

S Y L V A S T A T E



ANNUAL REPORT 2008

Sylvastate Ltd

ABN 24 000 014 782

Registered Office

Level 7, 20 Hunter Street
Sydney NSW 2000 Australia
Phone: (02) 8215 7900
Fax: (02) 8215 7901

Share Registry

Computershare Investor Services Pty Ltd
Level 2, 60 Carrington Street
Sydney NSW 2000 Australia
Phone: (03) 9415 4000
Fax: (03) 9473 2500

Directors

David J. Iliffe, F.C.A, Chairman
Graeme J. Gillmore, C.A., B.Com, LLB
Sam Armstrong,
B.Comm (Hons), MBA (Finance)
Angus J. Gluskie,
B.Ec, C.A., Graduate Diploma Applied
Finance and Investment, F.Fin.

Company Secretary

Peter A. Roberts, B.Bus, C.A.

Chief Executive Officer

Angus J. Gluskie,
B.Ec, C.A., Graduate Diploma Applied
Finance and Investment, F.Fin

Auditors:

Grosvenor Schilliro
Level 2, 333 George Street
Sydney NSW 2000

Stock Exchange Listing

Australian Stock Exchange

Other Information

Sylvastate Limited, incorporated
and domiciled in Australia, is a publicly
listed company limited by shares.

Chief Executive Officer's Review	2
Sylvastate and its Investment Strategy	5
Key Personnel	7
Investment Portfolio	8
Performance Statistics	9
20 Year History	11
Corporate Governance Statement	12
Directors' Report	16
Auditor's Independence Declaration	20
Directors' Declaration	20
Financials	21
Income Statement	22
Balance Sheet	23
Statement of Changes in Equity	24
Cash Flow Statement	25
Notes to the Financial Statements	27
Independent Auditor's Report	41
Details of Shareholders	42
Top Twenty Shareholders	43

CEO'S REVIEW

+ In its 85th year of operation Sylvastate reports an operating profit after tax and before realised gains of \$3,611,654, an increase of 51% on the prior year result. This strong growth in underlying earnings was driven by the increase in our issued share capital over the year as well as growth in dividend revenues from our investment portfolio.



Operating Results

In its 85th year of operation Sylvastate reports an operating profit after tax and before realised gains of \$3,611,654, an increase of 51% on the prior year result. This strong growth in underlying earnings was driven by the increase in our issued share capital over the year as well as growth in dividend revenues from our investment portfolio.

Operating profit after tax and before realised gains per share amounted to 21.58 cents per share for the financial year. This outcome represented an increase of 11.5% over the earnings per share in the prior year.

Reflecting the extremely difficult investment conditions evident over the last year the company's investment portfolio generated a return of (24.04%), slightly below the return of the All Industrials Accumulation Index return of (22.77%).

Strongest returns for the period were generated from the company's investment holdings in CSL, ResMed, Telstra, Woolworths, St George Bank, Westpac Bank, and Metcash.

Net Asset Backing and Asset Revaluation

The net asset backing for each of the company's shares (including investments at market value and before an allowance for capital gains tax which would become payable in the event that the entire portfolio was realised) amounted to \$4.12. This compares to \$5.97 at the same time last year.

The net asset backing for each of the company's shares (including investments at market value and after an allowance for capital gains tax which would become payable in the event that the entire portfolio was realised) amounted to \$4.22. This compares to \$5.48 at the same time last year. (The amount

of deferred capital gains tax at the latest year end represents a net tax benefit, compared to a net tax liability in the prior year).

The fluctuation in the value of investments across the year is represented by a net revaluation movement of (\$20,154,669) in the asset revaluation reserve.

Investment Transactions

Significant investment transactions during the year included:

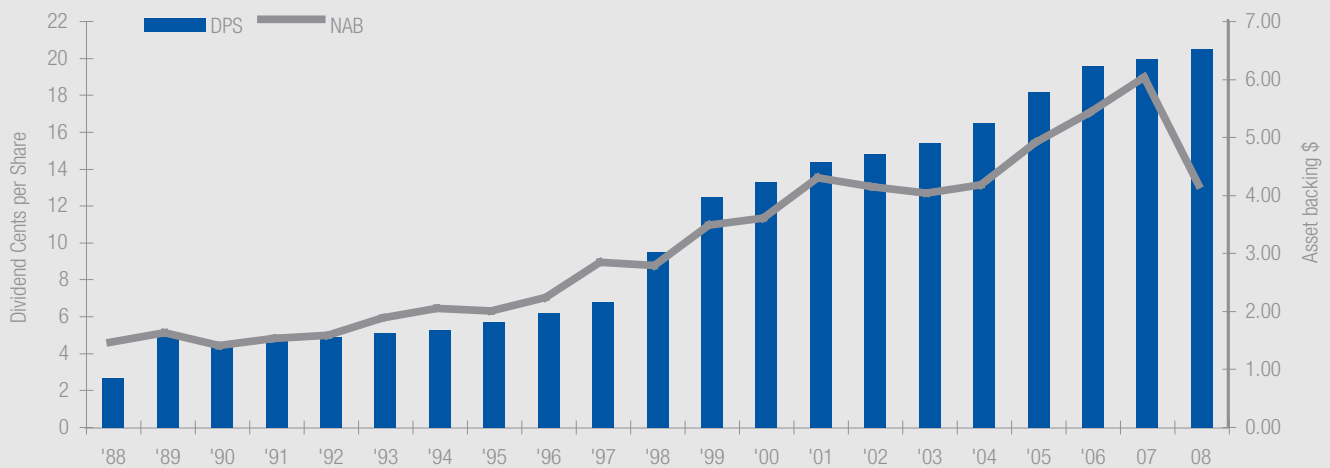
- Increasing or establishing holdings in Australian Stock Exchange, Fairfax Media, Macquarie Infrastructure Group, Macquarie Airports, St George Bank, Qantas, QBE and Wesfarmers.
- Exiting holdings in ABC Learning Centres, Harvey Norman, and Boart Longyear.
- Reducing our holdings in Brambles, CSL and Seven Network.

Outlook

The Australian economy is currently characterised by declining retail sales, a slowdown in housing activity, falling asset values and high interest rates. Corporate profit growth is slowing and employment, a lagging indicator, is widely expected to ease from its current highs. Most international economies are facing a similarly challenging set of circumstances.

As global economic growth and demand for many goods and services declines across Asia, Europe and the Americas, oil, metals and commodities markets are softening. Falling prices of these goods are also being driven by the recent rise in the US dollar. Collectively the retreat of commodity prices represents an important and necessary factor likely to assist in the lowering of inflation over upcoming years.

DIVIDENDS PER SHARE AND NET ASSET BACKING AFTER TAX



The Australian central bank has made one cut to the official interest rate, and is likely to continue to cut rates further over the next year. Interest rates have already been cut in North America, and we expect to see similar actions taken in Europe and Asia.

In addition to these fundamental economic changes, the global credit crisis has had a dramatic impact on markets. The drivers of this crisis have been the emergence of high default rates on sub-prime mortgages in the United States, which when coupled with high levels of financial leverage, have resulted in the loss of capital by US, European and Asian banks and financial institutions. A growing number of financial institutions affected by this issue have been forced to recapitalise, merge, or in some instances liquidate.

The flow-on impacts of the credit crisis for the broad market have been significant. The benefits from falling interest rates have been more than offset by increasing risk margins being added to the commercial interest rates available to individuals and corporations. Heightened counter-party risk has limited the willingness of financial institutions to transact with one another, hindering the free operation of investment markets. Companies have been forced to de-leverage, selling assets and repaying debt where possible. Fear of loss and increasing perceptions of risk have seen the prices of listed shares fall markedly.

While the potential for further areas of crisis to emerge certainly exists, at this time many of the most immediate areas of risk stemming from the credit crisis are being addressed. Central banks are adding substantial levels of liquidity to markets. The process of recapitalisation, consolidation and de-leveraging

within financial intermediaries is producing a suite of stronger ongoing participants. The support given by the US and European central banks to distressed financial institutions is steadily decreasing the chance of systemic risk.

On balance, while risks are still extremely high, it is important to consider that we may now have passed the point of highest risk for the financial sector. The actions which have been implemented over recent weeks, and which are likely to be implemented over subsequent months will provide incremental improvements for credit markets and the financial sector. Over upcoming months we expect to see credit costs move steadily lower, and financial activity progressively improve.

On the basis of the assumption that credit risk and credit costs will continue to fall from recent extremes, implications for the Australian share market in 2009 would include:

- A general upturn in the market prices of listed shares as the large risk discount being applied to listed shares by investors is removed.
- The financial sector which has been subject to the greatest perceived risk, to rally at a greater pace than those sectors considered safe havens in the last year. (Despite the recent market turmoil this process was already partially evident in investment returns to September, with the financial sector significantly outperforming all other ASX200 Industry categories. The ASX200 Financials Ex Property sector produced a September return that was 20% higher than the worst performing sector the ASX200 Materials sector).

CEO'S REVIEW Cont.

- (c) A general slowing of earnings growth as employment and economic activity continue to ease, constraining the outlook for heavily cyclical stocks.
- (d) Further easing in the Australian dollar which would benefit stocks with overseas earnings.
- (e) Falling interest rates to produce a modest improvement in the current imbalance between housing prices and house affordability

In this environment banking and infrastructure sectors are likely beneficiaries. While we would expect the banking sector to be subject to further bad debt exposures, and constrained loan growth, these negatives however, are well and truly captured in current bank share prices. Importantly as we look into the medium term, bad debt write-offs will ultimately start to fall and loan growth rates re-accelerate.

While there has been much critique of the infrastructure sector over the last year, these stocks are likely to offer the attractive characteristics of growing, long duration earnings, at a point when long bond rates are falling, a trait that may be viewed as increasingly valuable.

Media and industrial sector valuations may benefit from a generalised reduction in market risk, however earnings growth in these sectors is highly cyclical and will remain constrained during the first half of 2009.

Staple retailers such as Woolworths are likely to continue to deliver a robust earnings outcome across the year given their lower reliance on discretionary spending.

Healthcare stocks with earnings generated overseas, such as CSL and ResMed will be beneficiaries of a falling Australian dollar. In addition their earnings are unlikely to suffer from a slowdown in economic growth.

Should this steady improvement in financial conditions take place, Sylvastate's portfolio of assets will be a significant beneficiary of this process. We expect earnings growth in 2009 to be constrained, in line with a generalised slowdown in economic activity, however the drivers of a steady acceleration in earnings growth are likely to emerge in the latter stages of the year and more strongly into 2010.

Dividends to Shareholders

The Board has declared a final fully franked dividend of 10.5 cents per share. Total dividends for the financial year, including the final dividend, amount to 20.5 cents per share, an increase of 2.5% on the prior year.

Shareholder Numbers

We are pleased to see that shareholder numbers now stand at 1,113, an increase of 486% over the last five years. This steady increase in the company's shareholder base assists in providing greater liquidity for the company's shares on market, in turn making it easier for investors to buy and sell shares on a timely basis in the volumes they require.

Conclusion

The 2008 year has been characterised by market commentators as one of the most difficult periods for financial markets since the 1920's. In 1929, five years after Sylvastate was formed, the company was faced with the significant trials of the Great Depression. Notwithstanding significant volatility in the company's share price and the broad market, through careful and patient management of its assets the company survived and subsequently prospered.

In a similar vein, we hope that through a careful and patient approach to the difficult experiences of 2008 that Sylvastate remains well positioned to generate value for its investors in upcoming years.

Angus Gluskie
Chief Executive Officer

SYLVASTATE AND ITS INVESTMENT STRATEGY

Sylvastate

Sylvastate is a listed investment company which was founded in 1924. Sylvastate holds a concentrated portfolio of listed Australian industrial shares providing a careful balance of earnings consistency, risk control and the potential for delivery of robust investment performance.

Investment Objective

Sylvastate's investment objective is to generate a strong outright investment return and a steadily growing stream of investment income over the long term from investment in a concentrated portfolio of listed Australian industrial securities.

Investment Strategy & Process

Sylvastate seeks to hold a compact portfolio of shares whose realistically achievable future earnings can be acquired at sufficiently attractive prices to provide a satisfactorily robust rate of investment return.

Sylvastate's investment management team aim to obtain a qualitative and quantitative portrait of the short, medium and long term earnings which are realistically achievable for each stock, as well as the risks or certainty associated with those earnings. This portrait of achievable earnings is compared to the future earnings captured in the stock's current share price and the portfolio structured accordingly.

This process is undertaken through a disciplined routine of research and analysis examining a range of factors including the natural demand for each company's products or services, new markets available, competitive advantage, distribution techniques, competitive positioning, pricing power, strategic actions, competitive positioning of significant suppliers, return on equity, management quality and financial position.

Sylvastate's concentrated portfolio of approximately 30 stocks is moderately differentiated from the market and is designed to provide both consistency of earnings generation as well as the potential for the achievement of a robust long term investment outcome.

Sylvastate's Management Expense Ratio

Sylvastate aims to provide investors with a cost-efficient investment vehicle. Sylvastate's management expenses currently amount to only 0.35% per annum of the value of its gross investment assets.

Sylvastate does not pay performance fees to its managers or executives and has no share or options plans for Directors or executives.

Management expenses on listed investment companies vary from the wholesale rates offered by some listed investment companies (usually less than 0.5%pa) to the higher retail rates offered by other listed investment companies of 3%pa or more.

The benefit of a low management expense, such as that offered by Sylvastate, can be seen in the graph below. Assuming investment returns are similar, over 25 years approximately 30% of an investor's ultimate investment value (after tax) would be eroded by investing in a vehicle which has a 2% higher management expense.

Sylvastate's Tax Status

Sylvastate pays income tax on its net taxable investment income at the company tax rate, and is entitled to the benefit of franking credits it receives.

Sylvastate pays tax at the company rate (30%) on any net realised capital gains it makes.

Sylvastate may periodically pay dividends to its shareholders out of qualifying net realised LIC discount capital gains. Where this is done individual shareholders become entitled to the usual 50% capital gains tax discount on the grossed-up value of the LIC discount dividend paid to them. (Superannuation fund shareholders are entitled to their usual 1/3rd capital gains tax discount). In general realised capital gains made by Sylvastate will qualify as LIC discount capital gains where the investment has been held for more than 12 months and is part of a long term investment portfolio.

The implications of this are that a shareholder with a marginal tax rate of 46.5% pays tax on qualifying realised LIC discount capital gains made by Sylvastate at the effective rate of 23.25%.

SYLVASTATE AND ITS INVESTMENT STRATEGY Cont.

Controlling Risk Through Diversity

Sylvstate seeks to manage and constrain risk through a range of prudent checks and controls. These include:

- (a) Diversification of the investment portfolio across multiple stocks and industry sectors;
- (b) Maintenance of the portfolio within a range of parameters governing the levels of acceptable exposure to stocks and industry sectors;
- (c) Prudent controls governing accounting, reporting and custodial processes;
- (d) A robust process of corporate governance and the careful monitoring of executive management

Full details on the company's approach to corporate governance is shown in the Corporate Governance Statement.

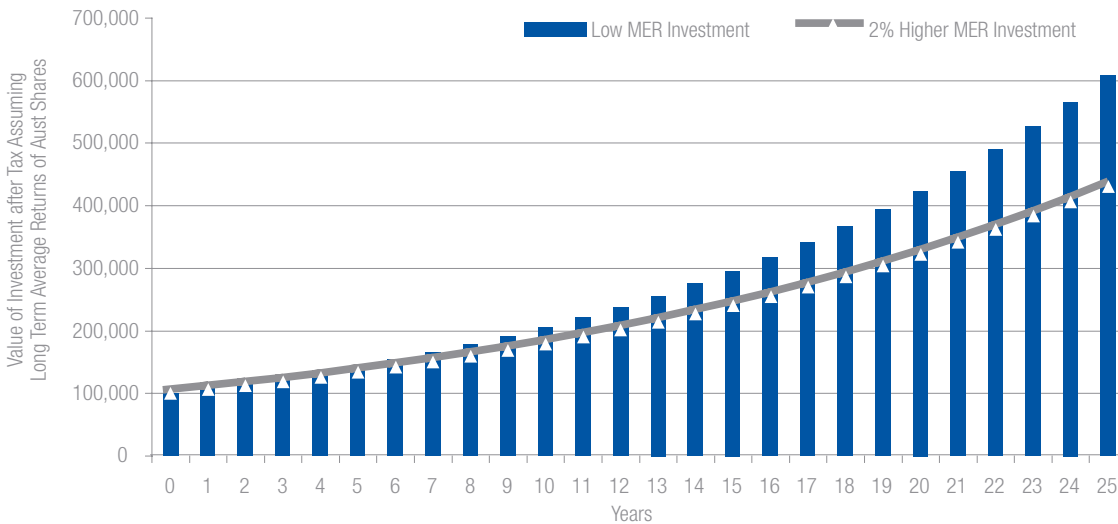
Dividend Policy

Sylvstate aims to pay out dividends which are approximately equal to its net operating profit after tax, but excluding realised capital gains.

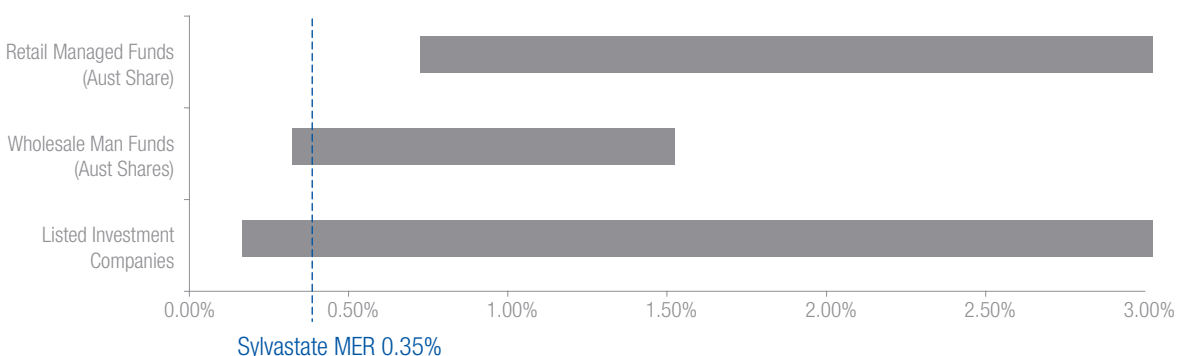
When Sylvstate realises LIC Discount Capital Gains it will seek to pass the tax status of those gains to underlying shareholders where possible.

BENEFIT OF A LOW MER INVESTMENT VEHICLE

(Over 25 years the value of an investment in a low MER vehicle is 39% higher than in a 2% higher MER vehicle - all other things being equal).



INDICATIVE RANGE OF MANAGEMENT EXPENSES



KEY PERSONNEL



David J. Iliffe



Graeme J. Gillmore



Sam A. Armstrong



Angus J. Gluskie



Peter A. Roberts

David J. Iliffe

Non-Executive Chairman, Member of Audit, Nomination and Remuneration Committees
Age, 64

David has been a Director of Sylvastate Ltd since March 1990, and was appointed Chairman in 2003. David has over 35 years experience as a Chartered Accountant and is a Fellow of the Institute of Chartered Accountants and of the Taxation Institute of Australia; and an Associate of the Australian Institute of Company Directors. David also holds positions as Chairman of Whitefield Ltd and Van Eyk Three Pillars, and is a Director of Employers Mutual Ltd.

Graeme J. Gillmore

Non-Executive Director, Chairman of Audit Committee, Member of Nomination and Remuneration Committees
Age, 48

John is a Chartered Accountant and Solicitor, appointed as a Director of Sylvastate Ltd since September 1995. John is a Director of Whitefield and holds a Bachelor of Commerce and a Bachelor of Laws.

Sam A. Armstrong

Non-Executive Director, Member of Audit, Nomination and Remuneration Committees
Age, 45

Sam has been a Director of Sylvastate Ltd since 2003. Sam has over 19 years experience in wholesale investments markets previously with Macquarie Funds Management and Quay Partners Pty Ltd. Sam is a Partner of Barwon Investments Partners and holds a Bachelor of Commerce (Hons) and a MBA from Columbia University, New York.

Angus J. Gluskie

Chief Executive Officer, Director, Member of Nomination and Remuneration Committees
Age, 42

Angus has been Chief Executive Officer of Sylvastate Ltd since 1996 and was appointed as a Director in 2003. Angus has over 20 years experience in the fields of funds management and financial services. Angus is a Member of the Institute of Chartered Accountants and an Associate of the Securities Institute of Australia, and holds a Bachelor of Economics and a Graduate Diploma in Applied Finance & Investment. Angus is Chief Executive Officer of Whitefield Ltd and Managing Director of White Funds Management Pty Ltd.

Peter A. Roberts

Company Secretary
Age, 38

Peter was appointed Company Secretary in 2003 and has over 16 years experience in the fields of chartered accountancy and specialised back office services to the funds management community. Peter is a Director of White Outsourcing Pty Ltd and Company Secretary of Ironbark Capital Ltd, Whitefield Ltd, Australian Leaders Fund Ltd, Century Australia Ltd and van Eyk Three Pillars Ltd. Peter holds a Bachelor of Business and is a Member of the Institute of Chartered Accountants.

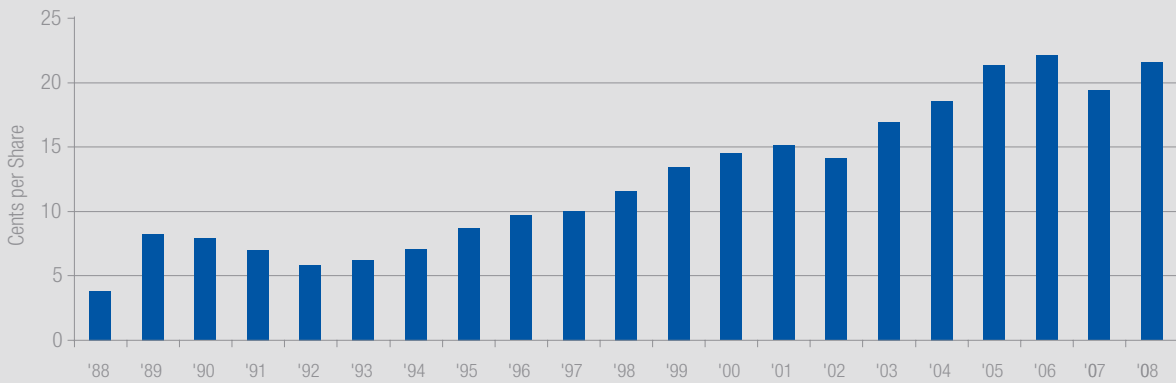
INVESTMENT PORTFOLIO

As At 31st August 2008

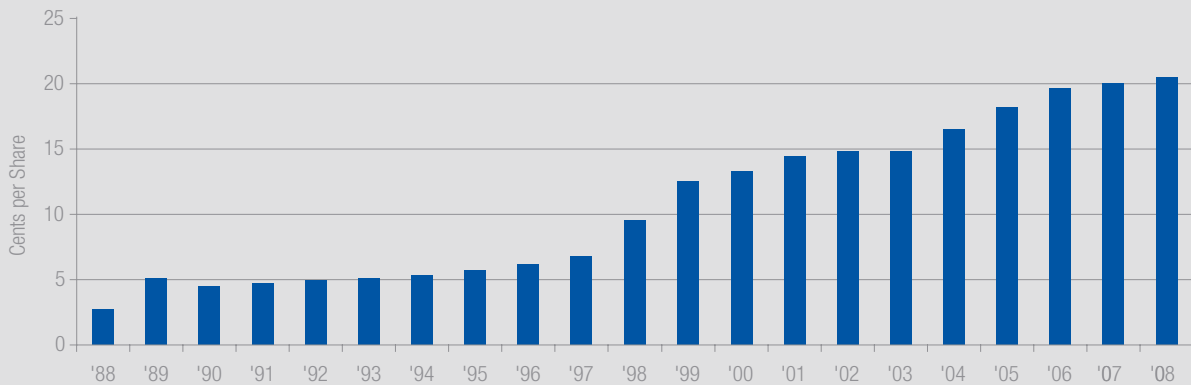
Code	Name	Shares	Market Value	Sylvastate %
Consumer Discretionary				
ALL	Aristocrat Leisure Limited	48,800	287,920	0.42%
CMJ	Consolidated Media Holdings Limited	163,000	529,750	0.76%
CWN	Crown Limited	163,000	1,491,450	2.15%
FXJ	Fairfax Media Limited	800,800	2,258,256	3.25%
NWS	News Corporation	22,500	374,625	0.54%
NWSLV	News Corporation	100,800	1,640,016	2.36%
SEV	Seven Network Limited	153,500	1,208,045	1.74%
			7,790,062	11.22%
Consumer Staple				
MTS	Metcash Limited	94,000	370,360	0.53%
WES	Wesfarmers Limited	60,075	1,850,310	2.67%
WOW	Woolworths Limited	201,525	5,715,249	8.24%
			7,935,919	11.44%
Banks				
ANZ	Australia and New Zealand Banking Group Limited	167,628	2,784,301	4.01%
CBA	Commonwealth Bank of Australia	124,292	5,269,981	7.60%
NAB	National Australia Bank Limited	154,650	3,788,925	5.46%
SGB	St George Bank Limited	50,283	1,527,597	2.20%
WBC	Westpac Banking Corporation	181,000	4,262,550	6.14%
			17,633,354	25.41%
Financials ex Banks				
AMP	AMP Limited	143,982	1,002,115	1.44%
ASX	ASX Limited	20,200	714,272	1.03%
CGF	Challenger Financial Services Group Limited	261,900	717,606	1.03%
HFA	HFA Holdings Limited	835,094	964,534	1.39%
LLC	Lend Lease Corporation Limited	26,100	251,865	0.36%
MQG	Macquarie Group Limited	60,900	2,682,036	3.87%
QBE	QBE Insurance Group Limited	93,875	2,248,306	3.24%
			8,580,734	12.36%
Health Care				
CSL	CSL Limited	49,429	2,029,060	2.92%
RMD	ResMed Inc.	238,100	1,283,359	1.85%
			3,312,419	4.77%
Industrials				
AIO	Asciano Group	184,300	903,070	1.30%
ALS	Alesco Corporation Limited	186,392	1,287,969	1.86%
BXB	Brambles Limited	300,890	2,316,853	3.34%
MAP	Macquarie Airports	269,800	863,360	1.24%
MIG	Macquarie Infrastructure Group	953,000	2,087,070	3.01%
QAN	Qantas Airways Limited	371,700	1,256,346	1.81%
TOL	Toll Holdings Limited	202,000	1,405,920	2.03%
VBA	Virgin Blue	202,000	116,150	0.17%
			10,236,738	14.76%
Telecommunication Services				
TLS	Telstra Corporation Limited	1,005,900	4,375,665	6.31%
			4,375,665	6.31%
Other				
WHF	Whitefield Limited	3,015,037	9,527,517	13.73%
			9,527,517	13.73%
	Total		69,392,408	100.00%

PERFORMANCE STATISTICS

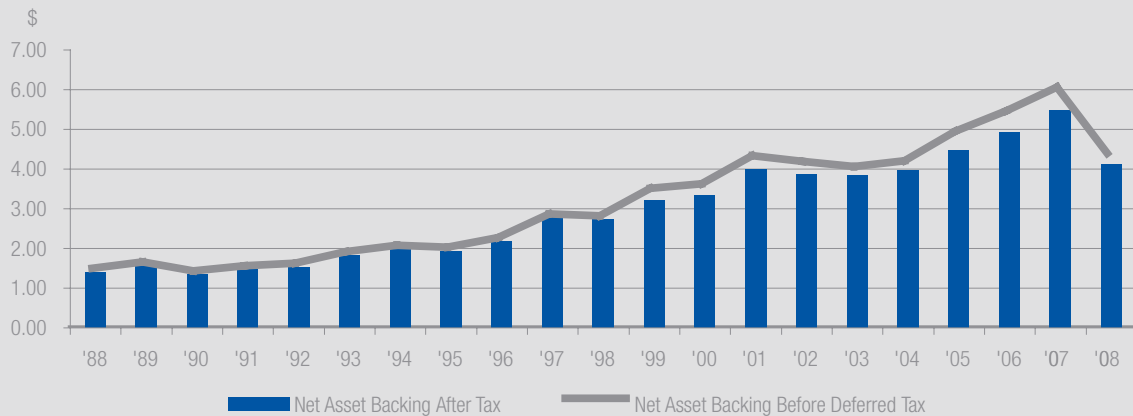
NET OPERATING PROFIT AFTER TAX PER SHARE



ORDINARY DIVIDENDS PER SHARE



NET ASSET BACKING BEFORE AND AFTER DEFERRED TAX



PERFORMANCE STATISTICS Cont.

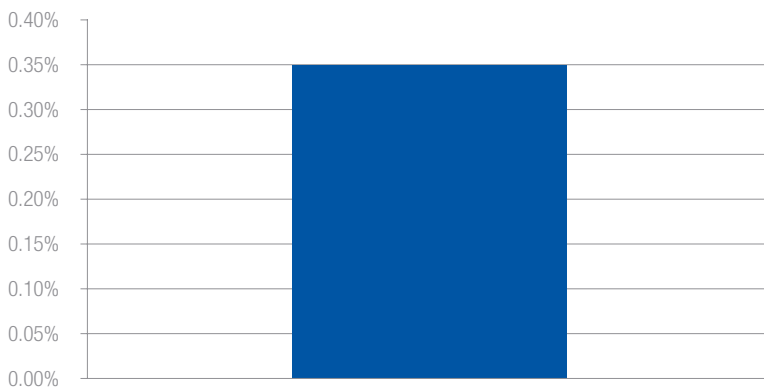
RETURNS OF SYLVASTATE'S INVESTMENT PORTFOLIO (ANNUALISED)

	Sylvastate	All Industrials Accumulation
1 Year	(24.04%)	(22.77%)
3 Year	4.24%	4.19%
5 Year	9.02%	10.19%
10 Year	10.15%	9.17%
20 Year	10.38%	N/A*

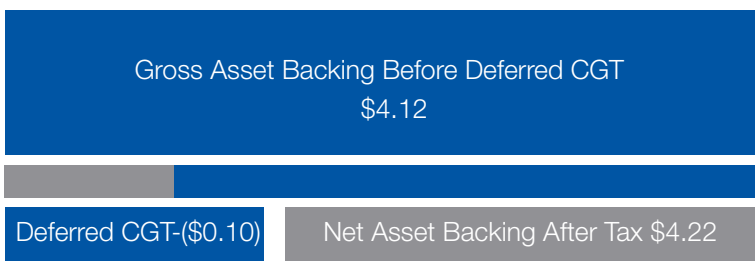
*ASX200 Accumulation 20 Year 10.61%

MANAGEMENT EXPENSE RATIO

(Total Expenses as a % of Assets)



GROSS AND NET ASSET BACKING



20 YEAR HISTORY

Year Ended	Ord Shares Issued	Capital Raised \$	Issued Capital	Operating Profit After Tax \$	Dividends Paid/Provided /Declared \$	Shareholders' Equity \$	Dividends Per Share cps	Operating Profit After Tax Per Share cps	NTA Pre Tax Per Share \$
1988	-		8,000,000	311,442	216,000	11,181,029	2.70	3.84	1.40
1989	-		8,000,000	670,029	408,000	12,560,300	5.10	8.27	1.57
1990	-		8,000,000	640,841	360,000	10,765,865	4.50	7.91	1.35
1991	-		8,000,000	566,055	376,000	11,766,775	4.70	6.99	1.47
1992	-		8,000,000	476,356	392,000	12,201,963	4.90	5.88	1.53
1993	-		8,000,000	504,114	408,000	14,607,351	5.10	6.22	1.82
1994	-		8,000,000	575,171	424,000	15,922,014	5.30	7.10	1.99
1995	-		8,000,000	702,909	456,000	15,517,344	5.70	8.67	1.94
1996	-		8,000,000	786,285	496,000	17,324,100	6.20	9.70	2.17
1997	-		8,000,000	814,499	544,000	22,278,658	6.80	10.05	2.78
1998	-		8,000,000	937,917	760,000	21,809,450	9.50	11.57	2.73
1999	-		8,000,000	1,091,166	1,000,000	25,705,035	12.50	13.47	3.42
2000	-		8,000,000	1,175,863	1,064,000	26,718,449	13.30	14.51	3.54
2001	-		8,000,000	1,225,711	1,152,000	31,946,385	14.40	15.13	4.24
2002	-		8,000,000	1,142,593	1,184,000	30,870,263	14.80	14.10	4.09
2003	-		8,000,000	1,373,425	1,184,000	30,682,796	14.80	16.95	3.97
2004	1,705,889	6,296,000	9,705,889	1,699,153	1,340,891	38,378,470	16.50	18.58	4.12
2005	290,491	1,176,698	9,996,380	2,101,071	1,671,057	44,880,570	18.20	21.33	4.85
2006	1,183,984	5,462,610	11,180,364	2,293,477	1,912,407	55,246,867	39.60	22.10	5.37
2007	3,088,400	15,965,746	14,268,764	2,386,355	4,519,436	78,184,851	20.00	19.36	5.97
2008	3,374,103	16,018,398	17,293,697	3,611,654	3,572,553	72,989,629	20.50	21.58	4.12

NOTE: Shareholders' Equity includes the unrealised market value of publicly listed shares and notes in Australian Companies and Trusts, less tax which would be payable on realisation of all investments and the estimated cost of such realisation. Operating profit in this summary excludes abnormal profits or losses arising from the sale of investments. Per share calculations have been adjusted for bonus issues where appropriate.

CORPORATE GOVERNANCE STATEMENT

For the Year Ended 31st August 2008

+ This statement outlines the main corporate governance practices in place throughout the financial year, which comply with the ASX Corporate Governance Principles and Recommendations (2nd Edition, August 2007) unless otherwise stated.

Board of Directors and Its Committees

Role of the Board

The Board's primary role is the protection and enhancement of long-term shareholder value. To fulfil this role the Board seeks to address (a) the prudential control of the company's operations, (b) the resourcing, review and monitoring of executive management, (c) the timeliness and accuracy of reporting to shareholders and (d) the determination of the company's broad objectives.

Board Processes

The Board has established a number of Board Committees including a Nomination Committee, a Remuneration Committee and an Audit Committee. These committees have written mandates and operating procedures which are reviewed on a regular basis. The Board has also established a range of policies which govern its operation.

The Board currently holds four scheduled meetings each year plus any other strategic meetings as and when necessitated by the company's operations. The agenda for meetings is prepared through the input of the Chairman, Chief Executive Officer and Company Secretary. Standing items include matters of Compliance and Reporting, Financials, Shareholder Communications and Investment Strategy and Outcomes. Submissions are circulated in advance.

In respect of the current year all necessary performance evaluations of the Board, its committees and Directors have occurred in the reporting period in accordance with the processes disclosed herein.

Composition of the Board

The names of the directors of the company in office at the date of this Statement and their period of office are set out in the Directors' Report. The qualifications, experience and special responsibilities of the Directors are shown on page 7 of this Annual Financial Report.

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

- A minimum of three directors;
- An independent, non-executive director as Chairman;
- A majority of non-executive directors;
- One Director being the Chief Executive Officer.

An independent director is considered to be a director (a) who is not a member of management and (b) who has not within the last three years been employed in an executive capacity by the company or been a principal of a professional adviser or consultant to the company (c) is not a significant supplier to the company (d) has no material contractual relationship with the company other than as a director and (e) is free from any interest or business or other relationship which could materially interfere with the director's ability to act in the best interests of the company.

No Directors other than the Chief Executive Officer hold office for a period in excess of three years or until the third AGM following his appointment without submitting himself for re-election

Nomination Committee

The Nomination Committee oversees the selection and appointment process for directors. The Committee annually reviews the composition of the Board and makes recommendations on the appropriate skill mix, personal qualities, expertise and diversity required. Where a vacancy exists the Committee develops selection criteria and generates a list of potential candidates, for review, determination of an order of preference and ultimate selection by the Board.

The Nomination Committee meets annually unless otherwise required. The Committee met once during the year. Full details of Committee attendance can be found in the Directors' Report.

The Nomination Committee comprised the following members during the year:

- **David J. Iliffe (Chairman)** – Independent Non-Executive
- **Graeme J. Gillmore** – Independent Non-Executive
- **Sam Armstrong** – Independent Non-Executive
- **Angus J. Gluskie** – Chief Executive Officer

The terms and conditions of the appointment and retirement of non-executive directors are set out in a letter of appointment. The Committee is responsible for the performance review of the Board and its Committees. Individual directors are subject to continuous review by the Chairman. Directors whose performance is unsatisfactory are asked to retire.

In addition, the performance of service providers (ANZ Custodians, White Outsourcing Pty Ltd and White Funds Management Pty Ltd) is the subject of continuous oversight by the Chairman and the Board as a whole.

Director Dealing in Company Shares

Directors and senior management may acquire shares in the Company, but are prohibited from dealing in Company shares (a) between the close of a month and the release of the company's net asset backing to the ASX or (b) whilst in possession of price-sensitive information.

Independent Professional Advice and Access to Company Information

Each director has the right of access to all relevant company information and to the Company's executives and subject to prior consultation with the Chairman, may seek independent professional advice at the entity's expense. A copy of advice received by the director is made available to all other members of the Board.

Remuneration Committee

The Remuneration Committee reviews and makes recommendations to the Board on remuneration of the directors themselves.

The members of the Remuneration Committee during the year were:

- **David J. Iliffe (Chairman)** – Independent Non-Executive
- **Graeme J. Gillmore** – Independent Non-Executive
- **Sam Armstrong** – Independent Non-Executive
- **Angus J. Gluskie** – Chief Executive Officer

The Remuneration Committee meets annually unless otherwise required. The Committee met once during the year. Full details of Committee attendance can be found in the Directors' Report.

The company provides no equity based remuneration, such as share or option plans, to Directors.

Full details on Directors' remuneration are provided in the Directors' Report.

Audit Committee

The Audit Committee has a documented Charter, approved by the Board. All members must be non-executive directors. The Chairman of the Audit Committee is not the Chairman of the Board. The Committee is responsible for considering the effectiveness of the systems of internal control and financial reporting.

The members of the Audit Committee during the financial year were:

- **Graeme J. Gillmore (Chairman)** – Independent Non-Executive
- **David J. Iliffe** – Independent Non-Executive
- **Sam Armstrong** – Independent Non-Executive

The Audit Committee meets at least two times per year. The Audit Committee met twice in the last year. These meetings included meeting with the external auditor twice, without management being present. Full details of Committee attendance can be found in the Directors' Report.

CORPORATE GOVERNANCE STATEMENT Cont.

For the Year Ended 31st August 2008

The responsibilities of the Audit Committee are to ensure that:

- Relevant, reliable and timely information is available to the Board to monitor the performance of the company;
- External reporting is consistent with committee members' information and knowledge and is adequate for shareholder needs;
- Management process support external reporting in a format which facilitates ease of understanding by shareholders and institutions;
- The external audit arrangements are adequate to ensure the maintenance of an effective and efficient external audit. This involves (a) reviewing the terms of engagement, scope and auditor's independence (b) recommendations as to the appointment, removal and remuneration of an auditor and (c) reviewing the provision of non-audit services provided by the external auditor ensuring they do not adversely impact on audit independence;
- Review the company's risk profile and assess the operation of the company's internal control system; and
- Conduct an annual review of the Chief Executive Officer's performance.

The Auditor is invited to attend the Annual General Meeting of the company. In respect of the current year a performance review was conducted of the Chief Executive Officer during the reporting period in accordance with the process disclosed.

Risk Management Policy

The Board acknowledges that it is responsible for the overall system of internal control but recognises that no cost effective internal control system will preclude all errors and irregularities. The Board has delegated responsibility for reviewing the risk profile and reporting on the operation of the internal control system to the Audit Committee.

The external auditor is required to attend the Annual General Meeting and is available to answer shareholder questions.

The Audit Committee (a) requires executive management to report annually on the operation of internal controls, (b) reviews the external audit of internal controls and liaises with the external auditor and (c) conducts any other investigations and obtains any other information it requires in order to report to the Board on the effectiveness of the internal control system.

The Board identifies the following business risks as having the potential to significantly or materially impact the company's performance (a) administrative risks including operational, compliance and financial reporting (b) market related risks.

Administrative Risks

The Chief Executive Officer is responsible for recognising and managing administrative risks including (a) operational, (b) compliance and (c) financial reporting. However, the Company has outsourced its administrative functions to service providers, ANZ Custodians (custody), White Outsourcing Pty Limited (accounting and Company Secretarial) and White Funds Management Pty Limited (investment management) accordingly risk issues associated with these activities are handled in accordance with the service providers policies and procedures.

The Chief Executive Officer and the Company Secretary provide declaration to the Board twice annually, to certify that the company's financial statements and notes present a true and fair view, in all material respects, of the company's financial condition and operational results and that they have been prepared and maintained in accordance with relevant Accounting Standards and the Corporations Act 2001.

In addition, the Chief Executive Officer and White Outsourcing Pty Ltd (Administration Manager) have confirmed half-yearly in writing to the Board that the declaration provided above is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. The Chief Executive Officer has also confirmed half-yearly that all material business risks have been effectively managed.

In respect of the current year all necessary declarations have been submitted to the Board.

Market Risks

The Board is primarily responsible for recognising and managing market related risks. By its nature as a Listed Investment Company, the Company will always carry investment risk because it must invest its capital in securities which are not risk free. However, the Company seeks to reduce this investment risk by a policy of diversification of investments across industries and companies operating in various sectors of the market.

White Funds Management Pty Ltd (Investment Manager) is required to act in accordance with the Board approved investment management agreement and reports to the Board quarterly on the portfolio's performance, material actions of the investment manager during that quarter and an explanation of the investment manager's material proposed actions for the upcoming quarter. In addition, the investment manager is required to report half-yearly that White Funds Management Pty Ltd have invested the Company's assets in accordance

with approved Investment Mandate and complied with the Investment Management agreement requirements during the reporting period.

In assessing the Company's risk tolerance level the Board considers any instance which materially affects the Company's monthly Net Tangible Asset backing announcement released to the ASX.

Executive Management

The Chief Executive Officer is responsible for Sylvastate's day to day operations. These operations are conducted through White Funds Management Pty Ltd (Investment Manager) and White Outsourcing Pty Ltd (Administration Manager). These entities incorporate the specialist wholesale investment and administration personnel who directly, or via their predecessors, have undertaken the company's executive operations since inception.

Sylvastate has contracted with White Funds Management Pty Ltd to provide investment management services until 31st August 2017. The fee payable to the Investment Manager amounts to 0.25% of gross assets per annum. The Chief Executive Officer receives no fees as an individual but is a Director and Member of White Funds Management Pty Ltd. Sylvastate has contracted with White Outsourcing Pty Ltd to provide ongoing administration services on normal commercial terms. The Company Secretary receives no fees as an individual but is a Director and Member of White Outsourcing Pty Ltd.

The company provides no equity based remuneration, such as share or option plans, to executives.

Sylvastate's executive management arrangements have been structured to provide investors with an extremely cost efficient investment vehicle and access to a significant depth of professional resources.

Ethical Standards

The Board expects all executive and non-executive directors to act professionally in their conduct and with the utmost integrity and objectivity. All executive and non-executive directors must comply with the company's Code of Conduct and Ethics.

Shareholder Communications

The Board informs shareholders of all major developments affecting the company's state of affairs as follows:

- Quarterly reports will be mailed to shareholders at the close of each quarter, with the exception of the year-end;
- The default option for receiving annual reports is via the Company website. Information on accessing online annual reports is provided in Notice of Meeting and Proxy Mail Packs. Shareholders have the option of receiving a printed version of the annual report or alternatively receiving all shareholder communications via email;
- Net asset backing per share is released to the ASX by the 14th day following each month-end;
- Any information of a material nature affecting the company is disclosed to market through release to the ASX as soon as the company becomes aware of such information, in accordance with the ASX Continuous Disclosure requirements;
- All announcements made to the ASX are also available from the company's website (www.sylvastate.com.au);
- The Board, Audit Committee, Nomination Committee and Remuneration Committee Charters and Company Policies are available on the company's website.

DIRECTORS' REPORT

The Directors present their report together with the financial report of Sylvastate Limited ("the Company") for the year ended 31st August, 2008 and the auditor's report thereon.

Principal Activity

The principal activity of the Company is investment in the publicly listed equities and notes of Australian companies and trusts. No change in this activity took place during the year or is likely in the future.

Operating and Financial Review

Net profit after tax (before realised gains) amounted to \$3,611,654 (2007: \$2,386,355).

A full review of operations and results is included in the accompanying Chief Executive Officer's Review.

Dividends

Dividends paid or recommended for payment out of the profits since the end of the previous financial year were:

In respect of last year's report:

- | | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| (a) Final dividend paid 15th November 2007, proposed in last year report
10 cents per ordinary share, fully franked,
100% attributable to discount capital gains | \$1,428,364 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|

In respect of the current financial year:

- | | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| (b) Interim dividend paid 29th April, 2008
10 cents per ordinary share, fully franked
30% attributable to discount capital gains | \$1,756,715 |
| (c) Final dividend declared by the Directors, not provided, payable 28th October, 2008
10.5 cents per ordinary share, fully franked,
0% attributable to discount capital gains | \$1,815,838 |

State of Affairs

Significant changes in the state of affairs of the company during the financial year were as follows:

Fully paid ordinary share capital increased during the year as follows:

	2008
- 15th November 2007 - Dividend Reinvestment of 42,279 shares at \$5.61 per share to provide additional working capital of \$237,185	237,185
- 7th December 2007 - 1:4 Rights Issue of 3,263,802 shares at \$4.75 per share to provide additional working capital of \$15,503,060	15,503,060
- 15th November 2007 - Dividend Reinvestment of 68,022 shares at \$4.09 per share to provide additional working capital of \$278,153	278,153
- 31st July 2007 - Share Buy Back of 349,170 shares at an average of \$3.93 per share to provide less working capital of \$1,368,555	(1,368,555)
Increase in fully paid share capital	14,649,843

Events Subsequent to Balance Date

The final dividend as declared by the directors will be paid subsequent to balance date and is not provided for in the Balance Sheet.

Other than the matter discussed above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of material and unusual nature likely, in the opinion of the directors of the Company, to significantly affect the operations of the entity, the results of those operations, or the state of affairs of the entity, in future financial years.

Likely Developments

The Directors have no plans for new developments in the operations of the Company and propose to continue to invest available funds in the publicly listed equities of Australian companies. Further comments on the outlook for the company are included in the Chief Executive Officer's Review.

Board Comments

Change in Share Registry

Following the review of shareholder requirements, and after reviewing the range of share registries operating in the Australian market, the company chose Computershare Investor Services Pty Limited to provide its share registry services. The formal changeover date was Monday 8th October 2007. There were no changes to Sylvastate Ltd's normal operations as part of this initiative.

Renewal of Management Arrangements

Sylvastate Ltd's management arrangements with its investments manager and administrator were updated and renewed in September 2007, on similar terms and conditions as previously incorporating changes made to the manner in which fees and expenses of operation are borne by the company, the administrator and the investment manager.

This renewal of the underlying agreement has been necessitated by the company's recent move to outsource its share registry to Computershare and the demerger of the company's Administrator White Outsourcing Pty Ltd from Moore Stephens Sydney Pty Ltd and White Funds Management Pty Ltd.

Sylvastate now has agreement for the provision of ongoing administration services from White Outsourcing Pty Ltd and for the provision of investment management services from White Funds Management Pty Ltd.

Under the renewed agreements:

- The term of the investment management contract with White Funds Management Pty Ltd remains at ten years, now expiring in September 2017;
- Fees payable to the Investment Manager remain at 0.25% of assets per annum;
- A fee rebate structure has been introduced whereby the investment manager will rebate a percentage of fees back to the company in certain circumstances;
- Fees payable to the administrator will be set periodically at market rates;
- Direct expenses of the company will be met by the company (previously these expenses were spread amongst the company, the administrator and the investment manager).

The company expects to maintain a management expense ratio that is 0.35% of assets or below.

Directors

The Directors in office at any time during or since the end of the financial year are as follows:

	Period of Directorship
David J. Iliffe (Independent Chairman)	15th March 1990 to current
Angus J. Gluskie (Chief Executive Officer)	4th February 2003 to current
Sam Armstrong	5th June 2003 to current
Graeme J. Gillmore	7th September 1995 to current

The Directors have been in office since the start of the financial period to the date of this report unless otherwise stated. No other Directors held office during the financial year.

The qualifications, experience and special responsibilities of the Directors are shown on page 7 of this Annual Report. Particulars of the interest of Directors in the issued capital of the Company are shown on page 19 of this Annual Report.

Company Secretary

The Company Secretary is Mr. Peter A. Roberts. The Company Secretary has been in office since the start of the financial period to the date of this report unless otherwise stated. The qualifications and experience of the Company Secretary are shown on page 7 of this Annual Report.

Environmental Issues

The company's operations are not subject to any significant environmental regulations under the law of the Commonwealth and State. To the extent that any environmental regulations may have incidental impact on the Company's operation, the Directors' of the Company are not aware of any breach by the Company of those regulations.

DIRECTORS' REPORT Cont.

Directors' Meetings

During the year the Company held 4 Directors' Meetings, 2 Audit Committee Meetings attended by all Audit Committee members, 1 remuneration committee meeting attended by all directors and 1 nomination committee meeting attended by all directors.

	Directors' Meetings Attended	Audit Committee Meetings Attended	Nomination Committee Meetings Attended	Remuneration Committee Meetings Attended
S. Armstrong	4	2	1	1
G.J. Gillmore	4	2	1	1
A.J. Gluskie	4	-	1	1
D.J. Iliffe	4	2	1	1

Remuneration Report

This report outlines the remuneration arrangements for directors and executives of Sylvastate Limited.

(a) Remuneration Policy

The Board determines the remuneration structure of Non-Executive Directors having regard to the scope of the Company's operations and other relevant factors including the frequency of Board meetings as well as directors' length of service, particular experience and qualifications. The Board makes a recommendation to shareholders as to the level of Non-Executive Directors remuneration which is then put to shareholders at the Annual General Meeting for approval.

The company pays no direct remuneration to executives. Mr A.J. Gluskie is a member and officer of White Funds Management Pty Ltd and a member of White Outsourcing Pty Ltd. Mr P.A. Roberts is a member, director and employee of White Outsourcing Pty Ltd. White Funds Management Pty Ltd and White Outsourcing Pty Ltd are contracted by the company as the Investment Manager and Administrator respectively. Those entities receive fees for service on normal commercial terms and conditions.

As the company does not pay performance fees, nor provide share or option schemes to Directors and executives, remuneration of Executives and Non-executives is not explicitly linked to the Company's performance. Notwithstanding this, Board members and Company executives are subject to ongoing performance monitoring and regular performance reviews.

Details of the nature and amount of each director and senior executive's emoluments from the Company in respect of the year to 31st August 2008 were:

Directors and Senior Executives' Emoluments for the Year Ended 31 August 2008

2008	Base Emoluments	Super	Other	Total
S. Armstrong	\$3,211	\$289	-	\$3,500
G.J. Gillmore	\$3,211	\$289	-	\$3,500
D.J. Iliffe	\$3,211	\$289	-	\$3,500
A.J. Gluskie	-	-	\$106,818 ¹	\$106,818 ¹
P.A. Roberts				

Directors and Senior Executives' Emoluments for the Year Ended 31 August 2007

2007	Base Emoluments	Super	Other	Total
S. Armstrong	\$2,294	\$206	-	\$2,500
G.J. Gillmore	\$2,294	\$206	-	\$2,500
D.J. Iliffe	\$2,294	\$206	-	\$2,500
A.J. Gluskie	-	-	\$161,880 ¹	\$161,880 ¹
P.A. Roberts				

¹ Mr A.J. Gluskie is a member, director and employee of White Funds Management Pty Ltd. Mr P.A. Roberts is a member, director and employee of White Outsourcing Pty Ltd. During the year, White Funds Management Pty Ltd and White Outsourcing Pty Limited received fees of \$106,818 (2007: \$161,880) for the management of the Company, out of which costs of accounting, administration and investment management are paid. Mr A.J. Gluskie and Mr P.A. Roberts received no fees as individuals.

(b) Equity Instrument disclosure relating to directors

2008	Balance at 1 September 2007	Shares acquired / (disposed)	Shares no longer deemed to be Director related	Balance at 31 August 2008
Mr D.J. Iliffe (Non-executive Chairman)	448,196	99,794	-	547,990
Mr G.J. Gillmore (Non-executive director)	89,800	-	-	89,800
Mr S. Armstrong (Non-executive director)	4,258	1,065	-	5,323
Mr A.J. Gluskie (Chief Executive Officer)	223,197	685,437	-	908,634

2007	Balance at 1 September 2006	Shares acquired / (disposed)	Shares no longer deemed to be Director related	Balance at 31 August 2007
Mr D.J. Iliffe (Non-executive Chairman)	427,441	20,755	-	448,196
Mr G.J. Gillmore (Non-executive director)	89,800	-	-	89,800
Mr S. Armstrong (Non-executive director)	3,310	948	-	4,258
Mr A.J. Gluskie (Chief Executive Officer)	130,152	93,045	-	223,197

There were no shares granted during the reporting period as compensation.

Indemnification and Insurance Of Officers

Since the end of the previous year, the company has paid insurance premiums in respect of a directors' and officers' liability policy which covers the directors and officers of Sylvastate Limited. The terms of the policy prohibit disclosure of details of the amount of insurance cover and the nature of the liability insured against.

Proceedings on Behalf of The Company

No persons have applied for leave of court to bring proceedings on behalf of the Company or intervene in any proceeding to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceeding during the year.

Directors' and Executives' Benefits

No director or executive since the end of the previous financial year has received or become entitled to receive a benefit, (other than emoluments shown in the financial statements or notes thereto), by reason of a contract made by the Company or a related company with the Director, Executive or with a firm of which a Director or Executive is a member or with a company in which he has a substantial financial interest.

Non-Audit Services

The directors' of the Company are satisfied that the general standard of independence for auditors imposed by the Corporation Act 2001 have been met as there has been no provision of non-audit services by the external auditor.

Auditor's Independence Declaration

The auditor's independence declaration for the year ended 31st August 2008 has been received and can be found on page 20 of the Directors' report.

Signed in accordance with a resolution of the Directors.

David Iliffe, Director

Signed at Sydney this 2nd day of October 2008

AUDITOR'S INDEPENDENCE DECLARATION /

Under section 307C of the Corporations Act 2001 to the Directors of Sylvastate Limited

I declare that, to the best of my knowledge and belief, during the year ended 31st August 2008 there have been:

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

Grosvenor Schilliro

Mark Schilliro, Partner

Signed at Sydney this 2nd day of October 2008

DIRECTORS' DECLARATION

The Directors of Sylvastate Limited declare that:

1. The financial statements and notes set out on pages 22 to 40, are in accordance with the Corporations Act 2001, and:
 - (a) Give a true and fair value of the financial position of the company as at 31st August 2008 and of its performance for the year ended on that date of the company; and
 - (b) Comply with Accounting Standards and the Corporations Regulations 2001.
2. On behalf of White Outsourcing Pty Limited, Peter Roberts, as a person who performs Chief Executive Officer functions for the purpose of the Act declared that:
 - (a) the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
 - (b) the financial statements and notes for the financial year comply with the Accounting Standards; and
 - (c) the financial statements and notes for the financial year give a true and fair view.
3. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors.

David Iliffe, Director

Dated at Sydney this 2nd day of October 2008

FINANCIALS

Income Statement	22
Balance Sheet	23
Statement of Changes in Equity	24
Cash Flow Statement	25
Notes to the Financial Statements	27
Independent Auditor's Report	41

INCOME STATEMENT

For The Year Ended 31st August, 2008

	Note	Year ended 31 August 2008 \$	Year ended 31 August 2007 \$
Investment Revenue from ordinary activities	3	4,095,328	2,636,107
Administrative expenses		(106,818)	(161,880)
Directors' fees		(10,500)	(7,500)
Listing fees		(29,751)	(27,114)
Audit fees	4	(10,040)	(15,180)
Registry fees		(53,146)	-
Other expenses		(78,012)	(46,751)
Operating Profit before income tax expense and realised gains on investments		3,807,061	2,377,682
Income tax benefit/(expense)	5(a), 5(c)	(195,407)	8,673
Operating profit before realised gains on investments		3,611,654	2,386,355
Realised gains on investments		642,661	5,313,990
Income tax expense	5(a), 5(c)	(150,273)	(1,646,700)
Profit attributable to members of the company		4,104,042	6,053,645
		2008	2007
		cents	cents
Basic and diluted earnings per share (excluding realised gains on investments)	8	21.58	19.36
Basic and diluted earnings per share (including realised gains on investments)	8	24.52	49.11

The Income Statement should be read in conjunction with the accompanying Notes to the Financial Statements.

BALANCE SHEET

As at 31st August, 2008

	Note	As at 31 August 2008 \$	As at 31 August 2007 \$
CURRENT ASSETS			
Cash and cash equivalents		1,215,824	2,776,796
Trade and other receivables	9	768,722	438,494
Other	10	47,022	49,731
TOTAL CURRENT ASSETS		2,031,568	3,265,021
NON-CURRENT ASSETS			
Investment portfolio - available for sale	11	69,392,408	83,423,461
Deferred tax assets	5(f)	1,980,548	174,822
TOTAL NON-CURRENT ASSETS		71,372,956	83,598,283
TOTAL ASSETS		73,404,524	86,863,304
CURRENT LIABILITIES			
Trade and other payables	12	62,835	55,898
Current tax liabilities	5(d)	330,271	1,582,980
TOTAL CURRENT LIABILITIES		393,106	1,638,878
NON-CURRENT LIABILITIES			
Deferred tax liabilities	5(e)	21,789	7,039,575
TOTAL NON-CURRENT LIABILITIES		21,789	7,039,575
TOTAL LIABILITIES		414,895	8,678,453
NET ASSETS		72,989,629	78,184,851
EQUITY			
Share capital	13	51,330,783	36,797,911
Investment portfolio revaluation reserve	14(a)	(892,422)	19,754,635
Realised capital profits reserve	14(b)	19,810,010	19,317,622
Retained earnings	15	2,741,258	2,314,683
TOTAL EQUITY		72,989,629	78,184,851

The Balance Sheet should be read in conjunction with the accompanying Notes to the Financial Statements.

STATEMENT OF CHANGES IN EQUITY

For The Year Ended 31st August, 2008

		Share Capital \$	Investment Portfolio Revaluation Reserve/ Realised Capital Profits Reserve \$	Retained Earnings \$	Total \$
As at 1 September 2006	Note	20,832,165	29,966,936	4,447,764	55,246,865
Direct equity adjustments					
Investment portfolio					-
Net unrealised gains on investments			6,005,741		6,005,741
Tax on unrealised gains on investments			(567,710)		(567,710)
Net realised gains on investment portfolio			5,313,990		5,313,990
Income tax expense on investment portfolio			(1,646,700)		(1,646,700)
Total direct equity adjustments			9,105,321		9,105,321
Profit for the year (excluding realised gains)				2,386,355	2,386,355
Transactions with shareholders					
Issue of Shares		16,346,100			16,346,100
Transaction costs arising from share issue		(380,354)			(380,354)
Dividends paid from retained earnings	(6)			(4,519,436)	(4,519,436)
As at 31 August 2007		36,797,911	39,072,257	2,314,683	78,184,851
As at 1 September 2007		36,797,911	39,072,257	2,314,683	78,184,851
Direct equity adjustments					
Investment portfolio losses					
Net unrealised losses on investments			(29,519,212)		(29,519,212)
Tax on unrealised losses on investments			8,872,155		8,872,155
Net realised gains on investment portfolio			642,661		642,661
Income tax expense on investment portfolio			(150,273)		(150,273)
Total direct equity adjustments			(20,154,669)		(20,154,669)
Profit for the year (excluding realised gains)				3,611,654	3,611,654
Transactions with shareholders					
Issue of shares		16,018,398			16,018,398
Share buy-back		(1,368,555)			(1,368,555)
Transaction costs arising from share issue		(116,971)			(116,971)
Dividends paid from retained earnings	(6)			(3,185,079)	(3,185,079)
As at 31 August 2008		51,330,783	18,917,588	2,741,258	72,989,629

This Statement of Changes in Equity should be read in conjunction with the Notes to the Financial Statements which follow.

CASH FLOW STATEMENT

For The Year Ended 31st August, 2008

	Year ended 31 August 2008 \$	Year ended 31 August 2007 \$
Cash flows from operating activities		
Dividends and trust distributions received	3,582,547	2,386,403
Other Income	2,089	38,224
Interest received	245,988	92,959
Payments for administrative and general expenses	(339,179)	(241,615)
Income tax paid	(1,661,004)	(879,743)
Net cash provided by operating activities	1,830,441	1,396,228
Cash flows from investing activities		
Proceeds from sale of investments	17,432,097	26,906,619
Payments for purchase of investments	(32,116,204)	(39,294,110)
Net cash used in investing activities	(14,684,107)	(12,387,491)
Cash flows from financing activities		
Proceeds from issue of shares	15,503,060	13,803,905
Payments for share buy-back	(1,368,555)	-
Transaction costs from the issue of shares	(167,102)	(543,363)
Dividends Paid	(2,669,741)	(1,977,241)
Unclaimed Dividends	(4,968)	(227)
Net cash provided by financing activities	11,292,694	11,283,074
Net increase/ (decrease) in cash and cash equivalents held	(1,560,972)	291,811
Cash and cash equivalents at beginning of the financial year	2,776,796	2,484,985
Cash and cash equivalents at end of financial year	1,215,824	2,776,796

CASH FLOW STATEMENT Cont.

For The Year Ended 31st August, 2008

	Year ended 31 August 2008 \$	Year ended 31 August 2007 \$
NOTES TO CASH FLOW STATEMENT		
For the purpose of the cash flow statement, cash includes cash at bank and commercial bank bills. Cash at the end of the year shown in the cash flow statement is reconciled to the Balance Sheet as follows:-		
(i) Reconciliation of cash and cash equivalents		
Cash at bank	1,215,824	776,796
Commercial bank bills	-	2,000,000
	1,215,824	2,776,796
The credit risk of the Company in relation to cash is the carrying amount and any unpaid interest. Cash investments are made with ANZ which is rated A-1+ for short term investments by Standard and Poor's.		
(ii) Reconciliation of profit from ordinary activities after income tax and realised gains on investments to net cash provided by operating activities.		
Profit attributable to members of the company	4,104,042	6,053,645
Deduct:		
Net realised gains on investments classified as investing activities	(492,388)	(3,667,290)
Net cash provided by operating activities before change in assets and liabilities	3,611,654	2,386,355
Increase/(Decrease) in income taxes payable	(1,465,598)	(885,403)
Increase/(Decrease) in trade and other payables	14,613	3,516
(Increase)/Decrease in trade and other receivables	(330,228)	(108,240)
Net cash provided by operating activities	1,830,441	1,396,228

The Cash Flow Statement should be read in conjunction with the accompanying Notes to the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31st August, 2008

1. Reporting Entity

Sylvastate Limited is a company domiciled in Australia. The address of Sylvastate Limited registered office is Level 7, 20 Hunter Street, Sydney NSW, 2000. The financial statements of Sylvastate Limited are as at and for the year ended 31 August 2008. The company is primarily involved in the operations of the financial sector of Australia, making investments and deriving revenue and investment income from listed securities and unit Trusts.

2. Statement of Significant Accounting Policies

(a) Basis of Accounting

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

The financial report covers Sylvastate Limited which is a listed public company, incorporated and domiciled in Australia. The financial report has been prepared on an accrual basis and is based on historical costs, with the exception of the valuation of investments as described in 2(b) below.

Australian Accounting Standards set out accounting policies that the AASB have concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards.

The Statements are prepared from the records of the company on an accrual basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has applied.

The following is a summary of the material accounting policies adopted by the Company in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

Australian equivalents to International Financial Reporting Standards

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards ("AIFRS").

Compliance with AIFRS ensures that the financial report of the Company complied with International Financial Reporting Standards.

(b) Investments

Recognition and Initial Measurement

Investments are recognised when an entity becomes a party to the contractual provisions of the investment. Trade date accounting is adopted for investments that are delivered within timeframes established by market place conventions.

Investments are initially measured at fair value plus transaction cost where the investment are classified as available-for-sale. Investments are classified and measured as set out below.

Increments and decrements are taken to the revaluation reserve.

Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Classification

Investments are classified as available-for-sale in accordance with the AIFRS definition. Investments are non-derivative financial assets that are either designated as such or that are not classified in any other categories. They comprise investments in equity of other entities where there is neither a fixed maturity or fixed determinable payments.

Determination of Fair Value

AIFRS defines fair value for the purpose of valuing holdings of securities that are listed or traded on an exchange to be based on quoted "bid" prices for securities prevailing at the close of business on the balance date.

Impairment

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

NOTES TO THE FINANCIAL STATEMENTS Cont.

For The Year Ended 31st August, 2008

2. Statement of Significant Accounting Policies (continued)

(c) Taxation

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax assets can be utilised.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement

of the respective assets and liabilities will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Investment Portfolio

A tax provision is made for the unrealised gain or loss on securities valued at fair value through the Investment Portfolio Revaluation Reserve.

The expected tax on disposal of securities in the investment portfolio is recognised directly in equity and as deferred tax liability. Where the Company disposes of such securities, tax is calculated on gains made according to the particular parcels allocated to the sale for tax purposes offset against any capital losses carried forward. At this time the tax recognised directly in equity is transferred to Net Profit and adjusted to actual tax expense. The associated deferred tax liability is similarly adjusted and transferred to tax payable.

(d) Revenue Recognition

- (i) **Dividend Income** – dividends and distributions are brought to account when the right to receive a dividend has been established.
- (ii) **Interest Income** – interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.
- (iii) **Other Income** – other revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and when the revenue can be reliably measured.

(e) Dividends

Provision for dividends payable is recognised in the reporting period in which dividends are declared for the entire undistributed amount, regardless of the extent which they will be paid in cash.

(f) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

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

2. Statement of Significant Accounting Policies (continued)

(g) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

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

(h) Earnings per share

Basic and diluted earnings per share including realised profits and losses on the investment portfolio are calculated by dividing profit attributable to members of the Company by the weighted average number of ordinary shares outstanding during the year, adjusted for any bonus element.

(i) Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(j) New standards and interpretations not yet adopted

There have been new Australian Accounting Standards and Australian Accounting Interpretations issued or amended and are applicable to the Company but not yet effective. The Company's assessment of the impact of these new standards and interpretations have been completed with no material effect on the Company's financial report. They have not been adopted in the preparation of the financial report at reporting date.

(k) Functional and presentation currency

The functional and presentation currency of the Company is Australian Dollars.

(l) Operating segments

The company operated in Australia only and the principal activity is investment.

(m) Fair Value of Financial Assets and Liabilities

The fair value of cash and cash equivalents, and non-interest bearing monetary financial assets and liabilities of the Company approximates their carrying value. The fair value for assets that are actively traded on market is defined by AASB 139 as 'last bid price'.

NOTES TO THE FINANCIAL STATEMENTS Cont.

For The Year Ended 31st August, 2008

	Year ended 31 August 2008 \$	Year Ended 31 August 2007 \$
3. Investment Revenue From Ordinary Activities		
Dividends Received from Whitefield Limited	451,670	407,254
Dividends Received from Other Companies	3,082,943	2,069,809
Net Interest Received	234,280	120,820
Trust Distributions	324,346	-
Other Income	2,089	38,224
	4,095,328	2,636,107
4. Auditor's Remuneration		
Audit and Review of the Financial Reports		
Grosvenor Schilliro	10,040	9,900
Blackett & Lewis	-	5,280
	10,040	15,180
5. Taxation		
(a) Income Tax expense / (benefit) recognised in the Income Statement		
Current income tax expense/(benefit)		
On operating profit before realised gains on investments	195,407	(8,673)
On realised gains on investments	150,273	1,646,700
	345,680	1,638,027
(b) Income tax recognised directly in equity		
The following current and deferred amounts were charged directly to equity during the period:		
Current tax		
Share-issue expenses	61,754	51,728
Deferred tax		
Revaluation of investment portfolio	(8,721,882)	2,214,410
	(8,660,128)	2,266,138

	Year ended 31 August 2008 \$	Year Ended 31 August 2007 \$
(c) Income tax expense / (benefit)		
The prima facie income tax expense / (benefit) on pre-tax accounting profit (before realised gains on investments) reconciles to income tax expense as follows:		
Prima facie income tax expense calculated at 30% on the operating profit before realised gains on investments	1,142,118	713,305
Imputation gross up on dividends received	379,003	266,624
Franking credits on dividends received	(1,263,342)	(973,556)
Timing differences	(66,919)	-
Under/(Over) provided in prior year	4,547	(15,046)
Income Tax Expense / (Benefit) (excluding realised gains on investments)	195,407	(8,673)
Prima facie income tax expense calculated at 30% for net gains from investments	192,798	1,594,197
Impact of parcel selection for capital gains tax purposes	(42,525)	52,503
Income Tax Expense (on realised gains on investments)	150,273	1,646,700
Income Tax Expense	345,680	1,638,027
The applicable weighted average effective tax rates are as follows:	7.8%	21.3%
The decline in weighted average effective tax rate is a result of losses incurred this financial year.		
(d) Tax Liability	\$	\$
Current tax liability	330,271	1,582,980
(e) Deferred tax liabilities		
Provision for deferred income tax comprises the estimated expense at current income tax rates of 30% on the following items:		
Provision for capital gains tax on unrealised investments	-	7,032,378
Temporary Differences	21,789	7,197
	21,789	7,039,575

NOTES TO THE FINANCIAL STATEMENTS Cont.

For The Year Ended 31st August, 2008

	Year ended 31 August 2008 \$	Year Ended 31 August 2007 \$
(f) Deferred tax assets		
Current tax assets comprises the estimated expense at current income tax rates on the following items:		
Temporary Differences	291,044	174,822
Provision for capital losses on unrealised investments	1,689,504	-
	1,980,548	174,822
(g) The overall movement in the net deferred tax asset and liability account is as follows		
Opening balance	(5,218,053)	(4,755,801)
(Charge)/credit to income statement	101,630	105,458
Charge to Equity	8,721,882	(567,710)
	3,605,459	(5,218,053)
6. Dividends	\$	\$
(a) Ordinary dividends recognised in the current year		
Final – Ordinary Shares	1,428,364	1,118,036
Interim – Ordinary Shares	1,756,715	1,165,327
Special – Ordinary Shares	-	2,236,073
	3,185,079	4,519,436
Total Dividends For Financial Year		

2008	Total Amount \$	Date of Payment	% Franked	% Discount Cap Gain
Interim 10cps	1,756,715	29-Apr-08	100%	30%
Final 10cps	1,428,364	15-Nov-07	100%	100%
	3,185,079			
2007				
Interim 10cps	1,165,327	23-Apr-07	100%	100%
Final 10cps	1,118,036	20-Nov-06	100%	0%
Special 20cps	2,236,073	20-Nov-06	100%	100%
	4,519,436			

No Unfranked Dividends have been declared or paid during the year.

(b) Subsequent events

Since the end of the year, the Directors have recommended the following dividend:

Final 10.5 cps – Ordinary	1,815,838	28-Oct-08	100%	0%
---------------------------	-----------	-----------	------	----

The final dividend has not been brought to account in the financial statements for the year ended 31st August 2008 but will be recognised in subsequent financial reports.

The financial report was authorised for issue on the 2nd October 2008 by the Board of Directors.

	Year ended 31 August 2008 \$	Year Ended 31 August 2007 \$
7. Franking Account		
Franking credits available to shareholders for subsequent financial years	4,669,040	3,109,728
Franking credits that will arise from the payment of income tax payable as at the end of the financial year	330,271	1,582,980
Franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date	271,228	175,641
Adjusted franking account balance	5,270,539	4,868,349
Impact on the franking account of dividends proposed or declared before the financial report authorised for issue but not recognised as a distribution to equity holders during the period	(778,216)	(611,518)
	4,492,323	4,256,831

No Unfranked Dividends have been declared or paid during the year.

NOTES TO THE FINANCIAL STATEMENTS Cont.

For The Year Ended 31st August, 2008

	Year ended 31 August 2008 \$	Year Ended 31 August 2007 \$
8. Earnings Per Share		
Basic and diluted earnings per share (excluding Realised gains on investments)	21.58 Cents	19.36 Cents
Basic and diluted earnings per share (including Realised gains on investments)	24.52 Cents	49.11 Cents
Weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share:	16,734,556	12,325,068
Diluted earnings per share is the same as basic earnings per share. The company has no securities outstanding which have the potential to convert to ordinary shares and dilute the basic earnings per share.		
9. Trade and other Receivables		
Dividend income receivable	698,696	419,986
Interest receivable	6,800	18,508
Other receivable	63,226	-
	768,722	438,494
Receivables are non-interest bearing and unsecured. Outstanding settlements are on the terms operating in the securities industry, which usually require settlement within three days of the date of a transaction.		
The credit risk exposure of the Company in relation to receivables is the carrying amount.		
10. Other		
Prepayments	47,022	43,419
Other debtors	-	6,312
	47,022	49,731
11. Investment Portfolio – Available For Sale		
Subject to capital gains tax if realised and recorded at fair value		
Shares in Whitefield Limited	9,527,517	12,321,391
Shares & equities in other listed companies	59,864,891	71,102,070
	69,392,408	83,423,461

	Year ended 31 August 2008 \$	Year Ended 31 August 2007 \$
12. Trade And Other Payables		
Trade creditors	57,195	46,285
Unclaimed moneys	4,645	9,613
Other Payables	995	-
	62,835	55,898

Payables are non-interest bearing and unsecured. Outstanding settlements are on the terms operating in the securities industry, which usually require settlement within three days of the date of a transaction.

13. Share Capital

(a) Paid- up capital

17,293,697 (2007:14,268,764) ordinary shares, fully paid

51,330,783

36,797,911

(b) Movement in Ordinary Share Capital

Shares issues during the year	2008		2007	
	No. Shares	\$	No. Shares	\$
Balance at the beginning of the year	14,268,764	36,797,911	11,180,364	20,832,165
Shares issued under the Dividend Reinvestment Plan	110,301	515,338	503,029	2,542,195
Shares issued under Share Purchase Plan	-	-	795,371	4,191,605
Shares issued to wholesale investors	-	-	1,790,000	9,612,300
Shares issued under 1:4 Rights Issue	3,263,802	15,503,060	-	-
Share buy back	(349,170)	(1,368,555)	-	-
Transaction costs on issue	-	(116,971)	-	(380,354)
	17,293,697	51,330,783	14,268,764	36,797,911

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

(c) Capital Management

The Board's policy is to maintain a strong capital base so as to maintain investor and market confidence.

To achieve this the Board of Directors monitor the monthly NTA results, investment performance, the Company's management expense ratio (MER) and share price movements.

The Company announced an update to the Capital Management policy in December 2007, including:

- retaining the dividend reinvestment plan (not underwritten)
- suspension of the Share Purchase Plan; and
- no further capital issues for the next twelve months.

The Company announced to the market in March 2008 the introduction of an on-market share buy-back of up to 1,165,327 of the Company's shares. The buy-back commenced 25th March 2008 for a duration of approximately twelve months.

The Company is not subject to any externally imposed capital requirements.

NOTES TO THE FINANCIAL STATEMENTS Cont.

For The Year Ended 31st August, 2008

	Notes	Year ended 31 August 2008 \$	Year Ended 31 August 2007 \$
14. Reserves			
Investment Portfolio Revaluation Reserve	14(a)	(892,422)	19,754,635
Realised Capital Profits Reserve	14(b)	19,810,010	19,317,622
		18,917,588	39,072,257
(a) Investment Portfolio Revaluation Reserve			
Balance at beginning of financial year		19,754,635	14,316,604
Revaluation of Investments (net of tax)		(20,154,669)	9,105,321
Transfer of Realised Surpluses to Income Statement		(492,388)	(3,667,290)
Balance at end of financial year		(892,422)	19,754,635
(b) Realised Capital Profits Reserve			
Balance at beginning of financial year		19,317,622	15,650,332
Transfer from Income Statement		492,388	3,667,290
Balance at end of financial year		19,810,010	19,317,622
(c) Nature and Purpose of Reserves			
For a description of the nature and purpose of the Investment Portfolio Revaluation Reserve and Realised Capital Profits Reserve refer to note 2(b).			
15. Retained Earnings			
Balance at beginning of financial year		2,314,683	4,447,764
Profit attributable to members of the company (including Net Realised gains on investments)		4,104,042	6,053,645
Dividends provided for or paid		(3,185,079)	(4,519,436)
Transfer of net gains to Realised Capital Profits Reserve on realisation		(492,388)	(3,667,290)
Balance at end of financial year		2,741,258	2,314,683

16. Related Party Information

16 (a) Key Management Personnel

The names of persons who were the key management personnel of the Company during the financial year were:

- D.J. Iliffe
- G.J. Gillmore
- S. Armstrong
- A.J. Gluskie

16(b) Directors' & Executive Officer's Remuneration

Details of the remuneration of Sylvastate key management personnel and their related entities is set out as below:

	Short-term Employee Benefit Cash Salary & Fees \$	Post-Employment Benefit Superannuation \$	Other Benefit Related Party \$	Total \$
2008	9,633	867	106,818*	117,318
2007	6,882	618	161,880*	169,380

Detailed remuneration disclosures are provided in the remuneration report in the Directors' report.

The Remuneration Committee of the Board of Directors of Sylvastate Ltd was responsible for determining and reviewing compensation arrangements for the directors. The Remuneration Committee assesses the appropriateness of the nature and amount of emoluments of each director on a periodic basis by reference to workload and market conditions. The overall objective is to ensure maximum stakeholder benefit from the retention of a high quality board whilst constraining costs.

The company pays no direct remuneration to executives. Mr A.J. Gluskie is a member, director and officer of White Funds Management Pty Ltd and a member of White Outsourcing Pty Ltd. Mr P.A. Roberts is a member, director and employee of White Outsourcing Pty Ltd. White Funds Management Pty Ltd and White Outsourcing Pty Ltd are contracted by the company as the Investment Manager and Administrator respectively. Those entities receive fees for service on normal commercial terms and conditions.

*Mr A.J. Gluskie is a member and employee of White Funds Management Pty Ltd. Mr P.A. Roberts is a member, director and employee of White Outsourcing Pty Ltd. During the year, White Funds Management Pty Ltd and White Outsourcing Pty Limited received fees of \$106,818 (2007: \$161,880) for the management of the Company, out of which costs of accounting, administration and investment management are paid. The net amount payable / (receivable) at year end was \$21,588 receivable (2007 \$31,282 payable).

NOTES TO THE FINANCIAL STATEMENTS Cont.

For The Year Ended 31st August, 2008

16 Related Party Information (Continued)

16 (c) Shareholdings of Key management personnel (and their Related Entities)

Ordinary shares held

2008	Balance at 1 September 2007	Shares acquired / (disposed)	Shares no longer deemed to be Director related	Balance at 31 August 2008
Mr D.J. Iliffe (Non-executive Chairman)	448,196	99,794	-	547,990
Mr G.J. Gillmore (Non-executive Director)	89,800	-	-	89,800
Mr S. Armstrong (Non-executive Director)	4,258	1,065	-	5,323
Mr A.J. Gluskie (Chief Executive Officer)	223,197	685,437	-	908,634
	765,451	786,296	-	1,551,747

2007	Balance at 1 September 2006	Shares acquired / (disposed)	Shares no longer deemed to be Director related	Balance at 31 August 2007
Mr D.J. Iliffe (Non-executive Chairman)	427,441	20,755	-	448,196
Mr G.J. Gillmore (Non-executive Director)	89,800	-	-	89,800
Mr S. Armstrong (Non-executive Director)	3,310	948	-	4,258
Mr A.J. Gluskie (Chief Executive Officer)	130,152	93,045	-	223,197
	650,703	114,748	-	765,451

There were no shares granted during the reporting period as compensation.

17. Financial Risk Management

The Company's principal financial instruments comprise equity securities, cash and short-term deposits.

The Company also has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

The main risks arising from the Company's financial instruments are credit risk, liquidity risk and market price risk (including price risk and interest rate risk).

(i) Credit Risk

The standard defines this as the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Credit risk is managed as noted in the Notes to the Cash Flow Statement and Note 9 with respect to cash and receivables. None of these assets are over-due or considered to be impaired.

(ii) Liquidity Risk

The standard defines this as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Investment Manager monitors its cash-flow requirements weekly in relation to the trading account taking into account upcoming dividends, tax payments and trading activity.

The Company's inward cash-flows depend upon the level of dividend and distribution revenue received. Should these decrease by a material amount, the Company would amend its outward cash-flows accordingly. As the Company's major cash outflows are the purchase of securities and dividends paid to shareholders, the level of both of these is managed by the Board and CEO.

Furthermore, the assets of the Company are largely in the form of readily tradeable securities which can be sold on-market if necessary.

(iii) Market Price Risk

The standard defined this as the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices.

By its nature as a Listed Investment Company that invests, the Company can never be free of market price risk as it invests its capital in securities which are not risk free - the market price of these securities can fluctuate.

A general fall in market prices of 5 per cent and 10 per cent, if spread equally over all assets in the investment portfolio would lead to a reduction in the Company's equity of \$2.4 million and \$5 million respectively, assuming a flat tax-rate of 30 per cent.

The Investment Portfolio Revaluation Reserve at 31 August 2008 is negative \$0.9 million. It would require an increase in the value of the investment portfolio of 2 per cent to reverse this decrement. In accordance with Accounting Standards, any further falls in value would continue to be recognised in the equity as unrealised losses, thereby impacting the shareholders' equity of the Company. However in case of prolonged decline in the value of instrument and if determined to be impaired; impairment losses will be recognised in the income Statement.

Sylvastate seeks to manage and constrain market risk by diversification of the investment portfolio across multiple stocks and industry sectors. The portfolio is maintained by the Investment Manager within a range of parameters governing the levels of acceptable exposure to stocks and industry sectors. The relative weightings of the individual securities and relevant market sectors are reviewed normally weekly and risk can be managed by reducing exposure where necessary.

The Company's investment sector as at 31 August is as below:	2008 %	2007 %
Consumer discretionary	11.23	14.76
Consumer staple	11.44	9.13
Financials	51.51	50.41
Healthcare	4.77	9.14
Industrials	14.75	13.02
Telecommunications services	6.30	3.54
	100.00	100.00

Securities representing over 5 per cent of the investment portfolio at 31 August were:	2008 %
Whitefield Limited	13.73
Woolworths Limited	8.24
Commonwealth Bank of Australia	7.60
Telstra Limited	6.31
Westpac Banking Corporation	6.14
National Australia Bank Limited	5.46
	47.47

No other security represents over 5 per cent of the Company's investment portfolio.

The Company is also not directly exposed to currency risk as all its investments are quoted in Australian dollars.

The Company is not directly exposed to material interest rate risk as all its cash investments are short term.

NOTES TO THE FINANCIAL STATEMENTS Cont.

For The Year Ended 31st August, 2008

18. Investment Transactions

The total number of contract notes that were issued for transactions in securities during the financial year was 81 (2007: 114). Each contract note would involve multiple transactions. The total brokerage paid on these contract notes was \$125,254 (2007: \$196,504).

19. Contingent Liabilities

The Investment Management Agreement entered into by the company with White Funds Management Limited expires in September 2017.

20. Events Subsequent to Balance Date

The final dividend as recommended by the directors will be paid subsequent to balance date and is not provided for in the Balance Sheet.

Other than the matter discussed above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature, likely, in the opinion of the directors of the Company to significantly affect the operations of the entity, the results of those operations, or the state of affairs of the entity, in future financial years.

21. Segment Reporting

The Company is engaged in investment activities conducted in Australia and derives investment income from listed securities, short term interest bearing securities and cash holdings.

22. Company Details

The registered office and principal place of business of the Company is:

Level 7, 20 Hunter Street
Sydney NSW 2000

INDEPENDENT AUDITOR'S REPORT

To the Members of Sylvastate Limited

Report on the Financial Report

We have audited the accompanying financial report of Sylvastate Limited, which comprises the balance sheet as at 31 August 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of Sylvastate Limited.

As permitted by the Corporations Regulations 2001, the company has disclosed information about the remuneration of directors and executives (remuneration disclosures), required by Accounting Standard AASB 124: Related Party Disclosures, under the heading 'Remuneration Report' in pages 18 to 19 of the directors' report and not in the financial report.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2 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 (AIFRS) ensures that the financial report, comprising the financial statements and notes, complies with AIFRS.

The directors of the company also are responsible for preparation and presentation of the remuneration disclosures contained in the directors' report in accordance with the Corporations Regulations 2001.

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 and that the remuneration disclosures in the directors' report comply with Accounting Standard AASB 124.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report.

The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures in the directors' report.

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

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 opinion.

Independence

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

Auditor's Opinion

In our opinion:

- a. the financial report of Sylvastate Limited is in accordance with the Corporations Act 2001, including:
 - i. giving a true and fair view of the company's financial position as at 31 August 2008 and of its performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
- b. the financial report also complies with International financial Reporting Standards as disclosed in Note 2, and
- c. the remuneration disclosures that are contained in pages 18 to 19 of the directors' report comply with Accounting Standard AASB 124.

Grosvenor Schilliro

Mark N Schilliro, Partner

Dated at Sydney this 2nd day of October 2008

DETAILS OF SHAREHOLDERS

Statement of Shareholdings

At the date of this Report, 31st August 2008, 1,113 members held 17,293,697 ordinary shares in the Company. The twenty largest ordinary shareholdings were equivalent to 47% of the total number of ordinary shares issued. The distribution of shares was as follows:-

No. of Ordinary Shares Held	No. of Ordinary Shareholders	Number of Shares
1 - 1,000	99	45,033
1,001 - 5,000	395	1,174,471
5,001 - 10,000	326	2,340,425
10,001 and over	293	13,733,768
Total	1,113	17,293,697

The number of shareholdings comprising less than a marketable parcel is 22.

Directors Shareholdings

The Directors of the Company as at 31st August, 2008 held the following shares or relevant interest in shares:-

Director	Ord Shares Acquired/ (Disposed) During Year	Ord Shares Held at 31/8/08
D.J. Iliffe	99,794	547,990
S. Armstrong	1,065	5,323
G.J. Gillmore	-	89,800
A.J. Gluskie	685,437	908,634

Substantial Shareholders

Notice has been received of substantial shareholdings as follows:

Shareholder	Ordinary Shares
L.J.Gluskie	1,459,118
Caithness Nominees Pty Limited	1,270,562
S.C.Gluskie	1,082,570
Fiducio Pty Ltd	908,634

The Corporations Law requires shares in which an associate has a relevant interest to be included in each declaration of interest and as a result shareholdings may be included in the declarations of several different shareholders.

Voting Rights

On a show of hands, every member present has one vote and upon a poll, every member present in person or by proxy has one vote for each share held. For voting purposes there is no distinction between ordinary and preference shares.

Investment Transactions

The total number of contract notes that were issued for transactions in securities during the financial year was 181. Each contract note may involve multiple transactions. The total brokerage paid on these contract notes was \$125,254.

Registered Office

The address of the registered office and principal place of business of the Company is:

Level 7, 20 Hunter Street, Sydney NSW 2000 Australia
Phone: +61 (0)2 8215 7900
Fax: +61 (0)2 8215 7901

Company Secretary

The name of the Company Secretary is Mr. Peter Roberts.

Share Registry

Share registry functions are maintained by Computershare Investor Services Pty Ltd and their contact details are as follows:

Level 2, 60 Carrington Street, Sydney NSW 2000 Australia
Phone: 1300 850 505 (inside Australia)
+61 (0)3 9415 4000 (outside Australia)
Fax: +61 (0)3 9473 2500

Stock Exchange Listing

Quotation has been granted for all the ordinary shares of the Company on all Member Exchanges of the Australian Stock Exchange Limited (ASX).

Best Practice

The Company has followed all applicable best practice recommendations set by ASX Corporate Governance Council during the reporting period, unless otherwise stated.

The Company has used cash and assets in a form readily convertible to cash that it had at the time of admission consistent with its business objectives

Buy-Back

The Company has approved an on-market share buy-back. This action allows the Company to become a buyer of its own shares through their normal trading on the Australian Stock Exchange and as a result to purchase and cancel up to 10% of its issued capital over a twelve month period.

TOP TWENTY SHAREHOLDERS

	Shareholder	No of Shares	% of Issued
1	Laurence John Gluskie	1,459,118	8.44%
2	Caithness Nominees Pty Ltd	1,270,562	7.35%
3	Shane Carolyn Gluskie	1,082,570	6.26%
4	Fiducio Pty Ltd	904,743	5.23%
5	Jean Price	412,548	2.39%
6	May D Gillmore	382,660	2.21%
7	Margaret Elizabeth Dobbin	335,005	1.94%
8	Nelrose Investments Pty Ltd	329,085	1.90%
9	Merran K Dunlop	324,515	1.88%
10	Don Barclay Superfund A/C	273,924	1.58%
11	James Butler Medical Pty Ltd	189,494	1.10%
12	David J Illiffe	186,126	1.08%
13	Victor John Plummer	180,764	1.04%
14	Sirod Super Fund A/C	139,768	0.81%
15	Richard Davis Nominees Pty Ltd	121,671	0.70%
16	Chickenfeed Pty Ltd	101,935	0.59%
17	Comserv No 575 Pty Ltd	96,769	0.56%
18	Clyde Green Pty Ltd	87,063	0.50%
19	Susan Margaret Mitchell	85,918	0.50%
20	GJ Burton Personal Super A/C	85,707	0.50%
	Total Top 20	8,049,945	46.56%

THIS PAGE HAS BEEN LEFT INTENTIONALLY BLANK

S Y L V A S T A T E



ABN 24 000 014 782

LEVEL 7 | 20 HUNTER STREET | SYDNEY NSW 2000

PHONE 61 2 8215 7900 | FAX 61 2 8215 7901