



**DJERRIWARRH
INVESTMENTS
LIMITED**

ABN 38 006 862 693

**APPENDIX 4E STATEMENT
FOR THE YEAR ENDING 30 JUNE 2006**

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PRELIMINARY RESULTS FOR ANNOUNCEMENT TO THE MARKET

The reporting period is the year ended 30 June 2006 with the previous corresponding period being the year ended 30 June 2005. The previous corresponding period figures have been adjusted as required under the new Accounting Standards that the Company adopted on 1 July 2005.

These preliminary results are based on unaudited financial statements.

Results for announcement to the market

- Net profit (including capital gains) was \$63.3 million, 11.6% up from the previous corresponding period.
- Operating Profit after tax (excluding capital gains) was \$38.5 million, 6.0% up from the previous corresponding period.
- Revenue from operating activities (excluding capital gains) was \$38.1 million, 5.1% up from the previous corresponding period.
- The interim dividend for the 2006 financial year was 10 cents per share, fully franked, and it was paid to shareholders on 8 March 2006.
- The final dividend of 13 cents per share fully franked, up from 12.5 cents per share fully franked last year, will be paid on 10 August 2006 to ordinary shareholders on the register on 26 July 2006.
- The final dividend includes an attributable 2 cents of Listed Investment Company (LIC) gain. This gain enables some shareholders to claim a tax deduction in their tax return. Further details will be on the dividend statements.
- The Company operates a Dividend Reinvestment Plan under which shareholders may elect to have all or part of their dividend payment reinvested in new ordinary shares. Pricing of the new DRP shares is based on the average selling price of shares traded on the Australian Stock Exchange in the five days from the day the shares begin trading on an ex-dividend basis. The last day for the receipt of an election notice for participation in the plan is 26 July 2006.
- The record date for the next payment of interest on 30 September 2006 (which will be paid on 2 October according to the ASX Listing Rules) on the 6.5% Unsecured Convertible Notes on issue will be 22 September 2006. Notice to convert the Notes to Ordinary Shares for the next conversion date needs to be received by the Company by 15 September 2006 in accordance with the Conditions of Issue.
- Net tangible assets per share before any provision for deferred tax on the unrealised gains on the long-term investment portfolio as at 30 June 2006 were \$4.45 (before allowing for the final dividend), up from \$3.90 (before allowing for the final dividend) at the end of the previous corresponding period.

MEDIA RELEASE - FULL YEAR RESULT

13 July 2006

DJERRIWARRH REPORTS INCREASED INCOME AND DIVIDEND AS MARKETS BECOME MORE VOLATILE

Djerriwarrh Investments Limited announced today its unaudited financial results for the full year to 30 June 2006. Under the Australian equivalents to International Accounting Standards ("AIFRS") the reported profit attributable to shareholders was \$63.3 million, up from \$56.7 million for the corresponding period last year. This figure includes profits made on the sale of investments. Under previous accounting standards these were credited directly to equity through the asset realisation reserve rather than as part of profit.

Djerriwarrh's operating profit which better reflects the underlying dividend, option income and trading result from the Company's activities was \$38.5 million. The figure for the corresponding period last year was \$36.3 million.

The Board has declared a final dividend of 13 cents per share, an increase of 0.5 cents from last year's final dividend. The final dividend carries with it an attributable LIC capital gain of 2 cents per share which enables some shareholders to claim a tax deduction.

Based on the Company's share price of \$4.72 at 12 July 2006 the total dividend for the year provides shareholders with a fully franked dividend yield of 4.9% whereas the yield on the S&P/ASX 50 Leaders index is 3.9% of which only 83% franked.

SUMMARY OF HALF YEAR RESULTS

- AIFRS Reported Profit after tax was \$63.3 million (last year \$56.7 million), up 11.6%. This includes realised gains on sale of investments.
- Operating Profit after tax, which excludes realised gains on the investment portfolio, was \$38.5 million, up 6.0% from the previous corresponding period.
- Earnings per share based on Operating Profit were 24.0 cents compared with 22.9 cents last year.
- A fully franked final dividend of 13 cents per share, an increase of 0.5 cents from last year. This brings total dividends for the year to 23 cents per share versus 22.5 cents per share last year. The final dividend carries with it an attributable LIC capital gain of 2 cents per share which enables some shareholders to claim a tax deduction.
- Total portfolio return during the year (change in net asset backing per share plus fully-franked dividends reinvested) was an increase of 20.6% after tax and management fees.
- Total shareholder return measured by change in share price plus fully-franked dividends over the twelve month period was 26.2%.
- Management expense ratio on an annualised basis was 0.24%
- Net asset backing at 30 June 2006 was \$4.45 before any provision for deferred tax on the unrealised gains on the investment portfolio (before providing for the 13 cent final dividend).

Chairman's Comments

The Chairman, Mr Bruce Teele commented, "The market continued its extraordinary run for most of the year with strongly increasing share prices and subdued levels of volatility. However a greater recognition of risk emerged toward the end of the financial year with a spike in volatility and a return to what we see as more sensible valuations as investors became more nervous about the global outlook for inflation, interest rates and in particular growth in the US.

Whether these risks are just perceived or real will emerge over the coming months. However for Djerriwarrh the increase in volatility and return to more realistic valuations has been a welcome development. This has allowed us, toward the end of the reporting period, to lock in this increased volatility by buying back a large number of call options and selling new ones on favorable terms. By doing this we have entered into the new financial year with a sound base for generating option premium and dividend income for the year.

It is interesting to note that some investors consider the use of options to be a higher risk investment strategy. However if you consider that we primarily sell call options in respect of the stocks we own, then when the market falls, the company can garner option premium as a partial offset to any price decline. In this regard the portfolio is actually better positioned for a market where uncertainty exists than a portfolio that does not have such option coverage. Clearly if the market rises rapidly then Djerriwarrh's performance is more likely to be constrained in regard to capital growth but still has the ability to produce sound income returns".

Profit and Dividend Performance

In looking at the performance for the year Djerriwarrh was pleased to be able to generate good revenue returns from the portfolio. Companies that Djerriwarrh invests in continued their bias toward increased dividend distributions. Total income from the investment, options written portfolio and trading activities, which the key components of the Company's activities, was \$52.2 million whereas in the corresponding period last year this figure was \$48.4 million.

Realised gains on the disposal of investments as a result of exercise of call options and the sale of some investments in the investment portfolio were \$25.9 million after tax. Last year this figure was \$21.3 million. Using AIFRS these now have to be included in profit and were the major additional component in the AIFRS reported profit of \$63.3 million up from \$56.7 million in the previous corresponding period.

The Company also incurred a higher level of tax in the operating profit result, \$3.6 million versus \$2.3 million last year. The key factor behind this rise was the higher level of income from option premiums.

A fully franked final dividend of 13 cents per share has been declared, an increase of 0.5 cents from last year. This brings total dividends for the year to 23 cents per share versus 22.5 cents per share last year. Djerriwarrh seeks to provide an enhanced level of dividend yield for its shareholders as well as produce long term capital growth. The generally strong rise in the market over the year has lowered the market yield to around 3.9%. Djerriwarrh with the payment of full year dividend of 23 cents has been able to produce a fully franked yield on the portfolio of 4.9%, thereby maintaining its relative yield advantage over the general market.

Use of Options

Over the twelve month period where share market valuations in our opinion typically looked stretched, Djerriwarrh operated with an option written portfolio which was at the higher end of our range and represented close to 40% of the total portfolio (The typical range of option exposure can be between 20 to 40 per cent of the portfolio by value). The Company also allowed some call options to be exercised during the year where it was uneconomic to buy these option positions back. The recent market correction has allowed the Company to redeploy the funds released from these positions to further invest in the market in line with the Company's investment objectives.

As a result Djerriwarrh enters the year with the level of options written portfolio compared with the total portfolio of close to 35%. This places the Company in a solid position to capture income from option premiums into the new year in what is essentially appears to us to be a close to fully valued market. We have also extended our capacity to borrow additional funds by arranging additional bank funding and will look to utilise this if attractive opportunities arise.

Portfolio

As well as focusing on companies that provide good underlying dividend yields such as the banks, we continued to look for opportunities to invest in the resources/energy sectors during the year as we remain positive about the medium term outlook for these sectors. Major net acquisitions in the investment portfolio during the twelve month period were Westpac Banking Group, AMP, ANZ Banking Group, BHP Billiton, St George Bank, Commonwealth Bank, Wesfarmers and Oil Search.

The total return on our portfolio activities during the year (measured by the change in net asset backing per share plus dividends reinvested) was an increase of 20.6% after tax and management fees.

Given the strength of the market and additional investment undertaken by the Company the investment portfolio at the end of the financial year stood at close to \$785 million, up 26.0% from last year.

Outlook

In looking to the year ahead the market has clearly become more conscious of and concerned about risk. Increased volatility associated with uncertainty surrounding the outlook for inflation and interest rates has emerged over the recent months. Investors have become more aware of the risks in the market, whether these are geopolitical risks, valuation risks, systemic macro economic risks particularly those emanating from the United States or financial risk associated with the higher leverage of consumers and the increased use of highly leveraged financial products.

On a more positive note corporate balance sheets in Australia generally remain strong and equity valuations have moved from their relatively high levels. The outlook for China which has been one of the factors underpinning the Australian economy and equity market also looks sound, albeit at expected growth rates lower than previously achieved.

We would expect these differing views to persist for some time. Accordingly investors are likely to continue to seek better returns for this uncertainty and for the increased volatility. In this environment we expect to continue to run with a high level of option exposure to allow us to take advantage of increased option premiums. We believe Djerriwarrh is well placed to continue to harness dividend and option income to enhance the yield on the portfolio and to respond to opportunities presented by any further market downturns.

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TOP INVESTMENTS AS AT 30 JUNE 2006

Top 20 Investments - Ordinary Securities

Valued at closing prices at 30 JUNE 2006			Total Value \$ million
1	*	BHP BHP Billiton	72.3
2	*	NAB National Australia Bank	65.1
3	*	CBA Commonwealth Bank of Australia	64.8
4	*	WBC Westpac Banking Corporation	55.2
5	*	ANZ Australia and New Zealand Banking Group	40.8
6	*	SGB St. George Bank	39.9
7	*	NWS News Corporation (a)	39.6
8		TLS Telstra Corporation	33.8
9	*	RIO Rio Tinto	27.8
10	*	AWC Alumina	23.6
11	*	TCL Transurban Group	22.4
12	*	WES Wesfarmers	18.1
13	*	WAN West Australian Newspapers Holdings	17.4
14	*	OSH Oil Search	15.6
15	*	WPL Woodside Petroleum	15.4
16	*	BIL Brambles Industries	15.0
17	*	WOW Woolworths	15.0
18	*	AMP AMP	14.1
19	*	CPU Computershare	13.2
20	*	CML Coles Myer	12.2
			<hr/> 621.4 <hr/>
As % of Total Portfolio Value (excludes Cash & Bank Bills)			76.7%

(a) Includes \$19.0m News Corporation Class A Non-Voting Common Stock

* Indicates that options in these securities had been written and were outstanding at 30 June 2006

FINANCIAL STATEMENTS

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006 \$'000	2005 \$'000
Dividends and distributions		37,466	35,681
Revenue from deposits and bank bills		609	540
Other revenue		-	4
Total revenue		38,075	36,225
Income from options written		7,934	3,317
Net gains on trading portfolio		6,212	8,896
Income from operating activities before net gains on investments		52,221	48,438
Finance costs		(8,215)	(8,120)
Administration expenses		(1,864)	(1,737)
Operating profit before income tax expense and net gains on investments	1	42,142	38,581
Income tax expense*	2	(3,627)	(2,262)
Net operating profit before net gains on investments		38,515	36,319
Net gains on investments			
Net gains on Ordinary Securities sold from the investment portfolio		33,690	26,597
Net losses on Other Securities		(794)	(311)
Net losses on open options positions		(1,854)	(1,041)
Tax expense on above*	2	(6,265)	(4,830)
		24,777	20,415
Profit for the year		63,292	56,734
		Cents	Cents
Basic earnings per share		39.46	35.80
Diluted earning per share		37.82	34.32

Information on earnings per share, including net operating profit before net gains on investments can be found in Note 18.

	2006 \$000	2005 \$000
* Total tax expense	9,892	7,092

This Preliminary Income Statement has not been audited.

BALANCE SHEET AS AT 30 JUNE 2006

	Note	2006 \$'000	2005 \$'000
Current assets			
Cash	3	928	65,045
Receivables	4	50,562	5,500
Trading portfolio	5	39,794	57,366
Interest-rate Hedging Contracts	6	362	-
Total current assets		91,646	127,911
Non-current assets			
Investment portfolio	7	784,706	622,841
Deferred tax assets	8	4,536	1,315
Total non-current assets		789,242	624,156
Total assets		880,888	752,067
Current liabilities			
Payables	9	3,224	1,984
Tax payable		12,040	5,638
Borrowings	3	80,000	60,000
Interest-rate hedging contracts	6	-	475
Options written portfolio	10	14,443	7,490
Total current liabilities		109,707	75,587
Non-current liabilities			
Borrowings	11	45,297	56,919
Deferred tax liabilities – investment portfolio	12	72,624	50,574
Total non-current liabilities		117,921	107,493
Total liabilities		227,628	183,080
Net Assets		653,260	568,987
Shareholders' equity			
Share capital	13	414,384	396,739
Revaluation reserve	14	134,961	96,662
Realised capital gains reserve	15	79,122	53,840
Retained profits	16	24,431	22,221
Interest-rate hedging reserve	6	362	(475)
Total shareholders' equity		653,260	568,987

This Preliminary Balance Sheet has not been audited.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006 \$'000	2005 \$'000
Total equity at the beginning of the year		568,987	499,440
Dividends paid	17	(35,800)	(33,981)
Dividend Reinvestment Plan	13	5,874	5,962
Share Capital Adjustments	13	(17)	(2,436)
Exercise of Convertible Notes	13	11,788	21
Total transactions with equity holders in their capacity as equity holders		(18,155)	(30,434)
Revaluation of investment portfolio		60,381	57,123
Provision for tax on unrealised gains		(22,082)	(13,401)
Net unrealised gains recognised directly in equity	14	38,299	43,722
Profit for the year		63,292	56,734
Net movement in Fair-Value for Interest-Rate Swaps	6	837	(475)
Total recognised income (including unrealised gains) & expense for the year		102,428	99,981
Total equity at the end of the financial year		653,260	568,987

This Preliminary Statement of Changes in Equity has not been audited.

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006 \$'000 INFLOWS/ (OUTFLOWS)	2005 \$'000 INFLOWS/ (OUTFLOWS)
Cash flows from operating activities			
Sales from trading portfolio		58,891	58,361
Purchases for trading portfolio		(43,260)	(54,556)
Proceeds from entering into options in options written portfolio		43,057	23,676
Payment to close out options in options written portfolio		(30,024)	(16,250)
Interest received		647	512
Dividends and distributions received		34,402	35,079
		<u>63,713</u>	<u>46,822</u>
Other receipts		-	4
Administration expenses		(1,938)	(1,736)
Finance costs paid		(7,894)	(8,907)
Income taxes paid		(6,728)	(245)
Net cash inflow/(outflow) from operating activities	19	<u>47,153</u>	<u>35,938</u>
Cash flows from investing activities			
Sales from investment portfolio		141,001	150,997
Purchases for investment portfolio		(242,379)	(117,788)
Net cash inflow/(outflow) from investing activities		<u>(101,378)</u>	<u>33,209</u>
Cash flows from financing activities			
Proceeds from borrowings		328,500	367,665
Repayment of borrowings		(320,288)	(342,175)
Convertible notes issue transaction costs		-	(365)
Share issues		11,788	21
Share issue transaction costs		-	(6)
Share buybacks		(17)	(2,430)
Dividends paid		(29,875)	(28,017)
Net cash inflow/(outflow) from financing activities		<u>(9,892)</u>	<u>(5,307)</u>
Net increase/(decrease) in cash held		(64,117)	63,840
Cash at the beginning of the financial-year		65,045	1,205
Cash at the end of the financial-year	3	<u>928</u>	<u>65,045</u>

This Preliminary Cash Flow Statement has not been audited.

NOTES TO THE FINANCIAL STATEMENTS

These Notes have not been audited.

1. Operating profit before income tax expense and net gains on investments	2006 \$'000	2005 \$'000
Dividends and distributions		
• securities held in investment portfolio	33,903	31,766
• securities held in trading portfolio	3,434	3,786
	<u>37,337</u>	<u>35,552</u>
Interest income		
• securities held in investment portfolio	129	129
• deposits and income from bank bills	609	540
	<u>738</u>	<u>669</u>
Net gains/(losses) and write downs		
• net gains from trading portfolio sales	6,224	7,099
• realised gains on options written portfolio	7,934	3,317
• unrealised gains/(losses) in trading portfolio	(12)	1,797
	<u>14,146</u>	<u>12,213</u>
Other income	-	4
	<u>52,221</u>	<u>48,438</u>
Income from operating activities before net gains on investments		
Finance costs	(8,215)	(8,120)
Administration Fees paid to Australian Foundation Investment Company (AFIC)	(683)	(552)
Other administration expenses	(1,181)	(1,185)
	<u>42,142</u>	<u>38,581</u>
Operating profit before income tax expense and net gains on investments	42,142	38,581

The administration fees paid to AFIC are pursuant to an outsourcing arrangement covering the Company's day-to-day management and administration.

2. Tax expense	2006 \$'000	2005 \$'000
(a) Reconciliation of income tax expense to prima facie tax payable		
Operating profit before income tax expense and net gains/(losses) on investments	42,142	38,581
Tax at the Australian tax rate of 30% (2005 – 30%)	12,643	11,574
Tax effect of amounts which are not deductible (taxable) in calculating taxable income		
Tax offset for franked dividends	(9,210)	(8,242)
Non-taxable distributions	(216)	(850)
Sundry items	470	(5)
	<u>3,687</u>	<u>2,477</u>
Under (over) provision in prior years - expense	(288)	(117)
Under (over) provision in prior years - deferred tax	154	(98)
Under (over) provision in prior years - CGT	74	-
Income tax expense on operating profit before net gains/(losses) on investments	<u>3,627</u>	<u>2,262</u>
Net gains from investments (before tax)	31,042	25,245
Tax at the Australian tax rate of 30% (2005 – 30%)	9,313	7,573
Tax effect of amounts which are not deductible (taxable) in calculating taxable income		
Difference between accounting and tax cost base for capital gains purposes	(3,420)	(1,914)
Accounting gains rolled-over for taxation purposes	(73)	(676)
Accounting losses not allowable for taxation purposes	371	38
Capital gains set-off against bought-forward losses	-	(191)
Under (over) provision in prior years	74	-
Tax expense on net gains from investments	<u>6,265</u>	<u>4,830</u>
Total tax expense	<u>9,892</u>	<u>7,092</u>
(b) Tax expense composition		
Charge for tax payable relating to the current year	13,433	8,816
Under (over) provision in prior years	(288)	(117)
Increase (decrease) in deferred tax liabilities – investment portfolio	(32)	(129)
Increase (decrease) in deferred tax liabilities - other	<u>(3,221)</u>	<u>(1,478)</u>
	<u>9,892</u>	<u>7,092</u>
(c) Amounts recognised directly in equity		
Increase in deferred tax liabilities relating to capital gains tax on the increase in unrealised gains in ordinary securities in the investment portfolio	<u>22,082</u>	<u>13,401</u>
	<u>22,082</u>	<u>13,401</u>

3. Current assets – cash	2006	2005
	\$'000	\$'000
Cash at bank and in hand	3	1,547
Deposits at call	925	661
Discounted bills of exchange	-	62,837
	<u>928</u>	<u>65,045</u>

Standby arrangements and credit facilities

The Company is party to agreements under which the Commonwealth Bank of Australia and National Australia Bank have agreed to accept or accept and discount bills of exchange.

Commonwealth Bank of Australia - floating rate bill facility	60,000	40,000
Amount drawn down	<u>26,500</u>	<u>5,000</u>
Undrawn facilities	<u>33,500</u>	<u>35,000</u>
National Australia Bank- floating rate bill facility	60,000	60,000
Amount drawn down	<u>53,500</u>	<u>55,000</u>
Undrawn facilities	<u>6,500</u>	<u>5,000</u>
Total floating rate bill facilities	120,000	100,000
Total drawn down	<u>80,000</u>	<u>60,000</u>
Total undrawn facilities	<u>40,000</u>	<u>40,000</u>

The above borrowings are unsecured. Repayment of facilities is done either through the use of cash received from distributions or the sale of securities, or by rolling existing facilities into new ones. Facilities are normally drawn down for no more than 90 days.

4. Current assets – receivables

Dividends and distributions receivable	6,960	5,102
Outstanding settlements – investment portfolio	33,924	-
Outstanding settlements – trading portfolio	8,551	-
Outstanding settlements – options written portfolio	932	107
Other receivables	195	291
	<u>50,562</u>	<u>5,500</u>

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.

5. Current assets – trading portfolio

Listed securities at market value		
- shares and trust units	40,625	58,572
- options written by the Company		
- Calls	<u>(831)</u>	<u>(1,206)</u>
	<u>39,794</u>	<u>57,366</u>

Options sold

The Company enters into option contracts in the trading portfolio as part of its trading activities to generate profits on dealing in securities. Options are only written over stocks that are in the trading portfolio. Where the Company sells a call option it is obligated to deliver securities at an agreed price if the taker exercises the option. Whereas if the Company sells a put option it is obligated to buy the underlying shares at an agreed price if the taker exercises the option.

As at balance date there were call options outstanding which potentially required the Company if they were exercised to deliver securities to the value of \$20.9 million (2005: \$53.4 million) held by the Company in its trading portfolio.

As at balance date all of these contracts are exchange-traded options and are entered into within the constraints and controls imposed by the Australian Stock Exchange Limited. Dealing and administrative (including settlement) functions are separated. The total exposure position is determined daily. The Investment Committee meets regularly (normally weekly) to consider, review and approve the investment, trading and sub-underwriting transactions of the Company and related matters.

6. Interest rate swaps	2006 \$'000	2005 \$'000
Current assets	362	-
Current liabilities	-	(475)
	<u>362</u>	<u>(475)</u>
 7. Non-current assets – investment portfolio		
Listed securities		
- shares at market value	783,074	621,181
- converting and convertible notes and other interest bearing securities at market value	1,607	1,635
Unlisted securities at fair value	25	25
	<u>784,706</u>	<u>622,841</u>
 8. Non-current assets – deferred tax		
The Company's deferred tax assets ("DTA") arise from timing differences in the recognition of items for taxation and accounting purposes. The key components are:		
(a) The difference in the value of the trading portfolio for tax and accounting purposes and the unrealised gains	(464)	(1,635)
(b) Tax on unrealised gains in the options written portfolio	556	475
(c) Tax paid up front on sold option premiums which are not included as accounting income until they lapse, are exercised or closed out	4,045	2,094
(d) Provisions and expenses charged to the accounting profit which are not yet tax deductible	529	519
(e) Interest and dividend income receivable which is not assessable for tax until receipt	(130)	(138)
	<u>4,536</u>	<u>1,315</u>
 Movements:		
Opening balance at 1 July	1,315	(163)
(Credited)/charged to income statement	3,221	1,478
	<u>4,536</u>	<u>1,315</u>

The net DTA arising from provisions and expenses charged but not yet tax deductible, will be obtained when the relevant items become tax deductible, provided that the Company derives sufficient assessable income to enable the benefit from the deductions to be taken in that year and there are no intervening changes in tax legislation adversely affecting the Company's ability to claim the tax deduction.

9. Current liabilities - payables	2006	2005
	\$'000	\$'000
Outstanding settlements – investment portfolio	1,958	1,155
Outstanding settlements – trading portfolio	395	-
Directors' retirement allowances	776	776
Other payables	95	53
	<u>3,224</u>	<u>1,984</u>

10. Options written portfolio

The Company enters into option contracts in the options written portfolio for the purpose of enhancing returns via the premiums that it earns from the writing of these contracts. Where the Company sells a call option it is obligated to deliver securities at an agreed price if the taker exercises the option. Whereas if the Company sells a put option it is obligated to buy the underlying shares at an agreed price if the taker exercises the option.

As at balance date the Company had sold put options which at the option of the purchaser may require the Company to buy prior to the respective expiry dates if they were exercised, certain securities at prices which in aggregate totalled \$28.5 million on (2005: \$ 8.8 million). As at balance date there were call options outstanding which potentially required the Company if they were exercised to deliver securities to the value of \$264.4 million (2005: \$ 198.8 million).

11. Non-current liabilities – payables

Non-current unsecured

- convertible notes	44,878	56,665
- convertible note interest payable	919	921
- deferred borrowing costs	(500)	(667)
	<u>45,297</u>	<u>56,919</u>

There were 11,507,274 convertible notes outstanding at 30 June 2006 (2005: 14,529,562). These notes have a face value of \$3.90 and carry an interest entitlement of 6.5 per cent per annum. They may be converted at the option of the holder into ordinary shares at a rate of one share per note on 31 March or 30 September each year until 30 September 2009. Notes not converted will be redeemed at their face value on 30 September 2009. Terms of the notes are regulated under a trust deed between the Company and Permanent Nominees (Aust) Ltd.

12. Deferred tax liabilities – investment portfolio

Deferred tax liabilities on unrealised gains in the Investment Portfolio

	<u>72,624</u>	<u>50,574</u>
Movements:		
Opening balance at 1 July	50,574	37,302
(Credited)/charged to income statement for securities that contain a derivative element (eg Convertible Notes)	(32)	(129)
(Credited)/charged to equity for ordinary securities	22,082	13,401
	<u>72,624</u>	<u>50,574</u>

13. Shareholders' equity – share capital

Movements in share capital of the Company during the past two years were as follows:

Date	Details	Notes	Number of shares '000	Issue price \$	Paid-up Capital \$'000
1/07/2004	Balance		157,722		393,192
26/08/2004	Dividend Reinvestment Plan	i	945	3.43	3,241
30/09/2004	Convertible Note conversion	ii	1	4.00	5
16/03/2005	Dividend Reinvestment plan	i	740	3.68	2,721
31/03/2005	Convertible Note conversion	iii	4	3.90	16
Various	On-market share buy-backs	iv	(682)		(2,430)
Various	Cost of share issues				(6)
30/06/2005	Balance		158,730		396,739
26/08/2005	Dividend Reinvestment Plan	i	832	3.95	3,287
7/10/2005	Convertible Note conversion	iii	31	3.90	121
8/03/2006	Dividend Reinvestment plan	i	603	4.29	2,587
31/03/2006	Convertible Note conversion	iii	2,992	3.90	11,667
Various	On-market share buy-backs	iv	(4)		(17)
30/06/2006	Balance		163,184		414,384

- i. The Company has a Dividend Reinvestment Plan under which shareholders elected to have all or part of their dividend payment reinvested in new ordinary shares. Pricing of the new DRP shares was based on the average selling price of shares traded on the Australian Stock Exchange in the five days from the day the shares begin trading on an ex-dividend basis.
- ii. In 1997 the Company issued 7.5% per annum unsecured convertible notes at a face value of \$4.00 each. The notes could be converted on 31 March or 30 September each year at the election of the holder into ordinary shares, at a rate of one share for each note, or be redeemed at their face value on 30 September 2004.
- iii. The Company issued shares at 30 September 2005, as a result of the conversion of convertible notes (see Note 11).
- iv. The Company introduced an on-market Buy-Back Programme in December 2000. During year ended 30 June 2006 the Company had bought back 4,000 shares at an average price of \$4.38. During the corresponding period in 2005, 681,631 shares were bought back at an average price of \$3.56.

14. Revaluation reserve

Opening balance at 1 July	96,662	52,940
Revaluation of investment portfolio	60,381	57,123
Provision for tax on unrealised gains	(22,082)	(13,401)
	<u>134,961</u>	<u>96,662</u>

15. Realised capital gains reserve	2006	2005
	\$'000	\$'000
Opening balance at 1 July	53,840	33,509
Dividends paid	(620)	-
Transfer from retained profits	25,902	20,331
	<u>79,122</u>	<u>53,840</u>

16. Retained profits		
Opening balance at 1 July	22,221	19,799
Dividends paid	(35,180)	(33,981)
Transfer to realised capital gains reserve	(25,902)	(20,331)
Profit for the year	63,292	56,734
	<u>24,431</u>	<u>22,221</u>

17. Dividends

(a) Dividends paid during the year

Final dividend for the year ended 30 June 2005 of 12.5 cents fully franked at 30% paid on 26 August 2005 (2005: 11.5 cents fully franked at 30% paid on 26 August 2004).	19,841	18,138
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Interim dividend for the year ended 30 June 2006 of 10 cents per share fully franked at 30%, paid 8 March 2006 (2005: 10.0 cents fully franked at 30% paid on 16 March 2005)	15,959	15,843
	<u>35,800</u>	<u>33,981</u>

(b) Franking credits

Balance on the franking account after allowing for tax payable in respect of the current year's profits and the receipt of dividends recognised as receivables.	21,039	10,151
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Impact on the franking account of dividends declared but not recognised as a liability at the end of the financial year:	(9,092)	(8,503)
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Net available	11,947	1,648
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These franking account balances would allow the Company to frank additional dividend payments up to an amount of:	27,876	3,845
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The Company's ability to continue to pay franked dividends is dependent upon the receipt of franked dividends from the trading and investment portfolios and the Company paying tax.

(c) Dividends declared after balance date

Since the end of the year Directors have declared a final dividend of 13 cents per share fully franked at 30%. The aggregate amount of the final dividend for the year to 30 June 2006 to be paid on 10 August 2006, but not recognised as a liability at the end of the financial year

<u>21,214</u>

(d) Listed Investment Company capital gain account	2006 \$'000	2005 \$'000
Balance of the Listed Investment Company (LIC) capital gain account	20,216	8,248
This would equate to an attributable amount of	28,879	11,782

Distributed LIC capital gains may entitle certain shareholders to a special deduction in their taxation return, as set out in the dividend statement.

LIC capital gains available for distribution are dependent upon the disposal of investment portfolio holdings which qualify for LIC capital gains or the receipt of LIC distributions from LIC securities held in the portfolios.

18. Earnings per share

Basic earnings per share

	Number	Number
Weighted average number of ordinary shares used as the denominator	160,387,930	158,489,199
	\$'000	\$'000
Profit for the year	63,292	56,734
	2006	2005
	Cents	Cents
Basic earnings per share	39.46	35.80

Diluted earnings per share

	2006	2005
	Number	Number
Weighted average number of ordinary shares used as the denominator	160,387,930	158,489,199
Weighted average number of convertible notes used as the denominator	13,761,284	14,171,299
	174,149,214	172,660,498
	\$'000	\$'000
Profit for the year	63,292	56,734
Interest on convertible notes (net of tax)	2,574	2,515
	65,866	59,249
	Cents	Cents
Diluted earnings per share	37.82	34.32

	2006	2005
Basic net operating profit before net gains on investments		
Weighted average number of ordinary shares used as the denominator	160,387,930	158,489,199
	\$'000	\$'000
Net operating profit before net gains on investments	38,515	36,319
	Cents	Cents
Basic net operating profit before net gains on investments	24.01	22.92

Diluted net operating profit before net gains on investments

	Number	Number
Weighted average number of ordinary shares used as the denominator (as above)	160,387,930	158,489,199
Weighted average number of convertible notes used as the denominator (as above)	<u>13,761,284</u>	<u>14,171,299</u>
	174,149,214	172,660,498
	\$'000	\$'000
Net operating profit before net gains on investments	38,515	36,319
Interest on convertible notes (net of tax)	<u>2,574</u>	<u>2,515</u>
	41,089	38,834
	2006	2005
	Cents	Cents
Diluted net operating profit before net gains on investments	23.59	22.49

19. Reconciliation of net cash flows from operating activities to net profit	2006 \$'000	2005 \$'000
Profit for the year	63,292	56,734
- Net gains/loss on investment portfolio before tax	(32,896)	(26,286)
- Net decrease (increase) in trading portfolio	17,572	(6,181)
- Increase (decrease) in options written portfolio	6,953	5,150
- Dividends received as securities under DRP investments	(333)	(7)
- Decrease (increase) in current receivables	(45,062)	870
- less increase/(decrease) in receivables for investment portfolio	33,924	(631)
- Increase (decrease) in deferred tax liabilities	18,829	11,795
- less decrease (increase) in deferred tax liabilities on investment portfolio	(22,050)	(13,272)
- less (credit)/charge to profit & loss for tax on gains or losses on hybrids	(32)	(129)
- Increase (decrease) in current payables	1,240	476
- less decrease (increase) in payables for investment portfolio	(803)	(1,155)
- less increase (decrease) in dividends payable	(50)	(2)
- Increase (decrease) in provision for tax payable	6,402	8,437
- Amortisation of deferred borrowing costs	167	139
Net cash flows from operating activities	<u>47,153</u>	<u>35,938</u>