS from Leighton Holdings for $36,691,000. The principal activity of the Metlabs business is engineering analysis, condition monitoring, non-destructive testing, metallurgical services and lubrication services. The principal activity of the ITS business is condition monitoring.

The three acquisitions contributed revenues of $38,405,000 and net profit of $5,246,000 to the consolidated entity for the year ended 30 June 2008.

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Note 39. Business combinations (continued)

Accura

Details of the acquisition are as follows:

	Acquiree's carrying amount	Fair value
	$'000	$'000
Cash equivalents	148	148
Trade receivables	466	466
Work in progress	50	–
Land and buildings	84	84
Plant and equipment	204	190
Motor vehicles	33	33
Customer contracts	–	570
Deferred tax asset	–	33
Trade payables	(22)	(22)
Other payables	(46)	(54)
Deferred tax liability	–	(171)
Employee benefits	(86)	(86)
Other provisions	(22)	(22)
Other liabilities	(100)	–
Net assets acquired	709	1,169
Goodwill		4,616
Total purchase consideration		5,785
Representing:		
Cash paid to vendor		5,570
Direct costs paid relating to the acquisition		215
		5,785

	Consolidated 2008	Consolidated 2007	Parent entity 2008	Parent entity 2007
Outflow of cash to acquire business, net of cash acquired:	$'000	$'000	$'000	$'000
Total purchase consideration	5,785	–	5,785	–
Less: cash equivalents	(148)	–	–	–
Less: payments made in prior periods	(28)	–	(28)	–
Outflow of cash	5,609	–	5,757	–

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Note 39. Business combinations (continued)

Australian NDT

Details of the acquisition are as follows:

	Acquiree's carrying amount	Fair value
	$'000	$'000
Trade receivables	2,572	2,572
Other receivables	197	197
Other current assets	118	–
Plant and equipment	1,685	1,281
Motor vehicles	271	271
Other intangible assets	30	30
Deferred tax asset	–	161
Trade payables	(549)	(166)
Other payables	(1,512)	(1,512)
Employee benefits	(538)	(538)
Accrued expenses	(71)	(71)
Lease liability	(1,133)	(1,133)
Net assets acquired	1,070	1,092
Goodwill		4,472
Total purchase consideration		5,564
Representing:		
Cash paid to vendor		4,700
PearlStreet Limited shares issued to vendor		550
Direct costs paid relating to the acquisition		314
		5,564

	Consolidated		Parent entity	
	2008	2007	2008	2007
Outflow of cash to acquire business, net of cash acquired:	$'000	$'000	$'000	$'000
Total purchase consideration	5,564	–	5,564	–
Less: payments made in prior periods	(202)	–	(202)	–
Less: shares issued by parent entity as part of consideration	(550)	–	(550)	–
Outflow of cash	4,812	–	4,812	–

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Note 39. Business combinations (continued)

Metlabs and ITS

Details of the acquisition are as follows:

	Acquiree's carrying amount	Fair value
	$'000	$'000
Cash equivalents	10	10
Trade receivables	5,730	5,730
Other receivables	16	16
Work in progress	2,080	2,080
Finished goods	63	63
Accrued income	156	156
Prepayments	100	100
Leasehold improvements	57	57
Plant and equipment	2,447	2,447
Motor vehicles	1,343	1,343
Customer contracts	–	1,700
Deferred tax asset	803	803
Trade payables	(824)	(824)
Other payables	(947)	(947)
Deferred tax liability	–	(1,134)
Employee benefits	(2,501)	(2,501)
Accrued expenses	(116)	(116)
Lease liability	(488)	(488)
Net assets acquired	7,929	8,495
Goodwill		28,196
Total purchase consideration		36,691
Representing:		
Cash paid to vendor		34,954
Direct costs paid relating to the acquisition		1,737
		36,691

	Consolidated 2008	Consolidated 2007	Parent entity 2008	Parent entity 2007
	$'000	$'000	$'000	$'000
Outflow of cash to acquire business, net of cash acquired:				
Total purchase consideration	36,691	–	36,691	–
Less: cash equivalents	(10)	–	–	–
Less: payments made in prior periods	(111)	–	(111)	–
Outflow of cash	36,570	–	36,580	–

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Note 40. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1:

		Equity holding		Parent entity	
Name of entity	Country of incorporation	2008	2007	2008	2007
		%	%	$'000	$'000
PearlStreet Energy Services Pty Limited	Australia	100.00	100.00	714	714
PearlStreet ETRS Pty Limited	Australia	100.00	100.00	12,270	6,706
PearlStreet Accura Pty Limited	Australia	100.00	100.00	5,785	–
PearlStreet Metlabs Pty Limited	Australia	100.00	100.00	36,691	–
				55,460	7,420

Note 41. Deed of cross guarantee

The following entities are party to a deed of cross guarantee under which each company guarantees the debts of the others:

PearlStreet Limited
PearlStreet Energy Services Pty Limited
PearlStreet ETRS Pty Limited
PearlStreet Accura Pty Limited
PearlStreet Metlabs Pty Limited

By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission (ASIC).

The above companies represent a 'Closed Group' for the purposes of the Class Order, and as there are no other parties to the Deed of Cross Guarantee that are controlled by PearlStreet Limited, they also represent the 'Extended Closed Group'. Thus the income statement and balance sheet of the consolidated entity represent these Groups.

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Note 42. Events occurring after balance date

As part of the final completion of the share purchase plan which commenced June 2008, in July 2008 7,452,770 ordinary shares were issued to director Anthony Wooles as sub-underwriter. As part of the director's placement, in July 2008 2,677,778 ordinary shares were issued to the following directors: Anthony Wooles 2,647,778 ordinary shares and Phillip Campbell 30,000 ordinary shares. These share transactions raised $3,331,000 and the related transaction costs were $77,000.

On 27 August 2008 the directors declared a fully franked dividend of 1.05 cents per ordinary share to be paid on 26 September 2008, a total estimated distribution of $676,000 based on the number of ordinary shares on issue as at 27 August 2008.

Apart from the matters discussed above, no other matter or circumstance has arisen since 30 June 2008 that has significantly affected, or may significantly affect the consolidated entity's operations in future financial years, the results of those operations in future financial years, or the consolidated entity's state of affairs in future financial years.

Note 43. Reconciliation of profit/(loss) after income tax to net cash flows from operating activities

	Consolidated		Parent entity	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Profit/(loss) after income tax (expense)/benefit	1,076	1,632	(4,590)	(996)
Depreciation and amortisation	3,718	1,106	12	14
Net loss/(profit) on sale of non-current assets	(307)	–	–	–
Dividend income	–	–	–	(250)
Employee benefits – share issue	74	94	74	94
Change in operating assets and liabilities:				
(Increase)/decrease in trade and other receivables	(4,558)	(310)	(2,680)	(26)
(Increase)/decrease in inventories	1,816	(67)	–	–
(Increase)/decrease in deferred tax assets	183	210	(63)	117
(Increase)/decrease in accrued income	(233)	(373)	–	–
(Increase)/decrease in prepayments	101	(158)	(23)	–
(Increase)/decrease in other operating assets	–	–	–	(1,389)
Increase/(decrease) in trade and other payables	(189)	(151)	(38)	182
Increase/(decrease) in provision for income tax	(3,473)	120	(751)	120
Increase/(decrease) in deferred tax liabilities	2,286	–	8	–
Increase/(decrease) in employee benefits	(611)	169	103	42
Increase/(decrease) in other provisions	(136)	207	–	–
Increase/(decrease) in other operating liabilities	774	(224)	623	(198)
Net cash inflow/(outflow) from operating activities	521	2,255	(7,325)	(2,290)

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Note 44. Non-cash investing and financing activities

	Consolidated 2008	Consolidated 2007	Parent entity 2008	Parent entity 2007
	$'000	$'000	$'000	$'000
Acquisition of plant and equipment by means of finance leases	1,564	550	–	–
Shares issued under dividend reinvestment plan	752	–	752	–
	2,316	550	752	–

Note 45. Earnings per share

	Parent entity 2008	Parent entity 2007
	$'000	$'000
Profit after income tax attributable to members of PearlStreet Limited	1,076	1,632
Weighted average number of ordinary shares used in calculating basic earnings per share	55,005,258	32,225,815
Weighted average number of ordinary shares used in calculating diluted earnings per share	55,005,258	32,225,815
	Cents	Cents
Basic earnings per share	1.96	5.06
Diluted earnings per share	1.96	5.06

Note 46. Share-based payments

On 19 February 2007 188,000 shares were issued to employees at an issue price of 50 cents per share and a total transactional value of $94,000. Of this, 7,500 shares were issued to key management personnel at a transactional value of $3,750 as identified in the directors' report.

On 28 April 2008 189,500 shares were issued to employees at an issue price of 39 cents per share and a total transactional value of $74,000. No shares were issued to key management personnel.

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Directors' declaration

In the directors' opinion:

- the attached financial statements and notes thereto comply with the Accounting Standards, the Corporations Act 2001, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto give a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the financial year ended on that date;
- the audited remuneration disclosures that are contained in sections A, B, C and D of the remuneration report in the directors' report comply with Australian Accounting Standard AASB 124 Related Party Disclosures and the Corporation Regulations 2001; and
- there are reasonable grounds to believe that the Company and consolidated entity will be able to pay their debts as and when they become due and payable.
- at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 41.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5) of the Corporations Act 2001.

On behalf of the directors

Anthony Wooles
Director

Dated this 28th day of August 2008
Melbourne

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PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
ABN 52 780 433 757

Freshwater Place
2 Southbank Boulevard
SOUTHBANK VIC 3006
GPO Box 1331L
MELBOURNE VIC 3001
DX 77
Telephone 61 3 8603 1000
Facsimile 61 3 8603 1999

Independent auditor's report to the members of PearlStreet Limited

Report on the financial report

We have audited the accompanying financial report of PearlStreet Limited (the company), which comprises the balance sheet as at 30 June 2008, and the income statement, statement of recognised income and expense and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both PearlStreet Limited and the PearlStreet Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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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.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

For further explanation of an audit, visit our website http://www.pwc.com/au/financialstatementaudit.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

Independence

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

Auditor's opinion

In our opinion:

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

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

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

(b) the consolidated financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

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Report on the Remuneration Report

We have audited the Remuneration Report included in pages 6 to 10 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 Australian Auditing Standards.

Auditor's opinion

In our opinion, the Remuneration Report of PearlStreet Limited for the year ended 30 June 2008, complies with section 300A of the Corporations Act 2001.

PricewaterhouseCoopers

PricewaterhouseCoopers

Chris Dodd
Partner

Melbourne
28 August 2008

Liability limited by a scheme approved under Professional Standards Legislation

Shareholder Information

The shareholder information set out below was applicable as at 21 August 2008.

Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

	No. Shareholders
1 to 1,000	300
1,001 to 5,000	220
5,001 to 10,000	114
10,001 to 100,000	236
100,001 and over	48
	918
Holding less than a marketable parcel	412

Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

	Number held	Ordinary shares % of total shares issued
Anthony Edward Wooles	37,437,051	49.84
Zero Nominees Pty Limited	6,850,045	9.12
Mr David Russell Eiszele and Mrs Janice Irene Eiszele	2,943,107	3.92
TPIC Pty Limited	1,900,000	2.53
Growth Equities Accumulation Limited	1,870,000	2.49
Mr Anthony Edward Wooles and Mrs Alison Louise Wooles	1,259,446	1.68
Mr Garry Richard Gillies and Mrs Vaninka Jill Gillies	1,057,480	1.41
RJ Custodians Pty Limited	1,000,000	1.33
ANZ Nominees Limited	994,546	1.32
Australian Capital Markets Pty Limited	900,000	1.20
ANZ Nominees Limited	782,878	1.04
Neil David Joiner and Annette Louise Joiner	719,678	0.96
Phillip Ashley Campbell	503,628	0.67
Ice Cold Investments Pty Limited	500,000	0.67
National Australia Trustees Limited	487,941	0.65
Growth Equities Imputation Limited	480,115	0.64
Westrade Resources Pty Limited	404,581	0.54
Mr Anthony Packer	348,451	0.46
Mr Ronald Packer and Mrs Philippa Anne Packer	313,608	0.42
TT Nicholls Pty Limited	300,000	0.40
	61,052,555	81.29

Unquoted equity securities

There are no unquoted equity securities.

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Shareholder information

Substantial holders

Substantial holders in the company are set out below:

	Ordinary shares Number held	% of total shares issued
Anthony Edward Wooles	38,696,487	51.52
Westoz Funds Management Pty Ltd	4,726,026	6.29

Voting rights

The voting rights attached to ordinary shares are set out below:

Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities.

Corporate Directory

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Directors	David Eiszele (Chairman) Anthony Wooles (Managing Director and Chief Executive Officer) Phillip Campbell (Phil) James McDonald (Jim) John Atkins
Secretary	Josephine Pane (Josie)
Notice of annual general meeting	The annual general meeting of PearlStreet Limited: will be held at Sheraton 207 Adelaide Terrace Perth WA 6000
time	10:00 AM
date	Thursday 30 October 2008
Principal registered office in Australia	Level 19 HWT Tower 40 City Road Southbank VIC 3006
Share register	Link Market Services Limited Level 9 333 Collins Street Melbourne VIC 3000 Phone: 1300 554 474
Auditor	PricewaterhouseCoopers 2 Southbank Boulevard Southbank VIC 3006
Solicitors	Freehills QV.1 Building 250 St Georges Terrace Perth WA 6000
Bankers	BankWest Level 20, BankWest Tower 108 St Georges Terrace Perth WA 6000
Stock exchange listing	PearlStreet Limited shares are listed on the Australian Stock Exchange
Website address	www.pearlstreet.com.au

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