

2011

Annual  
Financial  
Report

**Diversified United  
Investment Limited**

ABN 33 006 713 177

# Directory

## Directors

C B Goode AC Chairman  
M K Myer AO  
R H Myer AM  
A R Burgess

## Company Secretary

Andrew J Hancock FCA

## Registered Office

Level 20  
101 Collins Street  
Melbourne VIC 3000  
Tel: (613) 9654 0499  
Fax: (613) 9654 3499  
Email: [info@dui.com.au](mailto:info@dui.com.au)  
Website: [www.oui.com.au](http://www.oui.com.au)

## Bankers

Australia and New Zealand Banking Group Limited  
National Australia Bank Limited

## Auditors

KPMG  
Chartered Accountants

## Share Registry

Link Market Services Limited  
Level 12, 680 George Street  
Sydney NSW 2000  
Locked Bag A14  
Sydney South NSW 1235  
Tel: (612) 8280 7644  
Fax: (612) 9287 0303  
Email: [registrars@linkmarketservices.com.au](mailto:registrars@linkmarketservices.com.au)  
Web: [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

## Securities Exchange

The Company is listed on the Australian Securities Exchange Ltd.  
ASX Code: DUI

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# Chairman's Report

I present the nineteenth Annual Report of Diversified United Investment Ltd which is for the year ended 30 June 2011.

The objective of the Company is to seek a mixture of income and longer term capital gain within an acceptable level of risk.

The investment philosophy of the Company is to take a medium to long term view and to invest in Australian equities and short term deposits. Investments may also be made from time to time in listed property trusts, fixed interest securities, convertible notes or international equities.

Operating profit after tax was \$20,970,000 which is an increase 20.6% on the previous year or an increase of 18.6% if special dividends received in both periods are excluded. The total result for the year is a profit of \$20,970,000 which excludes net realised gains and losses which are transferred directly to the Asset Revaluation Reserve under revised accounting standards. The prior period total net profit of \$16,260,000 included \$1,128,000 net realised losses after tax up to the date of adoption of the new standards on 7 December 2009.

The weighted average number of ordinary shares for the year was 164,025,670 as against 154,991,128 in the previous year, an increase of 6%.

The operating earnings per share based on the weighted average number of shares on issue for the year was 12.8 cents per share (12.5 cents excluding the special dividends) compared to 11.2 cents for the year to 30 June 2010 (11.1 cents excluding special dividends).

Income earned during the year was \$26,613,000 comprising \$25,367,000 from dividends and trust distributions and \$1,246,000 from interest, options trading and sub-underwriting commission. The Company incurred operating expenses of \$927,000 (before interest costs) which is equivalent to 0.17% of the average value of the portfolio.

This year special dividends totalling \$527,000, after tax, were received from Orica, Healthscope and Washington H Soul Pattinson & Company. In 2010, a special dividend of \$150,000, after tax was received from Washington H Soul Pattinson & Company.

Leaving aside the special dividends, the year's result reflects a 18.9% increase in income from dividends and trust income, a 5.5% decrease in interest, options trading and sub-underwriting income and a 7.3% higher interest expense.

\$6,607,000 of new equity was raised through the Company's Share Purchase Plan in October 2010 by the issue of 2,351,680 new shares at \$2.81 per share, which represented a 5% discount to the Net Tangible Asset Backing per share of the Company as at 31 August 2010 adjusted for the general share market movement to 6 September 2010.

Bank borrowings were \$65 million at the end of the financial year (previous year \$65 million) amounting to around 11% of the investment portfolio at market values. Cash on hand, cash on deposit and short term receivables were \$5 million, or 1% of the investment portfolio at market values (previous year \$7 million, or 1%). Annual interest expense was covered 6 times by investment revenue.

The net asset backing per share before estimated tax on net unrealised gains and losses and before provision for the final dividend was \$3.08 at 30 June 2011, compared to \$2.94 at 30 June 2010, an increase of 5%.

The year saw a recovery in world equities markets with the Australian S&P/ASX 200 price index rising 7.1%, the Dow Jones Index rising 27.0%, the Standard & Poors 500 rising 28.1% and the FTSE 100 rising 20.9% and the Nikkei-225 rising 4.6%.

The Directors have declared a fully franked final dividend of 7¢ per share for the year to 30 June 2011, which with the interim dividend of 6¢ per share fully franked makes a total fully franked dividend of 13¢ per share for the year, unchanged from the previous year.

The final dividend will not include a Listed Investment Company capital gain dividend.

Dividends paid or payable for each of the last 5 financial years were as follows:

2006/07	12.0 cents per share
2007/08	13.0 cents per share
2008/09	13.0 cents per share
2009/10	13.0 cents per share
2010/11	13.0 cents per share

The Company's reported net tangible asset backing per share before provision for the final dividend (based on investments at market values and after provision for tax on net realised gains but not on net unrealised gains and losses) over the last 5 years was as follows:

30 June 2007	\$4.16
30 June 2008	\$3.54 (after placement of 15,350,000 shares at \$3.46, March 2008)
30 June 2009	\$2.67 (after share purchase plan – 9,442,625 shares at \$2.00, April 2009)
30 June 2010	\$2.94 (after placement of 7,211,282 shares at \$3.18, April 2010)
30 June 2011	\$3.08 (after share purchase plan – 2,351,680 shares at \$2.81, October 2010)

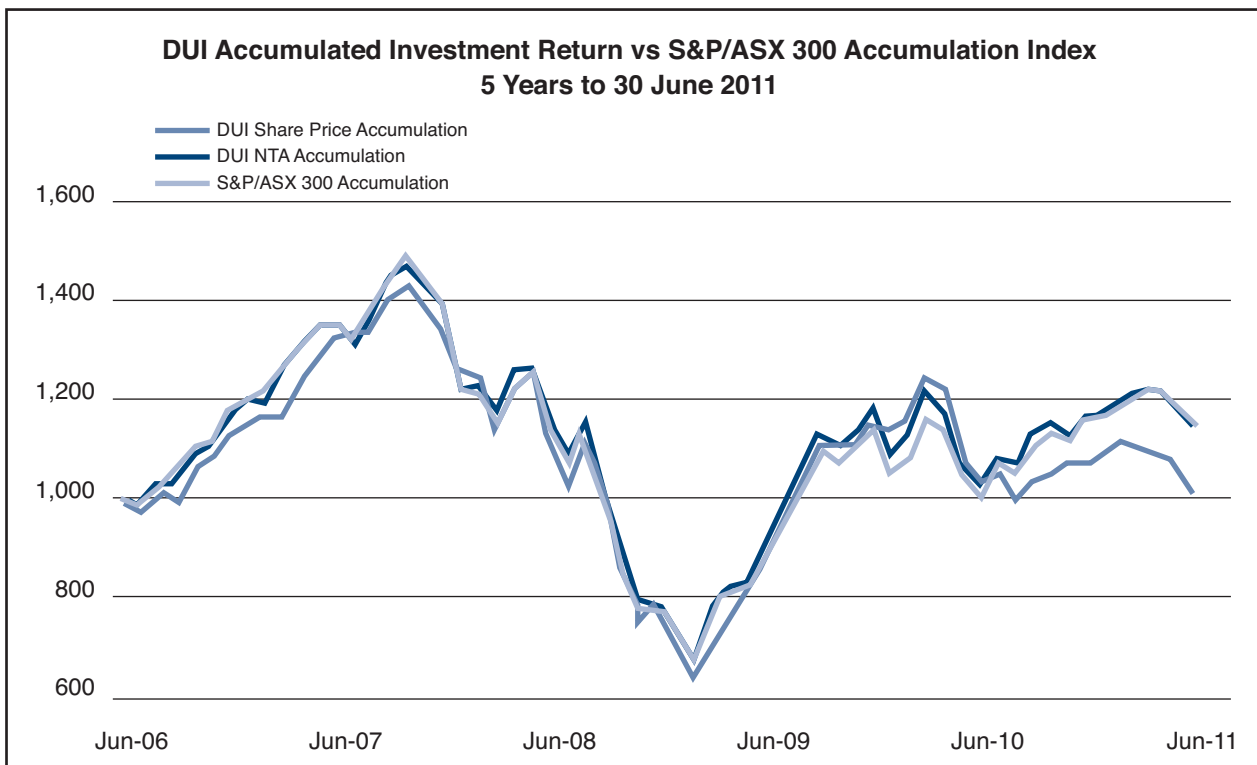
The market value of the investment portfolio moves broadly in line with the S&P/ASX 300 index and from 30 June 2011 to 11 August 2011 the index fell 10%, arising from the recent disruption in global financial markets.

The Australian equities portfolio is mainly in leading companies and at 30 June 2011 in terms of market values, 87% of the Australian equities portfolio was in the leading 50 companies (73% in the top 20 companies and 14% in the next 30 companies), with a further 1% invested in the second 50 companies and 12% invested in companies other than the largest 100 companies.

The Company's performance to 30 June in recent years (assuming all dividends were re-invested) is as follows:

	DUI Net Asset Backing Accumulation % p.a.	DUI Share Price Accumulation % p.a.	S&P ASX 300 Accumulation Index % p.a.
1 Year	9.2	(1.8)	11.9
3 Years	(0.4)	(2.5)	0.3
5 Years	2.3	0.2	2.4
10 Years	7.7	7.9	7.2

The following graph show the accumulation performance of the Company's net asset backing (before provision for tax on unrealised gains) assuming all dividends were re-invested, as compared to the S&P/ASX 300 Accumulation Index over the last five years.



Source: Goldman Sachs JB Were

The Company's top twenty-five investments at 30 June 2011 were as follows:

Company	Market Value \$'000	% of Market Value of Total Investments
1. BHP Billiton Ltd	65,700	11.4%
2. Woodside Petroleum Ltd	53,300	9.3%
3. Rio Tinto Ltd	43,576	7.6%
4. Commonwealth Bank of Australia Ltd	41,840	7.3%
5. ANZ Banking Group Ltd	41,800	7.3%
6. Westpac Banking Corporation Ltd	35,616	6.2%
7. National Australia Bank Ltd	30,744	5.3%
8. QBE Insurance Group Ltd	25,875	4.5%
9. CSL Ltd	19,836	3.4%
10. Woolworths Ltd	19,425	3.4%
11. Transurban Group	15,690	2.7%
12. Wesfarmers Ltd PPS and Ordinary	14,453	2.5%
13. Westfield Group	12,990	2.3%
14. Alumina Ltd	12,660	2.2%
15. Perpetual Ltd	12,465	2.2%
16. Washington H Soul Pattinson & Co Ltd	11,790	2.0%
17. AGL Energy Ltd	11,720	2.0%
18. Consolidated Media Holdings	10,440	1.8%
19. Mystate Ltd	9,126	1.6%
20. Australian Infrastructure Fund	8,640	1.5%
21. Worley Parsons Ltd	7,060	1.2%
22. Orica Ltd	6,735	1.2%
23. Origin Energy Ltd	6,316	1.1%
24. Westfield Retail Trust	6,233	1.1%
25. Sonic Healthcare Ltd	5,148	1.0%
	529,178	92.1%
Total Investments at Market Value, Short Term Receivables and Cash	574,662	



Charles Goode  
Chairman  
12 August 2011

# Corporate Governance Statement

The Company has adopted corporate governance principles in accordance with the Australian Securities Exchange Corporate Governance Council's "Good Corporate Governance Principles and Recommendations." Any material departures from the recommendations are referred to in this statement.

## 1. Accountability and Responsibility

The Board is accountable to the shareholders and is responsible for:

- Setting strategic and financial objectives;
- Monitoring the Company's performance and financial position and overseeing the financial accounts and reporting;
- Identifying and managing business and compliance risks;
- Managing the Company's investment portfolio;
- Overseeing relationships with outside service providers;
- Appointing the Company Secretary, and setting and overseeing responsibilities delegated to the Company Secretary; and
- Setting ethical standards for the Company.

## 2. Composition

The Board currently comprises 4 directors. The Company's constitution requires 3 to 6 directors. Other than the Company Secretary the Company has no executives or executive directors. If a vacancy arises the Nomination and Remuneration Committee chooses the best available candidate using professional advice if this is deemed necessary. In this process the Company has a neutral approach to gender diversity. An appointed director then submits themselves for election by shareholders at the next Annual General Meeting.

Messrs C B Goode, M K Myer and R H Myer are associated with substantial shareholders. These directors bring significant relevant experience to the Board. However in that the Chairman of the Board is not independent and there is not a majority of independent directors, the Company departs from the Australian Securities Exchange Corporate Governance Council's Recommendations. A lead independent director is not considered necessary given the small size of the Board. Appointed directors must stand for election at the next Annual General Meeting. One third of directors stand for re-election at each Annual General Meeting. There is no set retirement age or term for directors. Extensive experience in the investment markets is valued. Directors are not required to own shares in the Company. Directors have agreed not to enter into any margin loans over their shareholdings in the Company.

## 3. Operation

The Board usually meets eleven times each year and consults on investment matters between meetings. The Board has day-to-day responsibility for management of the investment portfolio. Transaction levels are low as the portfolio is held for the long term. The Board reviews financial statements, forecasts, the investment portfolio, the net asset backing per share, and compliance reports monthly. The Company Secretary is responsible for either providing the information or co-ordinating it from outside service providers.

## 4. Delegation

The duties and responsibilities of the Company Secretary, the Company's only employee, are set out in a letter of engagement, which the Board approves. The Board also approves letters of engagement for the externally provided accounting, tax, custody and audit services. Share registry services are purchased on commercial terms.

## 5. Directors' Terms of Appointment, Remuneration and Performance

Directors' fees are reviewed annually by the Nomination and Remuneration Committee in the light of the Company's activity, changing responsibilities and in comparison to fee levels of a peer group of companies. Independent remuneration advice may be sought. The maximum total of directors' fees is set by the shareholders in general meeting. Details of directors' remuneration are set out in the Remuneration Report in the Annual Report.

Each director appointed before October 2006 entered into a Retirement Agreement at that time to convert accrued retirement benefits into shares in the Company to be held until retirement in the Non-Executive Directors 2006 Accrued Entitlements Share Plan, as approved by shareholders.

Each director has entered into a Deed of Access, Indemnity and Insurance with the Company and is covered by the Company's Directors and Officers Liability Insurance.

The duties of directors are as set out in the Corporations Law and in this statement. In addition to board meetings directors are expected to attend committee meetings where applicable, for no additional fee. They are expected to make a pro-active contribution to the management of the Company's investment portfolio from their reading, research, and information collected outside of board meetings.

After prior discussion with the Chairman, directors are entitled to seek independent advice at the expense of the Company, which advice will then be made available to all other directors. Directors are entitled to unlimited access to the Company's records.

The Board reviews its performance annually by discussion and by individual communication with the Chairman and by reference to generally accepted Board performance standards. The Board also conducts an annual review of the performance of the Board Committees, the Company Secretary, and outside service providers.

## 6. Board Committees

The Board has a Nomination and Remuneration Committee comprising all directors and an Audit Committee comprising A R Burgess (Chairman), M K Myer and R H Myer. The Audit Committee meets at least twice and the Nomination and Remuneration Committee at least once per annum. The Charter of each committee is reviewed by the Board annually. The Audit Committee Charter includes inter-alia, appointment of the auditor, assessing their independence, managing the audit relationship, and overseeing risk management. The external audit partner rotates every 5 years.

The Audit Committee has an independent Chairman but in that it does not have a majority of independent directors it does not comply with the Australian Securities Exchange Corporate Governance Council's Recommendations. The Committee is considered to have sufficient relevant expertise. All members are non-executive.

The Nomination and Remuneration Committee considers and makes recommendations to the Board regarding Board composition and remuneration of the directors and the Company Secretary. The Company Secretary's remuneration is paid on a fee for services basis and is disclosed in the Remuneration Report in the Annual Report. No additional fees are paid to members of the Board committees.

Committee Members' qualifications and attendance at meetings are set out in the Directors' Report in the Annual Report.

## 7. Disclosure Procedures and Share Trading

The Company has established procedures to ensure compliance with the Australian Securities Exchange listing rule disclosure requirements including monthly disclosure of the Company's net tangible asset backing per share. Directors and the Company Secretary are prohibited from dealing in the Company's securities (other than to participate in the Dividend Reinvestment Plan or any Share Purchase Plan or rights issue) from 1 January to the day after the announcement of the Company's half year results and interim dividend, and from 1 July to the day after the announcement of the Company's financial year results and final dividend.

## 8. Shareholder Communication

The Company communicates with shareholders through:

- The annual report
- The half year report
- The website, including email contact.
- Telephone availability of the Company Secretary at the Company's office.
- Annual General Meeting including Chairman's address and question time.
- Mailing of Chairman's Address to all shareholders and posting to website.

The external auditor is to be available for questioning at the Annual General Meeting.

## 9. Risk Management

The Audit Committee reviews the internal control system and the management of risk half yearly after receiving reports from the Company Secretary on these matters and makes appropriate recommendations to the Board.

The Board receives a letter half yearly from the Company's external accountants regarding their procedures, and reporting that the financial records have been properly maintained and the financial statements comply with the Accounting Standards.

Based on his review of the internal control systems, management of risk and the letter from the Company's external accountants, the Company Secretary provides half yearly the declarations required by Section 295A of the Corporations Act and confirms that in his opinion the financial statements and accompanying notes comply with the Accounting Standards and give a true and fair view

Details of the Company's financial risk management are set out in the notes to the financial statements in the Annual Report.

## 10. Ethical Conduct

The Company has no executives or executive directors other than the Company Secretary. Each director and the Company Secretary is expected to adopt high ethical standards in acting for the Company and in the interests of the shareholders. Directors are required to disclose potential conflicts of interest and to refrain from involvement in Board decisions, or leave the room, during discussion of the conflicted matter.

The directors present their report together with the financial report of Diversified United Investment Limited for the financial year ended 30 June 2011 and the auditors' report thereon.

## Directors

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

**Charles Goode** AC, B.Com (Hons) (Melb), MBA (Columbia), Hon LLD (Melb), Hon LLD (Mon).  
Non Executive Chairman  
Age 72  
Appointed Chairman September 1991.

Mr Goode is the Chairman of the Boards of Australian United Investment Company Limited (since 1990), The Ian Potter Foundation Limited (governor since 1987), Grosvenor Australia Properties Pty Limited (since 2008) and Flagstaff Partners Pty Ltd (since 2010).

Formerly Mr Goode was a director of Australia and New Zealand Banking Group Limited (1991 – 2010, Chairman 1996 – 2010) and Woodside Petroleum Limited (1988 – 2007, Chairman 1999 – 2007).

**Martyn Myer** AO, B.Eng, MEng (Mon), MSM (MIT), FIE (Aust).  
Non-Executive Director  
Age 53  
Appointed September 1991.

Mr Myer is Chairman of CogState Ltd (since 1999), a director of The Myer Family Company Ltd (since 2007), President of The Myer Foundation (since 2009) and he is a member of the council of the University of Melbourne (since 2009).

Formerly Mr Myer was a director of Coles Group Ltd (1996 – 2006), the Florey Neuroscience Institutes (2007 – 2009) and SP AusNet Group (2005-2010), and was President of the Howard Florey Institute (2004 – 2007).

**Rupert Myer** AM, B.Com (Hons) (Melb), MA Cantab  
Non-Executive Director  
Age 52  
Appointed November 2002.

Mr Myer is a director of AMCIL Limited (since 2000). He serves as Chairman of The Myer Family Company Ltd (Group) (since 2004 and a director since 1991) and the National Gallery of Australia (since 2005), and is a director of Myer Holdings Ltd (since 2006), and is a member of the Advisory Board of the Faculty of Business and Economics at the University of Melbourne.

**Anthony Burgess** CPA, F.Fin, B.Com (Hons) (Melb), MBA (Dist'n) (Harvard)  
Non-Executive Director  
Age 52  
Appointed September 2008.

Mr Burgess has 29 years experience in corporate finance in Melbourne, London and New York. He is currently Chief Executive Officer of Flagstaff Partners Pty Ltd, an independent corporate finance advisory firm. He was formerly Global Co-Head of Mergers and Acquisitions at Deutsche Bank AG, based in London. He is a Vice Chair of the St. Vincent's Institute Foundation and a member of the Advisory Board of the Faculty of Business and Economics at the University of Melbourne. He is Chairman of the Company's Audit Committee.

**Graeme Moir** B.Com (Univ. of NZ), ACA (NZ), ACIS. Retired 14 October 2010.  
Non-Executive Director  
Age 79  
Appointed September 1991.

Mr Moir is the principal of the investment management firm Moir's Investment Service Pty. Ltd. (since 1965), and is a director of Graeme Moir and Associates Pty. Ltd. (since 1965), and was a director of Australian United Investment Company Limited (1976 - 2010).

## Company Secretary

**Andrew Hancock** FCA, B.Ec (Mon), Grad. Dip. CDP (RMIT)  
Company Secretary,  
Age 59  
Appointed 23 September 1991.

Mr Hancock is also Company Secretary of Australian United Investment Company Ltd (since 1995), has served as Chairman and is currently Secretary of the Australian Listed Investment Companies Association and is Chairman or a director of a number of private investment companies.

## Principal Activity

The principal activity of the Company is that of investment. The directors have sought to invest in a diversified portfolio of investments with the objective of obtaining current income and longer term capital gain within an acceptable level of risk.

## Results and Review of Operations

For the year ended 30 June 2011 the Company earned an operating profit after tax before net gains and losses on the investment portfolio of \$20,970,000 (compared to \$17,388,000 in 2010) – a increase of 21%.

If special dividends received are disregarded, operating profit before net realised and unrealised losses on investment portfolio increased by 19%. The operating profit includes \$527,000 of special dividends and distributions received. In 2010, the operating profit after tax included \$150,000 of special dividends and distributions received. The weighted average number of ordinary shares for the year was 164,025,670 as against 154,991,128 in the previous year, an increase of 6%. The basic and diluted earnings per share before net realised gains on investment portfolio and special dividends was 12.5 cents compared to 11.1 cents for the previous year.

The net tangible asset backing of each of the Company's shares at 30 June 2011 was \$3.08 (2010: \$2.94). This net tangible asset backing calculation is based on investments at market value and is after the tax effect of net realised gains, before estimated tax on net unrealised gains and losses and before the final dividend. The Company is a long-term investor and does not intend disposing of its total portfolio. If, however, estimated tax on unrealised portfolio gains were to be deducted, the net tangible asset backing per share would be \$2.76 (2010: \$2.63).

On 4 October 2010 the Company issued 2,351,680 fully paid shares in accordance with the Company's Share Purchase Plan. The issue raised \$6,607,000 (before costs) at the purchase price of \$2.81 per share, which represented a 5% discount to the Net Tangible Asset Backing per share of the Company as at 31 August 2010 adjusted for the general share market movement to 6 September 2010.

Borrowings as at 30 June 2011 were \$65 million (2010: \$65 million) amounting to around 11% of the investment portfolio at market values (2010: 12%). Cash on hand, cash deposits and short term receivables were \$5 million, or 0.8% of the investment portfolio at market values (2010 \$7 million, or 1.4%).

# Directors' Report

The composition of the operating profit after income tax and before net realised and unrealised losses on the investment portfolio was as follows:

	2011 \$'000	2010 \$'000
<b>Revenue from investment portfolio</b>		
Dividends	22,905	18,373
Trust Distributions	2,462	2,675
Interest	631	1,048
Option Premium Income	575	270
Sub-Underwriting Commission	40	–
	26,613	22,366
<b>Expenses</b>		
Administration and other expenses:		
Accounting and Custody Fees	162	159
Audit	43	46
Share Registry	73	80
Directors' Fees	370	420
ASX Fees	76	76
Company Secretary Fees	70	70
Insurance	45	45
Office rent, printing and other	88	100
Finance Costs:		
Interest	4,527	4,218
	5,454	5,214
Operating profit before income tax benefit/ (expense) and net gains and losses on investment portfolio	21,159	17,152
Income tax benefit/ (expense)	(189)	236
Net operating profit before net gains and losses on investment portfolio	20,970	17,388

Expenses (excluding finance costs) were 0.17% of the average market value of the investment portfolio (2010: 0.20%)

## Dividends

Dividends paid or declared by the Company to members since the end of the previous financial year were:

	\$'000
<b>Paid or declared during the year</b>	
A final dividend in respect of the year ended 30 June 2010 of 7.0¢ per share fully franked paid on 24 September 2010.	11,284
An interim dividend in respect of the year ended 30 June 2011 of 6.0¢ per share fully franked paid on 15 March 2011.	9,879
<b>Paid or declared after end of year</b>	
A final dividend in respect of the year ended 30 June 2011 of 7.0¢ per share fully franked payable on 20 September 2011.	11,585

## Directors' Meetings

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

Director	Directors' Meetings		Audit Committee Meetings		Nomination & Remuneration Committee Meetings	
	No. of Meetings attended	No. of Meetings eligible	No. of Meetings attended	No. of Meetings eligible	No. of Meetings attended	No. of Meetings eligible
Charles Goode	10	11	2*	2*	1	1
Martyn Myer	11	11	2	2	1	1
Rupert Myer	11	11	1#	1#	1	1
Anthony Burgess	11	11	2	2	1	1
Graeme Moir	4	4	1#	1#	–	–

The Audit Committee comprises Mr A R Burgess (Chairman), Mr M K Myer and Mr R H Myer.

All members of the board are members of the Nomination and Remuneration Committee.

\* In attendance – not a committee member.

# Rupert Myer became a member of the Audit Committee on 14 of October 2010 following Graeme Moir's retirement on the same day.

## Directors' Interests

As at the date of this report the relevant interest of each director in the issued capital of the Company as notified by the directors to the Australian Stock Exchange in accordance with Section 205G(1) of the Corporations Act 2001 is as follows:-

	SHARES		
	1	2	3
Charles Goode	1,428,758	2,425,300	140,000
Martyn Myer	1,445	106,010	70,000
Rupert Myer	13,943	145,033	14,000
Anthony Burgess		200,000	

**Note:**

1. Beneficial in own name
2. Held by an entity/related party in which the director has a relevant interest
3. Held for the Director in accordance with the terms of the Non-Executive Directors 2006 Accrued Entitlements Share Plan

Except as stated, no director -

- (a) has any relevant interest in shares of the Company or a related body corporate;
- (b) has any relevant interests in debentures of, or interests in a registered scheme made available by, the Company or a related body corporate;
- (c) has any rights or options over shares in, debentures of, or interests in a registered scheme made available by, the Company or a related body corporate;
- (d) is a party to a contract, or is entitled to a benefit under a contract, that confers a right to call for or deliver shares in, or debenture of or interests in a registered scheme made available by the Company or a related body corporate.

**Remuneration Report (audited)**

<b>Non-executive Directors' Fees</b> <sup>(1), (2)</sup>	<b>2011</b> <b>\$</b>	<b>2010</b> <b>\$</b>
Charles Goode	140,000	140,000
Martyn Myer	70,000	70,000
Rupert Myer	70,000	70,000
Anthony Burgess	70,000	70,000
Graeme Moir	20,192	70,000
<b>Total</b>	<b>370,192</b>	<b>420,000</b>

(1) Directors fees include superannuation contributions elected by Directors to be paid to their nominated superannuation fund.

(2) No additional fees are paid to members of the board committees.

The Nomination and Remuneration Committee reviews and makes recommendations to the Board on remuneration packages and policies applicable to the Company Secretary and Directors of the Company including superannuation entitlements, retirement and termination entitlements, fringe benefits policies and professional indemnity and liability insurance policies.

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced directors. The Nomination and Remuneration Committee may seek independent advice on the appropriateness of remuneration packages, given trends in comparative companies and in light of Company activity and changing responsibilities. The remuneration structures are designed to attract suitably qualified candidates, and to effect the broader strategy of increasing the Company's net profit. Directors' fees are fixed and reviewed annually and the maximum total of directors' fees is set by the shareholders in general meeting.

Directors' remuneration is fixed annually taking into account the company's performance and market conditions. The Company's performance in respect of the current financial year and each of the previous four financial years was:

	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Operating Profit (\$ Millions)	21.0	17.4	18.1	20.0	16.7
Dividends paid (cents per share)	13.0	13.0	13.0	13.0	12.0
Share Price 30 June	\$2.71	\$2.82	\$2.54	\$3.26	\$3.91
Management Expense Ratio	0.17%	0.20%	0.19%	0.14%	0.17%
Net Asset Backing Per Share 30 June	\$3.08	\$2.94	\$2.67	\$3.54	\$4.16
S&P/ASX 300 Index 30 June	4,608	4,293	3,949	5,219	6,297

Each director has entered into a Deed of Access, Indemnity and Insurance with the Company and is covered by the Company's Directors and Officers Liability Insurance. Amounts disclosed for Directors' remuneration exclude insurance premiums of \$45,250 paid by the Company in respect of Directors' and Officers' liability insurance as the contracts do not specify premiums paid in respect of individual directors and officers. Refer to Note 16 of the financial statements for information relating to the insurance contracts.

The Company Secretary, Mr Andrew J Hancock, received \$70,000 (2010: \$70,000) for services provided to the Company.

**Events Subsequent to Balance Date**

The market value of the investment portfolio moves broadly in line with the S&P/ASX 300 index and from 30 June 2011 to 11 August 2011 the index fell 10%, arising from the disruption in global financial markets. Apart from this, 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 affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company, in future financial years.

## Likely Developments

The directors do not anticipate any particular developments in the operations of the Company which will affect the results of future financial years other than the value of the investment portfolio is expected to fluctuate broadly in line with market movements.

## State of Affairs

In the opinion of the directors, there were no significant changes in the state of affairs of the Company that occurred during the financial year under review other than the value of the investment portfolio fluctuated broadly in line with market movements.

## Non-audit services

During the year KPMG, the Company's auditor, has provided taxation services in addition to their statutory duties. They received fees of \$7,425 for these services.

The board has considered the non-audit services provided during the year by the auditor and in accordance with written advice provided by resolution of the audit committee, is satisfied that the provision of those non-audit services is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the audit committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

## Environmental Regulation

The Company's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation.

## Indemnification

Details of directors' indemnification are set out in Note 16 to the financial statements.

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

The lead auditor's independence declaration is set out on page 15 and forms part of the Directors' report for the year ended 30 June 2011.

## Rounding Of Amounts

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

Signed in accordance with a resolution of the directors:



Charles Goode  
Director  
Melbourne 12th August 2011

# Lead Auditor's Independence Declaration



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

To: the directors of Diversified United Investment Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the financial year ended 30 June 2011 there have been:

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

*KPMG*

KPMG

*msomerville*

Michelle Somerville  
*Partner*

Melbourne

12 August 2011

# Income Statement for the Year Ended 30 June 2011

	Note	2011 \$'000	2010 \$'000
Revenue from investment portfolio	2	26,613	22,366
Administration and other expenses		(927)	(996)
Finance expenses	2	(4,527)	(4,218)
<b>Operating profit before income tax benefit and net gains on investment portfolio</b>		21,159	17,152
Income tax (expense)/benefit <sup>1</sup>		(189)	236
<b>Net operating profit before net gains on investment portfolio</b>		20,970	17,388
Net realised losses on investment portfolio <sup>2</sup>		–	(1,561)
Income tax benefit thereon <sup>1</sup>		–	433
		–	(1,128)
<b>Profit for the year</b>		20,970	16,260
<sup>1</sup> Total income tax benefit	4(a)	(189)	669
<sup>2</sup> Up to date of adoption of AASB 9 on 7 December 2009			
Basic and diluted earnings per share (cents)	18	12.8	10.5
Basic earnings per share before net gains and losses on investment portfolio (cents)	18	12.8	11.2
Basic earnings per share before special dividends and net gains and losses on investment portfolio (cents)	18	12.5	11.1

The income statement is to be read in conjunction with the notes to the financial statements set out on pages 21 to 32.

# Statement of Comprehensive Income for the Year Ended 30 June 2011

	2011 \$'000	2010 \$'000
<b>Profit for the Year</b>	20,970	16,260
<b>Other Comprehensive Income</b>		
Revaluation of investment portfolio for the year	30,762	40,025
Provision for tax expense on revaluation of investment portfolio for the year	(9,378)	(12,425)
Net realised losses on investments transferred to the income statement from the asset revaluation reserve <sup>2</sup>	–	1,128
<b>Other comprehensive income net of income tax</b>	21,384	28,728
<b>Total comprehensive income <sup>1</sup></b>	42,354	44,988

<sup>1</sup> This is the Company's total net return for the year, which includes the net operating profit plus the net realised and unrealised gains and losses on the Company's investment portfolio

<sup>2</sup> Up to date of adoption AASB 9 on 7 December 2009

The statement of comprehensive income is to be read in conjunction with the notes to the financial statements set out on pages 21 to 32.

# Balance Sheet as at 30 June 2011

	Note	2011 \$'000	2010 \$'000
<b>Assets</b>			
Cash assets	6	272	3,200
Receivables	7	4,318	3,763
Other	9	43	43
Current tax refundable	4(a)	–	255
<b>Total Current Assets</b>		4,633	7,261
Investment portfolio	8,24	570,017	524,703
Other	9	12	13
<b>Total Non Current Assets</b>		570,029	524,716
<b>Total Assets</b>		574,662	531,977
<b>Liabilities</b>			
Current tax liability	4(a)	60	–
Payables	10	142	113
<b>Total Current Liabilities</b>		202	113
Borrowings – interest bearing	11	64,669	64,794
Deferred tax liability	4(b)	52,975	43,467
<b>Total Non-Current Liabilities</b>		117,644	108,261
<b>Total Liabilities</b>		117,846	108,374
<b>Net Assets</b>		456,816	423,603
<b>Equity</b>			
Issued capital	13(a)	294,414	282,392
Reserves		162,402	141,211
<b>Total Equity</b>		456,816	423,603

The balance sheet is to be read in conjunction with the notes to the financial statements set out on pages 21 to 32.

# Statement of Changes in Equity for the Year Ended 30 June 2011

	Issued Capital \$'000	Revaluation Reserve \$'000	Realisation Reserve \$'000	Impairment Reserve \$'000	Retained Earnings \$'000	Total Equity \$'000
<b>Balance at 1 July 2009 (as reported)</b>	253,392	76,619	2,657	(9,430)	46,197	369,435
Adoption of AASB 9 (refer to Note 1b)	–	(3,386)	–	3,386	–	–
<b>Balance at 1 July 2009 (restated)</b>	253,392	73,233	2,657	(6,044)	46,197	369,435
<b>Comprehensive income</b>						
Revaluation of investment portfolio	–	40,025	–	–	–	40,025
Tax expense on revaluation	–	(12,425)	–	–	–	(12,425)
Net realised gains and losses on investment portfolio	–	1,108	453 <sup>1</sup>	–	(1,561) <sup>2</sup>	–
Tax expense or benefit on net realised gains and losses	–	(24)	(409) <sup>1</sup>	–	433 <sup>2</sup>	–
Net operating profit for the period	–	–	–	–	17,388	17,388
Realised losses transferred after tax	–	–	(7,172)	6,044 <sup>3</sup>	1,128	–
	–	28,684	(7,128)	6,044	17,388	44,988
<b>Transactions with shareholders</b>						
Share purchase plan (net of costs)	22,896	–	–	–	–	22,896
Dividend reinvestment plan	6,104	–	–	–	–	6,104
Dividends paid	–	–	–	–	(19,820)	(19,820)
	29,000	–	–	–	(19,820)	9,180
<b>Balance at 30 June 2010</b>	282,392	101,917	(4,471)	–	43,765	423,603
<b>Balance at 1 July 2010</b>	282,392	101,917	(4,471)	–	43,765	423,603
<b>Comprehensive Income</b>						
Revaluation of investment portfolio	–	30,762	–	–	–	30,762
Tax expense on revaluation	–	(9,378)	–	–	–	(9,378)
Net realised gains and losses on investment portfolio	–	2,552	(2,552)	–	–	–
Tax expense or benefit on net realised gains and losses	–	(766)	766	–	–	–
Net operating profit for the period	–	–	–	–	20,970	20,970
	–	23,170	(1,786)	–	20,970	42,354
<b>Transactions with shareholders</b>						
Share Purchase Plan	6,565	–	–	–	–	6,565
Dividend reinvestment plan	5,457	–	–	–	–	5,457
Dividends paid	–	–	–	–	(21,163)	(21,163)
	12,022	–	–	–	(21,163)	(9,141)
<b>Balance at 30 June 2011</b>	294,414	125,087	(6,257)	–	43,572	456,816

<sup>1</sup> Net realised gains/ (losses) after 7 December 2009 and tax thereon transferred directly to realisation reserve.

<sup>2</sup> Net realised gains/ (losses) before 7 December 2009 and tax thereon.

<sup>3</sup> Impairment realised on investments sold in the period prior to 7 December 2009 transferred to realisation reserve.

The statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on page 21 to 32.

# Statement of Cash Flows for the Year Ended 30 June 2011

	Note	2011 \$'000	2010 \$'000
<b>Cash flows from operating activities</b>			
Interest received		631	1,108
Dividends and trust distributions received		24,411	20,193
Other income		615	270
Administration and other expenses paid		(892)	(1,046)
Finance costs paid		(4,652)	(4,053)
Income taxes refunded/ (paid)		255	(691)
<b>Net cash from operating activities</b>	17(b)	20,368	15,781
<b>Cash flows from investing activities</b>			
Proceeds from sale of investments		35,925	66,190
Purchases of investments		(50,080)	(106,367)
<b>Net cash used in investing activities</b>		(14,155)	(40,177)
<b>Cash flows from financing activities</b>			
Proceeds from share placement - net of costs		–	22,896
Proceeds from share purchase plan - net of costs		6,565	–
Dividends paid		(15,706)	(13,716)
<b>Net cash from financing activities</b>		(9,141)	9,180
Net (decrease)/ increase in cash held		(2,928)	(15,216)
Cash and cash equivalents at 1 July	17(a)	3,200	18,416
<b>Cash and cash equivalents at 30 June</b>	17(a)	272	3,200

The statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 21 to 32.

## 1. Statement of significant accounting policies

Diversified United Investment Limited (the 'Company') is a company domiciled in Australia.

The financial report was authorised for issue by the directors on 12 August 2011.

### (a) Statement of compliance

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

### (b) Basis of preparation

The financial report is presented in Australian dollars. The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

The Company has not applied any Australian Accounting Standards or UIG Interpretations that have been issued as at balance date but are not yet operative for the year ended 30 June 2011 ("the inoperative standards") with the exception of AASB9: Financial Instruments, which was adopted on 7 December 2009 and disclosed in the 2010 Annual Financial Report.

The impact of inoperative standards has been assessed and the impact has been identified as not being material. The Company only intends to adopt other inoperative standards at the date at which their adoption becomes mandatory.

The financial report is prepared on a historical cost basis except that financial instruments are stated at their fair value.

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

### (c) Investments

The Company is a long term investor. Under IFRS, investments are classified as fair value through other comprehensive income. After initial recognition at fair value (being cost), investments are measured at fair value.

Unrealised gains or losses on investments are recognised in the Asset Revaluation Reserve until the investment is sold, collected or otherwise disposed of, at which time the cumulative gain or loss is transferred to the Asset Realisation Reserve.

The Company derecognises an investment when it is sold or it transfers the investment and the transfer qualifies for derecognition in accordance with AASB 139. Upon derecognition, unrealised gains/losses net of tax relating to the investment are transferred from the revaluation reserve to the realisation reserve.

Interest bearing investments are recognised at fair value and then measured at amortised cost. Amortised cost is calculated with any difference between cost and redemption value being recognised in the income statement over the period of the investment on an effective interest basis.

### (d) Revenue from investment portfolio

The activity of the Company is that of an investment company, returns being in the form of dividends, interest income, trust income, option premiums and sub-underwriting income. Dividend income is recognised in the income statement at ex-dividend date and all other income is recognised on an accruals basis.

### (e) Taxation

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the company tax rate adjusted by changes in deferred tax assets and liabilities which arise from items being brought to account in different periods for income tax and accounting purposes.

The expected tax on disposal of securities in the investment portfolio is recognised directly in equity and as a 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 and offset against any capital losses carried forward. At this time, the tax recognised directly in the Revaluation Reserve is transferred to the Realisation Reserve and adjusted for income tax expense. The associated deferred tax liability is similarly adjusted and transferred to current tax payable.

When Capital Gains Tax rollover relief is elected on the disposal of securities, tax is still calculated on gains made (even though the income tax liability has been deferred until subsequent disposal of the replacement securities) and recognised in income tax expense for accounting purposes.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

## **(f) Interest bearing borrowings**

Interest bearing borrowings are recognised initially at fair value less attributable transaction costs.

Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowing on an effective interest basis.

## **(g) Ordinary Shares**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

## 2. Revenue and Expenses

	2011 \$'000	2010 \$'000
<b>(a) Revenue</b>		
Dividends received or due and receivable	22,905	18,373
Trust distributions received or due and receivable	2,462	2,675
Interest received or due and receivable	631	1,048
Option Premium Income	575	270
Sub-Underwriting Commission	40	–
	26,613	22,366
<b>(b) Expenses</b>		
Finance expenses:		
– Interest	4,527	4,218

## 3. Auditor's Remuneration

	2011 \$	2010 \$
During the year KPMG, the Company's auditor, received the following remuneration (including GST):		
– Audit and review of financial reports	42,768	46,000
– Taxation related services	7,425	9,350

## 4. Taxation

	2011 \$'000	2010 \$'000
<b>(a) Income Tax Expense</b>		
<b>(i) Recognised in the income statement</b>		
<b>Current tax expense</b>		
Current year	(60)	255
Adjustments for prior years	24	112
Current year tax paid	–	(218)
	(36)	149
<b>Deferred Tax Expense</b>		
Tax benefit of capital losses carried forward	–	2,558
Tax benefit of excess imputation credits	–	90
Utilization of prior year excess imputation credits	(154)	–
Impairment losses now realised	–	(2,125)
Temporary differences	1	(3)
	(153)	520
Total income tax (expense)/benefit in income statement	(189)	669

## 4. Taxation (cont.)

	2011 \$'000	2010 \$'000
<b>(ii) Reconciliation between tax expense and pre-tax net profit</b>		
Prima facie tax (expense)/ benefit calculated at 30% on the profit for the year	(6,348)	(4,677)
<b>Increase in tax expense due to:</b>		
Franking/ withholding tax credits gross up on dividends received	(2,407)	(1,987)
<b>Decrease in tax expense due to:</b>		
Tax deferred distributions received	246	402
Franking/ withholding tax credits on dividends received	8,025	6,534
Sundry items	271	285
Tax benefit/ (expense) on operating profit	(213)	557
Over provision prior year	24	112
<b>Tax (expense)/benefit attributable to Profit for the year</b>	<b>(189)</b>	<b>669</b>
<b>(iii) Deferred tax liability recognised directly in equity</b>		
(Increase)/ Decrease in provision for tax on unrealised gains on investment portfolio	(9,378)	(12,425)
<b>(b) Deferred Tax Assets and Liabilities</b>		
<b>Recognised deferred tax assets and liabilities</b>		
		<b>Liabilities</b>
Revaluation reserve – Provision for tax on unrealised gains on investment portfolio	(60,525)	(50,195)
Other	(14)	76
Tax benefit of capital losses carried forward	7,564	6,652
<b>Net tax assets/(liabilities)</b>	<b>(52,975)</b>	<b>(43,467)</b>

## 5. Dividends

	2011 \$'000	2010 \$'000
Dividends recognised in the current year by the Company are:		
(i) 2010 final dividend of 7¢ per share (2009: 7.0¢) fully franked paid 24 September 2010	11,284	10,630
(ii) 2011 interim dividend of 6¢ per share (2010: 6.00¢) fully franked paid 15 March 2011	9,879	9,190
	21,163	19,820

Subsequent to reporting date:

Since 30 June 2011, the directors have declared the following dividend payable on 20 September 2011:

– Final dividend of 7.0 cents per share fully franked (2010: 7.0¢)	11,585	11,284
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The final dividend will not contain a Listed Investment Company capital gain dividend (2010: no LIC capital gain dividend).

The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2011.

## 5. Dividends (cont.)

### *Dividend Franking Account:*

The balance of the Franking Account at 30 June 2011 is \$14,719,672 (2010: \$15,392,441) after adjusting for:

- (a) franking credits that will arise from the current income tax liability
- (b) franking credits that will arise from the receipt of dividends recognised as receivables at year-end
- (c) franking credits that the entity may be prevented from distributing in subsequent years (none at 30 June 2011)

After allowing for the final 2011 dividend, which is not provided for in the 30 June financial statements, the balance of the franking account would be \$9,754,866 (2010: \$10,557,808).

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

### *LIC Capital Gain Account:*

The balance of the Listed Investment Company (LIC) Capital Gain Account at 30 June 2011 was \$125,092 (2010: \$125,092). When distributed, LIC capital gains may entitle certain shareholders to a special deduction in their taxation return, as set out in the relevant dividend statement.

## 6. Cash Assets

	2011 \$'000	2010 \$'000
Units in Cash Management Trusts and Deposits at Call	272	3,200

## 7. Receivables

### *Current*

Sundry debtors and other receivables	4,318	3,763
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## 8. Investments

### *Non-Current*

Investments quoted on prescribed stock exchanges (at fair value)	570,017	524,703
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## 9. Other Assets

### *Current*

Prepayments	43	43
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### *Non-Current*

Leasehold improvements	12	13
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## 10. Payables

### *Current*

Trade Creditors and outstanding settlements	142	113
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## 11. Interest Bearing Liabilities

	2011 \$'000	2010 \$'000
<i>Non-Current</i>		
Multi-option Facility – Secured *	64,669	64,794

\* The face value of the drawn facility is \$65 million (2010: \$65 million). The amount disclosed above is held at amortised cost. For more information about the company's exposure to interest risk and liquidity risk, see notes 20 and 21.

## 12. Financing Arrangements

	2011 \$'000	2010 \$'000
The Company has access to the following lines of credit:		
<i>Total facility available</i>		
Multi-option Facility – Secured	65,000	65,000
<i>Facilities utilised at balance date</i>		
Multi-option Facility – Secured	65,000	65,000

## 13. Capital and Reserves

	2011 \$'000	2010 \$'000
<b>(a) Issued Capital</b>		
Issued and paid-up share capital		
165,493,512 ordinary fully paid shares (2010: 161,154,434)	294,414	282,392
Movements in issued capital		
Balance at beginning of the year	253,392	229,491
Shares issued		
- Share Placement – net of costs (i)	–	22,896
- Dividend re-investment plan (ii)	5,457	6,104
- Share Purchase Plan – net of costs (iii)	6,565	–
	294,414	282,392

- (i) On 8 April 2010, the Company issued, at a purchase price of \$3.18 per share, 7,211,282 fully paid ordinary shares in accordance with a placement announced on 29 March 2010.
- (ii) In respect of the 2010 final dividend, paid on 24 September 2010, 1,094,872 shares were issued at \$2.6452 each under the dividend re-investment plan.  
In respect of the 2011 interim dividend, paid on 15 March 2011, 892,526 shares were issued at \$2.87 each under the dividend re-investment plan.
- (iii) On 4 October 2010, the Company issued, at a purchase price of \$2.81 per share, 2,351,680 fully paid ordinary shares in accordance with the terms of the Company's Share Purchase Plan.

## 13. Capital and Reserves (cont.)

### (b) Nature and purpose of Reserves

#### Revaluation Reserve

Increments or decrements on the revaluation of long term investments after provision for deferred tax are recorded in this reserve. When an investment has been sold or de-recognised, realised gains or losses (after tax) are transferred from the revaluation reserve to the realisation reserve.

#### Realisation Reserve

The realisation reserve records realised gains and losses (after tax) from sale of investments which are transferred from the revaluation reserve.

## 14. Directors' Remuneration

Details of the directors' remuneration are set out in the Remuneration Report that forms part of the Directors' Report. Total remuneration received by the directors for 2011 was \$370,192 (2010: \$420,000).

## 15. Contingent Liabilities and Capital Commitments

There were no contingent liabilities or capital commitments as at 30 June 2011.

## 16. Related Parties

The names of persons holding the position of director of the Company during the year were Messrs C B Goode, M K Myer, R H Myer and A R Burgess and G E Moir (retired).

The Company has indemnified each current director and the Company Secretary against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position with the Company except where the liability arises out of conduct involving a lack of good faith. The agreements stipulate that the Company will meet the full amount of any such liabilities, including costs and expenses.

The Company has paid insurance premiums in respect of directors' and officers' liability and legal expenses insurance, for current and former directors and officers, insuring them against liabilities, costs and expenses arising out of conduct which does not involve a wilful breach of duty. This insurance premium covers the period from 18 June 2011 to 18 June 2012.

Apart from the details disclosed in this note, no director has entered into a material contract with the Company since the end of the previous financial year and there were no material contracts involving directors' interests existing at year end.

### Directors' Holdings of Shares

The relevant interests of directors and their director related entities in shares of the Company at year end are set out below:

Directors	Held at 1/7/10	Purchases	Sales	Held at 30/6/11
Charles Goode	3,693,177	300,881	–	3,994,058
Martyn Myer	177,455	–	–	177,455
Rupert Myer	150,025	51,347	28,396	172,976
Anthony Burgess	100,000	255,339	155,339	200,000

### Directors' Transactions In Shares

The movement in directors' holdings of ordinary shares resulted from the issue of shares under the Company's dividend reinvestment plan and share purchase plan which were made on the same terms and conditions offered to other shareholders, and/or purchases on the open market.

### Other

During the year the Company paid management fees to The Myer Family Company Ltd of which Rupert Myer and Martyn Myer are directors. The Myer Family Company Ltd also earned a fee on short term deposits placed by the Company during the year with the M F Cash Management Fund.

The terms and conditions of the transactions with The Myer Family Company Ltd are no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arm's length basis.

## 17. Notes to the Statement of Cash Flows

	2011 \$'000	2010 \$'000
<b>(a) Reconciliation of Cash</b>		
For the purposes of the statement of cash flows, cash includes cash on hand and at bank and short term deposits at call. Cash as at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows:		
Units in Cash Management Trusts and Deposits at Call	272	3,200
<b>(b) Reconciliation of operating profit after income tax to net cash provided by operating activities</b>		
Profit/ (loss) for the year	20,970	16,260
Add net realised and unrealised capital losses	–	1,128
Net cash provided by operating activities before changes in assets and liabilities	20,970	17,388
Adjustments for:		
(Increase)/ decrease in prepayments	–	(43)
(Increase)/ decrease in debtors	(555)	(853)
Decrease in interest receivable	–	60
(Increase)/decrease in deferred tax asset	133	(90)
Increase/ (decrease) in current tax	315	(839)
(Increase)/ decrease in prepaid interest	(125)	165
Increase/ (decrease) in deferred tax liability	(1)	3
Increase in creditors	29	3
(Increase)/decrease in other assets	–	(13)
Non-cash dividends received	(398)	–
Net cash provided by operating activities	20,368	15,781

### (c) Financing facilities

The Company's financing facilities are set out in note 12 of these Financial Statements

## 18. Earnings per Share

	2011 Cents	2010 Cents
Basic and diluted earnings per share	12.8	10.5
Basic earnings per share before net gains and losses on investment portfolio	12.8	11.2
Basic earnings per share before special dividends and net gains and losses on investment portfolio	12.5	11.1
	2011 \$'000	2010 \$'000
<b>Profit reconciliation used in the calculation of earnings per share</b>		
Profit/ (Loss) for the year	20,970	16,260
Net realised and unrealised losses on investment portfolio	–	1,128
Net profit before net realised and unrealised losses on investment portfolio	20,970	17,388
Special dividends received	(527)	(150)
Net profit before net realised and unrealised losses on investment portfolio and special dividends received	20,443	17,238

Earnings per share for the 2011 year are calculated on a weighted average adjusted number of shares.

## 18. Earnings per Share (cont.)

	2011 Shares	2010 Shares
<b>Weighted average number of ordinary shares <sup>1</sup></b>		
Issued ordinary shares at 1 July	161,193,764	152,097,809
Effect of placement shares issued in April 2010	–	1,640,226
Effect of dividend reinvestment plan in September 2010	837,105	1,015,333
Effect of purchase plan shares issued in October 2010	1,733,156	–
Effect of dividend reinvestment plan in March 2011	261,645	237,760
<b>Weighted average number of ordinary shares for the year</b>	<b>164,025,670</b>	<b>154,991,128</b>

<sup>1</sup> Adjusted for bonus element resulting from the Shares issued under the Share Purchase Plan on 4 October 2010.

## 19. Capital Management

The Company's objective in managing capital is to continue to provide shareholders with dividends and capital appreciation over the longer term.

The Company's capital will fluctuate with prevailing market movements and it may adjust the amount of dividends paid, issue new shares or sell assets to reduce debt.

There were no changes in the Company's approach to capital management during the year. The Company is not subject to any externally imposed capital requirements.

## 20. Financial Risk Management

*AASB 7 – Financial Instruments: Disclosures* identifies three types of risk associated with financial instruments (i.e. investments, receivables, payable and borrowings).

The Company has exposure to the following risks from their use of financial instruments:

- credit risk;
- liquidity risk; and
- market risk

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework.

### Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The credit risk exposure of the Company lies principally in its cash and receivables to the extent of their carrying values and any accrued unpaid interest.

#### Cash

The company invests in short-term bank backed securities, cash management units with the MF Cash Management Fund and cash deposits with Australian banks, with a direct or underlying AA or A.1 credit rating assigned by Standard & Poor's, being a Recognised Rating Agency.

#### Receivables

Receivables are non-interest bearing and represent dividends, proceeds of sales and distributions yet to be received. The credit risk exposure of the Company in relation to receivables is the carrying amount.

Management does not expect any counterparty to fail to meet its obligations. Additionally, none of these assets are over due or considered to be impaired.

## 20. Financial Risk Management (cont.)

### Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities as they fall due. The Company monitors its cash flow requirements and ensures that it has cash or access to sufficient borrowing facilities to meet all its financial obligations as they fall due.

Bank Borrowings were \$65 million at the end of the financial year (2010: \$65 million) gearing the investment portfolio by around 11%. The Company has an interest bearing commercial bill facility in place with the Australia and New Zealand Banking Group Ltd which includes both a fixed and floating rate bill component. This facility expires at various intervals through to 2 July 2015, unless these are renewed. Annual interest expense was covered 6 times by investment income (2010: 5 times).

The major cash inflows for the Company include dividends, distributions, sales proceeds received and the issuing of further shares to shareholders. The major cash outflows are the purchase of securities and dividends paid to shareholders, both of which can be managed by the Company.

The Company's investments are quoted on a prescribed stock exchange and are able to be realised if required.

### Market Risk

Market risk is the risk that changes in market prices such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments.

Inherently, the Company is not free of market risk as it invests its capital in securities whose market prices can fluctuate.

Based on a tax rate of 30%, a general movement in market prices of 5% and 10% would lead to a change in the Company's equity of \$19,950,602 (or 4%) and \$39,901,204 (or 9%) respectively.

Market risk is managed by ensuring that the Company's investment portfolio is not over exposed to one company or one particular sector. The relative weightings of the individual securities and the relevant market sectors are reviewed by the Board frequently.

The Company also has exposure to interest rate risk on its borrowings as detailed in Note 21 which is managed through conservative levels of gearing, fixing the interest rate on a portion of the borrowings and ensuring that there is appropriate interest cover at all times.

## 21. Financial Instruments Disclosure

### Interest rate risk

The Company's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities which bear interest is set out below:

	Note	Floating Interest Rate \$'000
<b>2011</b>		
<i>Financial Assets</i>		
Cash	6	272
Weighted average interest rate		5.04%
<b>2010</b>		
<i>Financial Assets</i>		
Cash	6	3,200
Weighted average interest rate		4.72%

## 21. Financial Instruments Disclosure (cont.)

### *Borrowings*

The Company has a facility of \$65,000,000 (fully drawn) with Australia and New Zealand Banking Group Ltd as follows:

<b>Amount</b>	<b>Maturity</b>	<b>Interest Rate<sup>1</sup></b>
\$20,000,000	2 July 2012	Fixed 7.22%
\$20,000,000	2 July 2013	Fixed 6.97%
\$10,000,000	2 July 2014	Floating 6.83%
\$15,000,000	2 July 2015	Floating 6.52%

<sup>1</sup> Interest rate includes bank margins and fees.

The Company has pledged as collateral for the secured borrowing facilities, the following equity investments:

<b>Equities</b>	<b>No. of Shares</b>	<b>Value at 30 June 2011</b>
BHP Billiton Ltd	1,500,000	65,700
NAB Ltd	900,000	23,058
Woodside Petroleum Ltd	1,000,000	41,000
Rio Tinto Ltd	518,976	43,070
<b>Total</b>		<b>172,828</b>

The terms of the agreement require the market value of the securities to satisfy a minimum LVR of 70%. At 30 June this was 38%.

### **Net fair values of financial assets and liabilities**

#### *Valuation Approach*

The Company's investments are readily traded on organised markets in a standard form.

The net fair value of investments is determined by valuing them at current quoted market prices at balance date. In accordance with Australian Accounting Standards, this is considered "level 1" under the fair value measurement hierarchy, which is defined as quoted prices (unadjusted) in active markets for identical assets or liabilities. No adjustment for transaction costs necessary to realise the asset or settle the liability has been included as these are deemed to be immaterial. The net fair value of investments is set out in Notes 8 and 24.

For all other financial assets and liabilities, the carrying amount closely approximates its fair value.

## 22. Segment Reporting

The Company operates as an investment company in Australia.

## 23. Events Subsequent to Balance Date

The market value of the investment portfolio moves broadly in line with the S&P/ASX 300 index and from 30 June 2011 to 11 August 2011 the index fell 10%, arising from the disruption in global financial markets. Apart from this, 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 affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company, in future financial periods.

## 24. Holdings of Securities as at 30 June 2011

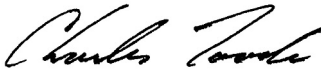
The following is a list of the Company's top 25 Investments as at 30 June 2011, which represent 93% of the total investment portfolio (2010: 93%). All investments are valued at fair value through Other Comprehensive Income.

2011		2010	
Company	Market Value \$'000	Company	Market Value \$'000
1 BHP Billiton Ltd	65,700	BHP Billiton Ltd	56,475
2 Woodside Petroleum Ltd	53,300	Woodside Petroleum Ltd	52,300
3 Rio Tinto Ltd	43,576	ANZ Banking Group Ltd	41,059
4 Commonwealth Bank Of Australia Ltd	41,840	Commonwealth Bank of Australia Ltd	38,912
5 ANZ Banking Group Ltd	41,800	Rio Tinto Ltd	35,002
6 Westpac Banking Corporation Ltd	35,616	Westpac Banking Corporation Ltd	33,968
7 National Australia Bank Ltd	30,744	National Australia Bank Ltd	27,936
8 QBE Insurance Group Ltd	25,875	QBE Insurance Group Ltd	27,300
9 CSL Ltd	19,836	CSL Ltd	19,548
10 Woolworths Ltd	19,425	Woolworths Ltd	18,914
11 Transurban Group	15,690	Westfield Group	18,270
12 Wesfarmers Ltd	14,453	Telstra Corporation Ltd	14,625
13 Westfield Group	12,990	Wesfarmers Ltd	12,935
14 Alumina Ltd	12,660	Transurban Group	11,872
15 Perpetual Ltd	12,465	AGL Energy Ltd	11,760
16 Washington H Soul Pattinson & Company Ltd	11,790	Consolidated Media Holdings Ltd	9,540
17 AGL Energy Ltd	11,720	Alumina Ltd	9,150
18 Consolidated Media Holdings Ltd	10,440	Mystate Ltd	8,112
19 Mystate Ltd	9,126	Washington H Soul Pattinson & Company Ltd	7,770
20 Australian Infrastructure Fund	8,640	Santos Ltd	6,300
21 Worley Parsons Ltd	7,060	Leighton Holdings Ltd	5,790
22 Orica Ltd	6,735	Perpetual Ltd	5,652
23 Origin Energy Ltd	6,316	Australian Infrastructure Fund	5,610
24 Westfield Retail Trust	6,233	Worley Parsons Ltd	5,552
25 Sonic Healthcare Ltd	5,148	Brambles Ltd	5,460
<b>Total Top 25 Investments</b>	<b>529,178</b>		<b>489,812</b>
<b>Total Investments at Market Value</b>	<b>570,017</b>		<b>524,703</b>

# Directors' Declaration

1. In the opinion of the directors of Diversified United Investment Limited ("the Company"):
  - (a) The financial statements and notes set out on pages 16 to 32, and the remuneration disclosures that are contained in the Remuneration report on page 13 of the Directors' Report, are in accordance with the Corporations Act 2001, including:
    - (i) giving a true and fair view of the financial position of the Company as at 30 June 2011 and of its performance, as represented by the results of its operations and its cash flows, 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.
  - (c) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The directors have been given the declarations required by Section 295A of the Corporations Act 2001 for the financial year ended 30 June 2011.

Signed in accordance with a resolution of the directors.



Charles Goode  
Director  
Melbourne 12th August 2011.

# Independent Auditor's Report



## Independent auditor's report to the members of Diversified United Investment Limited

### Report on the financial report

We have audited the accompanying financial report of Diversified United Investment Limited (the Company), which comprises the statement of financial position as at 30 June 2011, and the income statement and statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a description of significant accounting policies and other explanatory notes 1 to 24 and the directors' declaration.

#### *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 1(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

#### *Auditor's responsibility*

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

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

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view of which is consistent with our understanding of the Company's financial position and performance.

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

## *Independence*

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

## *Auditor's opinion*

In our opinion:

- (a) the financial report of Diversified United Investment Ltd is in accordance with the *Corporations Act 2001*, including
  - (i) giving a true and fair view of the Company's financial position as at 30 June 2011 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 1(a).

## **Report on the remuneration report**

We have audited the Remuneration report included on page 13 of the director's report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. *Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.*

## *Auditor's opinion*

In our opinion, the remuneration report of Diversified United Investment Limited for the year ended 30 June 2011, complies with Section 300A of the *Corporations Act 2001*.

  
KPMG

  
Michelle Somerville  
Partner

Melbourne

12 August 2011

# Additional Information

## Distribution of shareholders as at 31 July 2011

Category Holders	Ordinary Shares	No of Holders	%
1 – 1,000	126,628	585	0.08
1,001 – 5,000	3,297,639	1,118	1.99
5,001 – 10,000	7,811,542	1,057	4.72
10,001 – 100,000	53,135,554	2,155	32.11
100,001 and over	101,122,149	115	61.10
	165,493,512	5,030	100.00

There were 386 ordinary shareholders holding less than a marketable parcel (188 shares) at 31 July 2011.

## Substantial Shareholders

The number of shares held by the substantial shareholders and their associates as at 31 July 2011 are set out below:

Shareholder	Ordinary Shares
The Myer Family Company Ltd	14,604,283
The Ian Potter Foundation Ltd, Dundee Trading Pty Ltd and Australian United Investment Company Limited	33,706,648
Australian Foundation Investment Company Limited	12,030,202
Argo Investments Limited	14,769,575

## Voting Rights

All ordinary shares carry equal voting rights.

# Additional Information

## Top Twenty Shareholders

The number of shares held by the top twenty shareholders listed in the Company's register as at 31 July 2011 were:

Shareholder	Ordinary Shares	% Held
1. The Ian Potter Foundation Ltd	15,308,299	9.25
2. Argo Investments Limited	14,769,575	8.93
3. M F Custodians Ltd	14,604,283	8.83
4. Australian Foundation Investment Company Ltd	12,030,202	7.27
5. Australian United Investment Company Ltd	12,000,000	7.25
6. Dundee Trading Pty Ltd	6,398,349	3.87
7. Beta Gamma Pty Ltd	1,743,785	1.05
8. Mr Charles Barrington Goode	1,428,758	0.86
9. Mr Daryl Albert Dixon & Mrs Katherine Dixon	1,129,758	0.68
10. Primrose Properties Pty Ltd	647,522	0.39
11. Mr David J Brownell & Mrs Joanna M Brownell	600,000	0.36
12. Mr James Vincent Chester Guest	558,312	0.34
13. UBS Wealth Management Australia Nominees Pty Ltd	525,216	0.32
14. Chabar Pty Ltd	491,176	0.30
15. Australian Foundation Investment Company Ltd	486,355	0.29
16. HSBC Custody Nominees (Australia) Ltd	468,859	0.28
17. Mutual Trust Pty Ltd	467,126	0.28
18. Somoke Pty Ltd	434,977	0.26
19. Mr Ruskin Ramsay Beatty	400,000	0.24
20. Mythia Pty Ltd	387,339	0.23
	84,879,891	51.28

## Brokerage Paid

The amount of brokerage paid or charged to the Company during the financial year ended 30 June 2011 totalled \$176,652 (2010:\$251,486). None of that brokerage was paid to any stock or sharebroker, or any employee or nominee of any stock or sharebroker, who is an officer of the Company.

# List of Investments as at 30 June 2011

Unless otherwise stated, the securities in this list are fully paid ordinary shares or stock units.

	Market Value \$	30/6/11 Units Held	% of Portfolio at Market Value	30/6/10 Units Held
<b>Australian Equities</b>				
<i>Oil &amp; Gas</i>				
Oil Search Ltd	–	–	–	200,000
Santos Ltd	–	–	–	500,000
Woodside Petroleum Ltd	53,300,000	1,300,000	9.3	1,250,000
<i>Chemicals</i>				
Orica Ltd	6,735,000	250,000	1.2	200,000
<i>Construction Material</i>				
Brickworks Ltd	3,570,000	350,000	0.6	–
<i>Metals &amp; Mining</i>				
Alumina Ltd	12,660,000	6,000,000	2.2	6,000,000
BHP Billiton Ltd	65,700,000	1,500,000	11.4	1,500,000
Rio Tinto Ltd	43,576,389	525,080	7.6	525,080
<i>Construction &amp; Engineering</i>				
Leighton Holdings Ltd	4,170,000	200,000	0.7	200,000
Monadelphous Group Ltd	1,840,000	100,000	0.3	100,000
Worley Parsons Ltd	7,060,000	250,000	1.2	250,000
<i>Commercial Services Supplies</i>				
Brambles Ltd	3,610,000	500,000	0.6	1,000,000
Computershare Ltd	1,774,000	200,000	0.3	–
<i>Transportation, Road &amp; Rail</i>				
K & S Corporation Ltd	1,410,000	1,000,000	0.2	–
QR National Ltd	2,028,000	600,000	0.4	–
<i>Transportation Infrastructure</i>				
Australian Infrastructure Fund	8,640,000	4,500,000	1.5	3,300,000
Transurban Group	15,690,000	3,000,000	2.7	2,800,000
<i>Media</i>				
Consolidated Media Holdings Ltd	10,440,000	4,000,000	1.8	3,000,000
<i>Retailing</i>				
Metcash Ltd	–	–	–	500,000
Wesfarmers Ltd	4,777,500	150,000	0.8	150,000
Wesfarmers Ltd PPS	9,675,000	300,000	1.7	300,000
Woolworths Ltd	19,425,000	700,000	3.4	700,000
<i>Health Care Equipment &amp; Supplies</i>				
Resmed Inc.	2,870,000	1,000,000	0.5	–

# List of Investments as at 30 June 2011

	Market Value \$	30/6/11 Units Held	% of Portfolio at Market Value	30/6/10 Units Held
<b>Australian Equities (Continued)</b>				
<i>Health Care Providers &amp; Services</i>				
CSL Ltd	19,836,000	600,000	3.5	600,000
Healthscope Ltd	–	–	–	600,000
Primary Health Care Ltd	–	–	–	1,500,000
Sonic Healthcare Ltd	5,148,000	400,000	0.9	400,000
<i>Banks</i>				
Australian & New Zealand Banking Group Ltd	41,800,000	1,900,000	7.3	1,900,000
Commonwealth Bank of Australia Ltd	41,840,000	800,000	7.3	800,000
Mystate Ltd	9,126,000	2,600,000	1.6	2,600,000
National Australia Bank Ltd	30,744,000	1,200,000	5.4	1,200,000
Westpac Banking Corporation Ltd	35,616,000	1,600,000	6.2	1,600,000
<i>Diversified Financials</i>				
ASX Ltd	1,522,500	50,000	0.3	–
BT Investment Management Ltd	1,787,760	715,104	0.3	–
Gowing Bros Ltd	4,520,000	2,000,000	0.8	–
Perpetual Ltd	12,465,000	500,000	2.2	200,000
The Trust Company Ltd	1,650,000	300,000	0.3	300,000
Washington H Soul Pattinson & Company Ltd	11,790,000	900,000	2.1	600,000
<i>Insurance</i>				
AMP Ltd	3,912,000	800,000	0.7	–
AXA Asia Pacific Holdings Ltd	–	–	–	750,000
QBE Insurance Group Ltd	25,875,000	1,500,000	4.5	1,500,000
<i>Diversified Telecommunications Services</i>				
Telstra Corporation Ltd	2,468,060	854,000	0.4	4,500,000
<i>Gas Utilities</i>				
AGL Energy Ltd	11,720,000	800,000	2.0	800,000
Origin Energy Ltd	6,316,000	400,000	3.1	250,000
<b>Total Australian Equities</b>	547,087,209		95.2	
<i>Real Estate</i>				
Australand Property Group	2,002,000	700,000	0.3	700,000
Stockland	1,705,000	500,000	0.3	420,000
Westfield Group Ltd	12,990,000	1,500,000	2.3	1,500,000
Westfield Retail Trust	6,233,000	2,300,000	3.4	–
<b>Total Listed Property Trusts</b>	22,930,000		4.0	
Cash, Bills of Exchange & Short Term receivables	4,644,271		0.8	
<b>Total</b>	574,661,480		100.0	

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**DUI Annual Financial Report 2011**

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