

Diversified
United
Investment
Limited

ABN 33 006 713 177

Annual Financial Report

Annual Financial Report

2006

Directory

Directors

C B Goode AC - Chairman
G E Moir
M K Myer
R H Myer AM

Company Secretary

Andrew J Hancock FCA

Principal Office

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Melbourne VIC 3000
Tel: (613) 9654 0499
Fax: (613) 9654 3499
Email: info@dui.com.au
Website: www.dui.com.au

Registered Office

Diversified United Investment Limited
C/- KPMG
147 Collins Street
Melbourne VIC 3000

Bankers

Australia and New Zealand Banking Group Limited
National Australia Bank Limited

Auditors

KPMG
Chartered Accountants

Share Registry

Computershare Investor Services Pty Limited
Yarra Falls
452 Johnston Street
Abbotsford Vic 3067
Tel: 1300 850 505 or (613) 9415 5000
Fax: (613) 9473 2500
Website: www.computershare.com

Stock Exchange

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

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Chairman's Report

I am pleased to present the fourteenth Annual Report of Diversified United Investment Ltd which is for the year ended 30 June 2006.

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, fixed interest securities, listed property trusts and short term deposits. During the year the Company did not hold any investments in international equities.

Operating profit after tax was \$13,082,000 which is an increase of 15% on the previous year or an increase of 27% if special dividends received in both periods are excluded.

The operating earnings per share based on the weighted average number of shares on issue for the year was 12.1 cents per share (10.9 cents excluding the special dividends) compared to 10.9 cents for the year to 30 June 2005 (9.2 cents excluding special dividends).

Including realised investment gains and special dividends, earnings per share were 15.5 cents (previously 12.7 cents).

Income earned during the year was \$15,823,000 comprising \$15,381,000 dividends and trust distributions and \$442,000 interest. The Company incurred operating expenses of \$818,000 before interest which is equivalent to 0.22% of the average value of the portfolio.

This year, special dividends totalling \$1,300,000, after tax, were received from Australand, CSL, IOOF, Perpetual Trustees, Washington H Soul Pattinson & Co, Suncorp Metway, Telstra, Village Roadshow and Rio Tinto. In 2005, special dividends of \$1,781,000, after tax, were received from Australian Gas Light, Macquarie Infrastructure Group, Perpetual Trustees, Telstra and Washington H Soul Pattinson & Co.

Leaving aside the special dividends, the year's result reflects a 17% increase in income from dividends and trust income, a 265% increase in interest income and 3% higher interest expense.

Bank borrowings were \$25.0 million at the end of the financial year (previous year \$36.0 million) amounting to around 6% of the investment portfolio at market values. Annual interest expense is covered seven times by investment revenue.

In May 2006, the Company made a renounceable rights issue of 20,444,001 fully paid shares ("New Shares") offered to existing shareholders on a one for five basis at a price of \$2.70 per New Share. The issue raised \$55,199,000.

The net asset backing per share before estimated tax on unrealised gains and before provision for the final dividend was \$3.32 at 30 June 2006, compared to \$2.76 at 30 June 2005.

The year saw continued strength in Australian equities with the S&P/ASX 300 price index rising 24% but modest results in most world equity markets, with the Dow Jones Index rising 8.5%, the Standard & Poors 500 rising 6.6%, the FTSE 100 gaining 14.1% but the Nikkei-225 rising 33.8%.

The Directors have declared a fully franked final dividend of 5.5 cents per share for the year to 30 June 2006, which with the interim dividend of 4.0 cents per share fully franked makes a total fully franked dividend of 9.5 cents per share for the year. This is an increase of 11.8% over the previous year.

The final dividend will include a Listed Investment Company capital gain dividend of 4.0¢ per share. This will enable some shareholders to claim a tax deduction in their income tax return. Details will be provided in the dividend statement. The ability of the Company to pay LIC dividends is dependent on a number of factors including gains realised from time to time on the long term investment portfolio. This year realised capital gains arose principally from the takeover of our holding in WMC Resources Ltd.

Chairman's Report

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

2001/02	6.5 cents per share	2002/03	7.0 cents per share
2003/04	7.5 cents per share	2004/05	8.5 cents per share
2005/06	9.5 cents per share		

The Company's 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 unrealised gains) over the last 5 years was as follows:

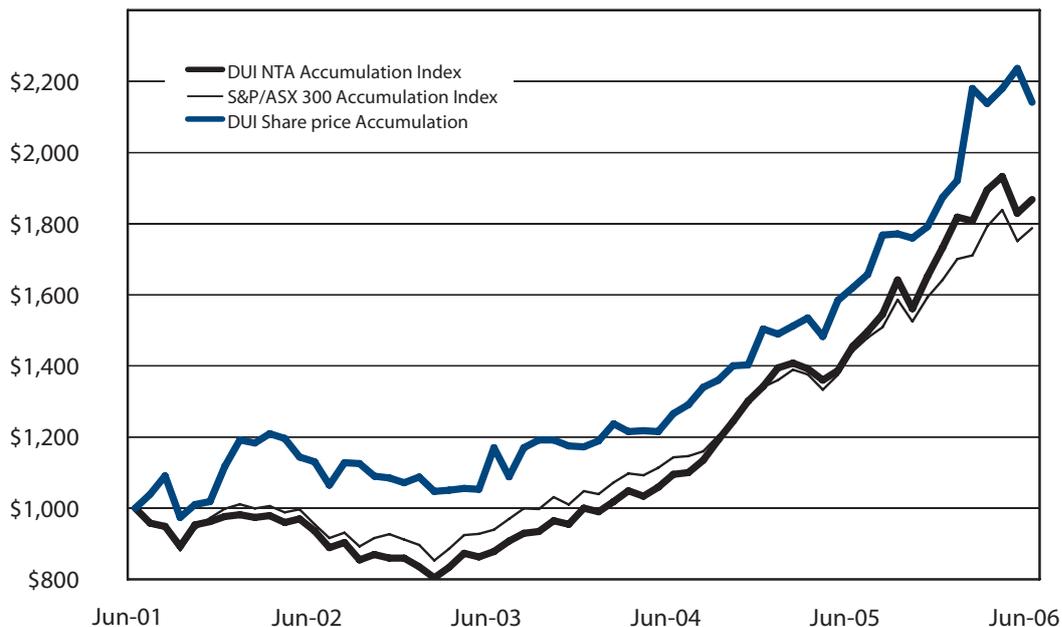
30 June 2002	\$1.98	30 June 2003	\$1.79
30 June 2004	\$2.15	30 June 2005	\$2.76
30 June 2006	\$3.32 (after one for five rights issue at \$2.70, May 2006).		

The Company's net asset backing accumulation performance in recent years (assuming all dividends were re-invested) is as follows:

	DUI Accumulation % p.a.	S&P ASX 300 Accumulation Index % p.a.
1 Year	28.4	24.0
3 Years	28.6	23.9
5 Years	13.3	12.3
7 Years	14.3	12.7

The following graph shows the accumulation performance of the Company's share price and 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.

Accumulated Investment Return vs S&P/ASX 300 Accumulation Index 5 Years to June 2006



Source: GSJBWere

Chairman's Report

The Australian equities portfolio is mainly in leading companies and at 30 June 2006 in terms of market values, 81% of the Australian equities portfolio was in the leading 50 companies (61% in the top 20 companies and 20% in the next 30 companies), with a further 7% invested in the second 50 companies and 12% invested in companies other than the largest 100 companies.

The largest twenty five investments at 30 June 2006 at market values were:

Company	Market Value \$'000	% of Market Value of Total Investments
1. Woodside Petroleum Ltd	39,600	9.2%
2. BHP Billiton Ltd	29,000	6.7%
3. ANZ Banking Group Ltd	26,590	6.2%
4. Rio Tinto Ltd	23,340	5.4%
5. Commonwealth Bank of Australia Ltd	22,205	5.1%
6. Alumina Ltd	21,938	5.1%
7. Westfield Group	20,796	4.8%
8. Westpac Banking Corporation Ltd	18,624	4.3%
9. QBE Insurance Group Ltd	18,450	4.3%
10. Tabcorp Holdings Ltd	15,200	3.5%
11. Perpetual Trustees Ltd	14,630	3.4%
12. National Australia Bank Ltd	14,064	3.3%
13. Brambles Industries Ltd	11,000	2.6%
14. Australian Gas Light Company Ltd	10,506	2.4%
15. Suncorp Metway Ltd	9,675	2.2%
16. Transurban Group Ltd	9,035	2.1%
17. St George Bank Ltd	8,799	2.0%
18. CSL Ltd	8,331	1.9%
19. Woolworths Ltd	8,060	1.9%
20. News Corporation Inc Class A Common CDI	7,758	1.8%
21. Southern Cross Broadcasting (Aust) Ltd	7,350	1.7%
22. Australand Holdings Ltd	7,245	1.7%
23. AXA Asia Pacific Ltd	6,270	1.4%
24. IOOF Holdings Ltd	5,950	1.4%
25. Macquarie Communications Infrastructure Group	5,910	1.4%
	370,326	85.8%
Total Investments at Market Value and Cash	431,743	

The total investment portfolio including cash and bills of exchange had a market value at 30 June 2006 of \$431,743,000 (2005: \$314,725,000).



Charles Goode
Chairman

Corporate Governance Statement

The Company adopted, in July 2003, corporate governance principles in accordance with the Australian Stock Exchange Corporate Governance Council's "Principles of Good Corporate Governance and Best Practice 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. The Company has no executives or executive directors. If a vacancy arises the Nomination and Remuneration Committee chooses the best available candidate after wide, and if necessary professional, consultation for appointment and subsequent consideration by shareholders at the next Annual General Meeting.

The Chairman, 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 Stock Exchange Corporate Governance Council's "Best Practice 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.

3. Operation

The Board usually meets ten 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 are set out in his letter of engagement, which the Board approves. The Board also approves letters of engagement for accounting, tax, custody and audit services. Share registry services are purchased on commercial terms.

Corporate Governance Statement

5. Director's Terms of Appointment, Remuneration and Performance

Director's fees are reviewed annually by the Nomination and Remuneration Committee in the light of Company 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 director's fees is set by the shareholders in general meeting.

Each director appointed before 1 July 2003 is entitled to receive a retirement benefit set out in an agreement, the terms of which have been approved by shareholders in Annual General Meeting. Fees for directors appointed after that date take into account the absence of a retirement agreement.

Directors have resolved to seek shareholder approval at the 2006 Annual General Meeting to terminate the directors Retirement Agreements and give directors the alternative of converting accrued entitlements to either an equivalent cash benefit on retirement, with interest, or the Company's shares (to be held under a Share Plan until retirement). Directors' fees to be paid thereafter would be adjusted in line with market practice and independent advice.

Each director is entitled to enter a Deed of Access, Indemnity and Insurance with the Company and to be 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, for no additional fee, 2 committee meetings per year where applicable. They are expected to make a pro-active contribution to the management of the Company's investment portfolio by 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 all directors except the Chairman. The Audit Committee meets at least twice and the Nomination and Remuneration Committee at least once per annum. The terms of reference of each committee are reviewed by the Board annually. The Audit Committee terms include 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 and a majority of independent directors. Mr M K Myer is regarded as independent for the purposes of the audit committee as he does not have a financial interest in the substantial shareholder, Myer Family Investments Pty Ltd, which could materially affect his duties as a member of the Audit Committee. All members are non-executive. The Committee is considered to have sufficient relevant expertise and to comply with the Australian Stock Exchange Corporate Governance Council's "Best Practice Recommendations" and Australian Stock Exchange listing rule 12.7.

The Nomination and Remuneration Committee considers and makes recommendations to the Board regarding Board composition and remuneration of the directors and the Company Secretary.

Corporate Governance Statement

7. Disclosure Procedures

The Company has established procedures to ensure compliance with the Australian Stock Exchange listing rule disclosure requirements including monthly disclosure of the Company's net tangible asset backing per share.

8. Shareholder Communication

The Company communicates adequately with shareholders through:

- The annual report
- The half year report
- The website, including email contact
- Telephone availability of the Company Secretary at the representative 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 Company's risk management procedures half yearly.

10. Ethical Conduct

The Company has no employees other than directors and 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 and the Company Secretary are aware of the Corporations Law regarding dealing in securities in which they possess market sensitive information. The Company's net tangible asset backing per share is announced monthly to the Australian Stock Exchange and the Company has procedures to ensure compliance with Australian Stock Exchange continuous disclosure requirements.

Directors' Report

The directors present their report together with the financial report of Diversified United Investment Limited for the year ended 30 June 2006 and the auditors' report thereon.

Directors

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

Charles B. Goode AC, B.Com (Hons) (Melb), MBA (Columbia), Hon LLD (Melb), Hon LLD (Mon).

Non Executive Chairman

Age 67

Appointed Chairman September 1991.

Mr Goode is the Chairman of the Boards of Australia and New Zealand Banking Group Limited, Woodside Petroleum Limited, Australian United Investment Company Limited and The Ian Potter Foundation Limited.

Graeme E. Moir B.Com (Univ. of NZ), ACA (NZ), ACIS.

Non-Executive Director

Age 74

Appointed September 1991.

Mr Moir is the principal of the investment management firm Moir's Investment Service Pty. Ltd., and is a director of Graeme Moir and Associates Pty. Ltd., and Australian United Investment Company Limited.

Martyn K. Myer B.Eng, MEng (Mon), MSM (MIT), FIE (Aust).

Non-Executive Director

Age 49

Appointed September 1991.

Mr Myer is Chairman of CogState Ltd, President of the Howard Florey Institute, Vice President of The Myer Foundation, and is a director of Coles Myer Ltd, SP AusNet Group and a number of private companies.

Rupert Myer AM, B.Com (Hons) (Melb), MA Cantab

Non-Executive Director

Age 48

Appointed 18 November 2002.

Mr Myer is a director of AMCIL Limited. He serves as Chairman of The Myer Family Company Pty Ltd (Group), the National Gallery of Australia, and is a director of The Myer Foundation.

Directors' Report

Company Secretary

Andrew J. Hancock FCA, B.Ec (Mon), Grad. Dip. CDP (RMIT)
Company Secretary
Age 54
Appointed 23 September 1991

Mr Hancock is also Company Secretary of Australian United Investment Company Ltd, 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 2006 the Company earned an operating profit after tax before net realised gains on the investment portfolio of \$13,082,000 (compared to \$11,373,000 in 2005) – an increase of 15%.

If special dividends received are disregarded, operating profit before net realised gains on investment portfolio increased 23%. The operating profit includes \$1,300,000 of special dividends and distributions received including \$436,260 from Rio Tinto and \$225,000 from Suncorp-Metway Ltd. In 2005, the operating profit included \$1,781,000 of special dividends and distributions received including \$546,000 from Macquarie Infrastructure Group Ltd and \$600,000 from Telstra Corporation Ltd.

The basic and diluted earnings per share before net realised gains on investment portfolio and special dividends (adjusted for the bonus element in the May 2006 rights issue) was 10.9 cents compared to 9.2 cents for the previous year.

During the year the unrealised gain in the value of listed non current assets after provision for tax increased from \$95,424,000 to \$137,900,000. The net tangible asset backing of each of the Company's shares at 30 June 2006 was \$3.32 (2005: \$2.76). This net tangible asset backing calculation is based on investments at market value and is after provision for tax on net realised gains, before tax on unrealised gains 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 \$2.81 (2005: \$2.34).

On 17 May 2006, the Company made a renounceable rights issue of 20,444,001 fully paid shares ("New Shares") offered to existing shareholders on a one for five basis at a price of \$2.70 per New Share. The issue raised \$55,199,000.

Borrowings as at 30 June 2006 were \$25.0 million (2005: \$36.0 million) amounting to around 6% of the investment portfolio at market values (2005: 11%).

Directors' Report

The composition of the operating profit after income tax and before net realised gains was as follows:

	2006 \$'000	2005 \$'000
INCOME		
Dividends	12,919	11,077
Trust Distributions	2,462	2,777
Interest	442	121
Sub Underwriting Commission	-	1
	15,823	13,976
EXPENSES		
Administration and other expenses:		
Accounting & Custody Fees	121	117
Audit	38	40
Share Registry	44	42
Directors' Fees	220	213
Directors' Retirement Provision	209	130
ASX Fees	40	37
Company Secretary Fees	57	55
Insurance	32	35
Other	57	50
Finance Costs:		
Interest	2,213	2,147
Other	-	8
	3,031	2,874
Operating profit before income tax expense and net realised gains on investment portfolio	12,792	11,102
Income tax (expense)/benefit	290	271
Net operating profit before net realised gains on investment portfolio	13,082	11,373

Expenses (excluding finance costs) were 0.22% of the average market value of the investment portfolio (2005: 0.25%)

Dividends

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

	\$'000
Paid or declared during the year	
A final dividend in respect of the year ended 30 June 2005 of 5.00¢ per share fully franked paid on 11 October 2005	5,068
An interim dividend in respect of the year ended 30 June 2006 of 4.00¢ per share fully franked paid on 12 April 2006.	4,076
Paid or declared after end of year	
A final dividend in respect of the year ended 30 June 2006 of 5.5¢ per share fully franked payable on 16 October 2006	5,622

Directors' Report

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 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	10	2 *	2 *	1	1
Graeme Moir	10	10	2	2	1	1
Martyn Myer	8	10	2	2	0	1
Rupert Myer	7	10	2	2	1	1

* In attendance – not a Committee Member

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
Charles Goode	1,181,433	1,859,493
Graeme Moir	120,000	-
Martyn Myer	6,010	-
Rupert Myer	-	61,287

1. Beneficial in own name
2. Held by an entity/related party in which the director has a relevant interest

Except as stated above, 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.

Directors' Report

Remuneration Report (audited)

Non-executive Directors	Directors' Fees (1) \$		Retirement benefits \$		Total \$	
	2006	2005	2006	2005	2006	2005
Charles Goode	88,000	85,000	83,467	52,000	171,467	137,000
Graeme Moir	44,000	42,500	41,733	26,000	85,733	68,500
Martyn Myer	44,000	42,500	41,733	26,000	85,733	68,500
Rupert Myer	44,000	42,500	41,733	26,000	85,733	68,500
Total	220,000	212,500	208,666	130,000	428,666	342,500

(1) Directors fees include superannuation contributions.

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 outcome 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.

Each director is entitled to enter a Deed of Access, Indemnity and Insurance with the Company and to be covered by the Company's Directors and Officers Liability Insurance. Amounts disclosed for Directors' remuneration exclude insurance premiums of \$31,460 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 18 of the financial statements for information relating to the insurance contracts.

Each director appointed before 1 July 2003 is entitled to receive a retirement benefit set out in an agreement, the terms of which have been approved by shareholders in general meeting. Under the retirement scheme, for each three years of service a director will receive one year of directors' fees up to a maximum number of completed years of service of fifteen. Fees for directors appointed after 1 July 2003 will take into account the absence of a retirement agreement.

At the date of this report the directors have resolved to seek shareholder approval at this year's Annual General Meeting to terminate the Directors Retirement Agreements and give directors the alternative of converting accrued entitlements to either an equivalent cash benefit on retirement, with interest, or the Company's shares (to be held under a Share Plan until retirement). Directors' fees to be paid thereafter would be adjusted in line with market practise and independent advice.

The Company's liability for directors' retirement benefits, which is based on the number of years of service provided at the balance date, has been included in the provision for Directors' Retirement Benefits.

The Company Secretary, Mr Andrew J Hancock, received \$56,925 (2005: \$55,000) for services provided to the Company.

Directors' Report

Events Subsequent to Balance Date

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 subsequent financial years.

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 \$4,675 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 during the year by the auditor 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 Professional Statement F1 Professional Independence, 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.

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.

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 one for the rights issue described above.

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 18 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 2006.

Directors' Report

Rounding Of Amounts

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and amounts in this report and accompanying financial statements have been rounded to the nearest one thousand dollars in accordance with that Class Order.

Dated at Melbourne this 18th day of August 2006

Signed in accordance with a resolution of the directors:



C B Goode
Director

Lead Auditor's Independence Declaration

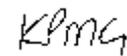


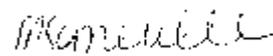
Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Diversified United Investment Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2006 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


Michelle Somerville
Partner

Melbourne

18 August 2006

Income Statement for the Year Ended 30 June 2006

	Note	2006 \$'000's	2005 \$'000's
Revenue from investment portfolio	4	15,823	13,976
Administration and other expenses		(818)	(719)
Finance expenses		(2,213)	(2,155)
Operating profit before income tax expense and net realised gains on investment portfolio		12,792	11,102
Income tax benefit *	6(a)	290	271
Net operating profit before net realised gains on investment portfolio		13,082	11,373
Net realised gains on investment portfolio transferred from revaluation reserve		5,451	2,112
Income tax expense thereon*	6(a)	(1,769)	(263)
		3,682	1,849
Profit for the year		16,764	13,222
Basic and diluted earnings per share (cents)	20	15.5	12.7
Basic and diluted operating earnings per share (cents) before net realised gains on investment portfolio are shown in Note 20.			
* Total income tax (expense)/benefit	6(a)	(1,479)	8

The income statement is to be read in conjunction with the notes to the financial statements set out on pages 20 to 33.

Balance Sheet as at 30 June 2006

	Note	2006 \$'000's	2005 \$'000's
CURRENT ASSETS			
Cash assets	8	8,523	3,919
Receivables	9	2,678	2,291
Other	11	31	24
TOTAL CURRENT ASSETS		11,232	6,234
NON CURRENT ASSETS			
Investment portfolio	10	423,220	310,806
Deferred tax assets	6(b)	260	329
TOTAL NON CURRENT ASSETS		423,480	311,135
TOTAL ASSETS		434,712	317,369
CURRENT LIABILITIES			
Current tax liability	6(a)	1,389	-
Payables	12	59	58
TOTAL CURRENT LIABILITIES		1,448	58
NON-CURRENT LIABILITIES			
Borrowings – interest bearing	13	24,960	36,000
Deferred tax liability	6(b)	62,907	43,943
Employee benefits	15	866	657
TOTAL NON-CURRENT LIABILITIES		88,733	80,600
TOTAL LIABILITIES		90,181	80,658
NET ASSETS		344,531	236,711
EQUITY			
Issued capital	16(a)	168,912	111,188
Revaluation reserve	16(b)	137,900	95,424
Realisation reserve	16(b)	14,167	-
Retained earnings	16(b)	23,552	30,099
TOTAL EQUITY		344,531	236,711

The balance sheet is to be read in conjunction with the notes to the financial statements set out on pages 20 to 33.

Statement of Changes in Equity for the Year Ended 30 June 2006

	Note	2006 \$'000's	2005 \$'000's
Total equity at the beginning of the year		236,711	190,448
Revaluation of investment portfolio	16(b)	61,419	57,392
Provision for tax on unrealised gains	16(b)	(18,943)	(18,160)
Total direct equity adjustments		42,476	39,232
Profit for the year	16(b)	16,764	13,222
Total direct equity adjustments and profit for the year		59,240	52,454
Transactions with shareholders			
Dividend reinvestment plan	16(b)	2,627	2,109
Dividends paid from retained earnings	16(b)	(8,131)	(8,300)
Dividends paid from realisation reserve	16(b)	(1,013)	-
Rights issue	16(a)	55,097	-
		48,580	(6,191)
Total equity at the end of the year		344,531	236,711

The statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on page 20 to 33.

Statement of Cash Flows for the Year Ended 30 June 2006

	Note	2006 \$'000's	2005 \$'000's
Cash flows from operating activities			
Interest received		443	120
Dividends and trust distributions received		14,940	13,273
Other receipts		-	2
Administration and other expenses paid		(620)	(511)
Finance costs paid		(2,290)	(2,147)
Income taxes refunded		-	45
Net cash from operating activities	19(b)	12,473	10,782
Cash flows from investing activities			
Proceeds from sale of investments		19,384	17,152
Purchases of investments		(64,833)	(20,491)
Net cash from investing activities		(45,449)	(3,339)
Cash flows from financing activities			
Proceeds from rights issue		55,097	-
Dividends paid		(6,517)	(6,190)
Borrowings		(11,000)	1,500
Net cash from financing activities		37,580	(4,690)
Net increase/(decrease) in cash held		4,604	2,753
Cash and cash equivalents at 1 July	19(a)	3,919	1,166
Cash and cash equivalents at 30 June	19(a)	8,523	3,919

The statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 20 to 33.

Notes to the Financial Statements for the Year Ended 30 June 2006

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 18 August 2006.

(a) Statement of compliance

This financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') adopted by the Australian Accounting Standard Board ('AASB') and the Corporations Act 2001. International Financial Reporting Standards ('IFRSs') form the basis of Australian Accounting Standards ('AASBs') adopted by the AASB, and for the purpose of this report are called Australian equivalents to IFRS ('AIFRS') to distinguish from previous Australian GAAP. The financial report of the Company also complies with IFRSs and interpretations adopted by the International Accounting Standards Board.

This is the Company's first financial report prepared in accordance with Australian Accounting Standards, being AIFRS and IFRS, and AASB 1 First-Time Adoption of Australian Equivalents to International Financial Reporting Standards has been applied. An explanation of how the transition to AIFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in note 3.

(b) Basis of preparation

The financial report is presented in Australian dollars. The following Accounting Standards and amendments were available for early adoption but have not been applied by the Company in these financial statements.

AASB 7 Financial instruments: Disclosure (August 2005) replacing the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007.

AASB 2005-10 Amendments to Australian Accounting Standards (September 2005) which makes consequential amendments to AASB 132 Financial Instruments: Disclosures and Presentation, AASB 101 Presentation of Financial Statements, AASB 114 Segment Reporting, AASB 117 Leases, AASB 133 Earnings per Share, AASB 139 Financial Instruments: Recognition and Measurement, AASB 1 First-Time Adoption of Australian Equivalents to International Financial Reporting Standards, AASB 4 Insurance Contracts, AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts, arising from the release of AASB 7. AASB 2005-10 is applicable for annual reporting periods on or after 1 January 2007.

The Company plans to adopt AASB 7, AASB 2005-10 in the 2007 financial year.

The initial application of AASB 7 and AASB 2005-10 is not expected to have an impact on the financial results of the Company and the amendment are concerned only with disclosures.

The financial report is prepared on a historical cost basis except that financial instruments classified as available-for-sale are stated at their fair value.

The accounting policies set out below have been applied consistently to all periods presented in the financial report and in preparing the opening AIFRS balance sheet as 1 July 2004 for the purposes of the transition to Australian Accounting Standards - AIFRS.

Notes to the Financial Statements for the Year Ended 30 June 2006

(c) Investments

The Company is a long term investor. Under AIFRS, investments are classified as available-for-sale. After initial recognition at fair value (being cost), investments are measured at fair value.

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

Under AIFRS, the revaluation adjustment relating to long-term investments standing in the Revaluation Reserve at the time of sale, which was previously transferred directly to the Retained Profits is now included in the net profit of the Company before being transferred to the Realisation Reserve.

The Company established a Realisation Reserve as at 1 July 2005 to which all capital profits (net of tax) of the Company since inception have been transferred from retained profits.

The Company reviews its investment portfolio at each balance sheet date to determine whether there is any objective evidence of impairment.

When a decline in the fair value of an investment has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is immediately recognised in profit or loss.

Any subsequent reversal of an impairment loss is not reversed through profit or loss.

(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 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. Deferred tax assets and deferred tax liabilities are offset where they are expected to reverse in the same periods.

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 equity is transferred to Net Profit and adjusted to actual tax expense. The associated deferred tax liability is similarly adjusted and transferred to tax payable.

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.

Notes to the Financial Statements for the Year Ended 30 June 2006

(f) Comparatives

As stated in significant accounting policies note 1(a), these are the Company's first financial statements prepared in accordance with AIFRS.

The policies set out in the significant accounting policies section of this report have been applied in preparing the financial statements for the financial year ended 30 June 2006, the comparative information presented in these financial statements for the financial year ended 30 June 2005 and in the preparation of an opening AIFRS balance sheet at 1 July 2004 (the Company's date of transition).

In preparing its opening AIFRS balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (AGAAP/previous GAAP). An explanation of how the transition from previous GAAP (AGAAP) to AIFRS has affected the Company's financial position, financial performance and cash flows is set out in Note 3.

(g) 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.

(h) Provision for directors' retirement

The Company has recognised a provision for directors' retirement in accordance with the requirements of AASB 2 Share-based Payment and AASB 119 Employee Benefits. The provision is presently calculated as the estimated obligation due and payable to each director in accordance with the approved Director retirement plan.

2. Changes in Accounting Policy

There have been significant changes in the accounting policies of the Company from those adopted at 30 June 2005 (see note 1 and 3).

Notes to the Financial Statements for the Year Ended 30 June 2006

3. Explanation of Transition to Australian Equivalents to IFRS

An explanation of how the transition from previous AGAAP to AIFRSs has affected the entity's financial position, financial performance and cash flows is set out below.

(a) Reconciliation of total equity as presented under previous AGAAP to that under AIFRS

	Year ended 30 June 2005 \$'000	Date of transition to AIFRS 1 July 2004 \$'000
Total equity under AGAAP	279,674	215,826
Adjustments to equity:		
Providing for tax on unrealised gains (1)	(42,963)	(25,378)
Total equity under AIFRS	236,711	190,448

(1) In accordance with AIFRS, the Company has recognised an additional deferred tax liability for the capital gains potentially payable on unrealised gains in the investment portfolio. This liability has been offset against the unrealised gains on the investment portfolio recognised in the Revaluation Reserve.

(b) Reconciliation of the profit or loss reported under previous AGAAP to that under AIFRS

	Year ended 30 June 2005 \$'000
Profit after tax as previously reported	10,798
Adjustments to profit:	
Net realised gains on Investment Portfolio (1)	2,112
Income tax related to net realised gains on Investment Portfolio	(263)
Impact of tax on deferred trust distributions now recognised directly in equity	575
Profit after tax under AIFRS	13,222

(1) In accordance with AIFRS, net realised gains on investment portfolio, are now included in the Net Profit of the Company by way of transfer from the Revaluation Reserve. Previously these amounts were transferred directly from the Revaluation Reserve to Retained Earnings.

(c) Cash Flow Statements

There are no material changes between the cash flow statements presented under AIFRS and those presented under previous AGAAP.

Notes to the Financial Statements for the Year Ended 30 June 2006

	2006 \$'000's	2005 \$'000's
4. Revenue and Expenses		
(a) Revenue		
Dividends received or due and receivable	12,919	11,077
Trust distributions received or due and receivable	2,462	2,777
Interest received or due and receivable	442	121
Other	-	1
	15,823	13,976
(b) Expenses		
Finance costs:		
- Interest	2,213	2,147
- Other	-	8
Provision for directors' retirement benefits	209	130
5. Auditor's Remuneration		
During the year KPMG, the Company's auditor, received \$38,280 for audit services (2005: \$39,670) and \$4,675 for other services (2005: \$5,775).		
6. Taxation		
(a) Income Tax Expense		
(i) Recognised in the income statement		
Current tax expense/(benefit)		
Current Year	1,368	-
Adjustments for prior years	21	(1)
	1,389	(1)
Deferred Tax Expense		
Temporary differences	90	(7)
	90	(7)
Total income tax expense/(benefit) in income statement	1,479	(8)

Notes to the Financial Statements for the Year Ended 30 June 2006

	2006 \$'000's	2005 \$'000's
(ii) Reconciliation between tax expense and pre-tax net profit		
Prima facie tax expense calculated at 30% on the profit for the year	5,473	3,964
Increase in tax expense due to:		
Franking/ foreign tax credits gross up on dividends received	1,556	1,283
Sundry items	263	-
Decrease in tax expense due to:		
Sundry items	-	(139)
Tax deferred distributions received	(516)	(575)
Effect of tax losses utilised	(132)	(263)
Franking/ foreign tax credits on dividends received	(5,186)	(4,277)
Tax expense/(benefit) on operating profit	1,458	(7)
Under/(Over) provision prior year	21	(1)
Tax expense/(benefit) attributable to Profit for the year	1,479	(8)
(iii) Deferred tax liability recognised directly in equity		
Increase in provision for tax on unrealised gains on investment portfolio	18,943	18,160

(b) Deferred Tax Assets and Liabilities

Recognised deferred tax assets and liabilities

	Assets		Liabilities	
	2006 \$'000's	2005 \$'000's	2006 \$'000's	2005 \$'000's
Revaluation reserve – Provision for tax on unrealised gains on investment portfolio	-	-	(62,886)	(43,943)
Other	-	-	(21)	-
Provision for directors retirement	260	197	-	-
Tax value of loss carry-forward	-	132	-	-
Tax assets/(liabilities)	260	329	(62,907)	(43,943)
Net tax assets/(liabilities)	260	329	(62,907)	(43,943)

Notes to the Financial Statements for the Year Ended 30 June 2006

	2006 \$'000's	2005 \$'000's
7. Dividends		
Dividends recognised in the current year by the Company are:		
(i) 2005 final dividend of 5.00¢ per share (2004: 4.75¢) fully franked paid 11 October 2005	5,068	4,767
(ii) 2006 interim dividend of 4.00¢ per share (2005: 3.50¢) fully franked paid 12 April 2006	4,076	3,533
	<u>9,144</u>	<u>8,300</u>
Subsequent to reporting date: Since 30 June 2006, the directors have declared the following dividend payable on 16 October 2006:		
- Final dividend of 5.5 cents per share fully franked	5,622	5,066

The final dividend will contain a Listed Investment Company capital gain dividend of 4.0 cents per share.

The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2006.

Dividend Franking Account:

The balance of the Franking Account at 30 June 2006 is \$11,051,255 (2005: \$8,247,899) 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

After allowing for the final 2006 dividend, which is not provided for in the 30 June financial statements, the balance of the franking account would be \$8,641,713 (2005: \$6,076,735).

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 2006 was \$4,160,421 (2005: \$742,695). 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.

After allowing for the final dividend the balance of the LIC Capital Gain Account at 30 June 2006 would be \$71,745.

Notes to the Financial Statements for the Year Ended 30 June 2006

	2006 \$'000's	2005 \$'000's
8. Cash Assets		
Cash at bank	221	1
Units in Cash Management Trusts and Deposits at Call	8,302	3,918
	8,523	3,919
9. Receivables		
Current		
Sundry debtors and other receivables	2,678	2,291
10. Investments		
Non-Current		
Investments quoted on prescribed stock exchanges (at fair value)	423,220	310,806
11. Other Assets		
Current		
Prepayments	31	24
12. Payables		
Current		
Trade Creditors	59	58
13. Interest Bearing Liabilities		
Non-Current		
Multi-option Facility – Secured	24,960	36,000
<p>The face value of the drawn facility is \$25 million (2005: \$36 million). The amounts disclosed above are net of prepaid interest</p>		
14. Financing Arrangements		
The Company has access to the following lines of credit:		
Total facility available		
Multi-option Facility – Secured	36,000	36,000
Facilities utilised at balance date		
Multi-option Facility – Secured	25,000	36,000

Notes to the Financial Statements for the Year Ended 30 June 2006

	Note	2006 \$'000's	2005 \$'000's
15. Employee Benefits			
Non-Current			
Provision for directors' retirement benefits	17	866	657
16. Capital and Reserves			
(a) Issued Capital			
Issued and paid-up share capital 122,660,900 (2005: 101,320,974) ordinary fully paid shares		168,912	111,188
Movements in issued capital			
Balance at beginning of the year		111,188	109,079
Shares issued			
- Dividend re-investment plan (i) (ii)		2,627	2,109
- Rights issue (iii)		55,199	-
- Rights issue capitalised costs		(102)	-
		168,912	111,188

(i) In respect of the 2005 final dividend, 583,496 shares were issued at \$2.74 each under the dividend re-investment plan.

(ii) In respect of the 2006 interim dividend, 312,429 shares were issued at \$3.29 each under the dividend re-investment plan.

(iii) In respect of the 2006 rights issue on 17 May 2006, 20,444,001 shares were issued at \$2.70 each. The new ordinary shares will not rank for any dividends in respect of the financial year to 30 June 2006. The new ordinary shares will rank for dividends paid after the 2006 final dividend. Therefore, the first dividend receivable on the new ordinary shares will be the interim dividend for 2006/2007, expected to be paid in April 2007. The new ordinary shares will otherwise rank equally with existing shares.

Notes to the Financial Statements for the Year Ended 30 June 2006

(b) Reconciliation of movements in capital and reserves

	Issued Capital (\$'000)	Revaluation Reserve (\$'000)	Realisation Reserve (\$'000)	Retained Profits (\$'000)	Total (\$'000)
As at 1 July 2004	109,079	56,192	-	25,177	190,448
Revaluation of investment portfolio net of realised gains	-	57,392	-	-	57,392
Provision for tax on unrealised gains	-	(18,160)	-	-	(18,160)
Total direct equity adjustments	109,079	95,424	-	25,177	229,680
Profit for the year	-	-	-	13,222	13,222
	109,079	95,424	-	38,399	242,902
Dividend reinvestment plan	2,109	-	-	-	2,109
Dividends paid	-	-	-	(8,300)	(8,300)
As at 30 June 2005	111,188	95,424	-	30,099	236,711
Revaluation of investment portfolio net of realised gains	-	61,419	-	-	61,419
Provision for tax on unrealised gains	-	(18,943)	-	-	(18,943)
Total direct equity adjustments	111,188	137,900	-	30,099	279,187
Profit for the year	-	-	-	16,764	16,764
	111,188	137,900	-	46,863	295,951
Rights Issue	55,097	-	-	-	55,097
Dividend reinvestment plan	2,627	-	-	-	2,627
Dividends paid	-	-	(1,013)	(8,131)	(9,144)
Transfers between reserves – prior years (i)	-	-	11,498	(11,498)	-
Transfers between reserves – current year	-	-	3,682	(3,682)	-
As at 30 June 2006	168,912	137,900	14,167	23,552	344,531

(i) The Company established a Realisation Reserve as at 1 July 2005 to which all capital profits (net of tax) since inception have been transferred from retained profits.

17. Directors' Remuneration

Details of the directors' remuneration are set out in the Remuneration Report that forms part of the Directors' Report.

18. Related Parties

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

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.

Notes to the Financial Statements for the Year Ended 30 June 2006

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 2006 to 18 June 2007.

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, other than each director has entered into a director's retirement agreement with the Company as set out in the Remuneration Report.

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:

SHARES	2006		2005	
	1	2	1	2
Charles Goode	1,181,433	1,859,493	984,527	1,503,523
Graeme Moir	120,000	-	100,000	-
Martyn Myer	6,010	-	5,008	-
Rupert Myer	-	61,287	-	49,553

1. Beneficial in own name

2. Held by an entity/related party in which the director has a relevant interest

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, 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 Office Ltd of which Mr R H Myer is a director. The Myer Family Office Ltd also earned a fee on short term deposits placed by the Company during the year with the M F Cash Management Fund. During the year the Company maintained loan facilities with ANZ Banking Group Ltd, of which Mr C B Goode is a director.

The terms and conditions of the transactions with the ANZ Banking Group Ltd and The Myer Family Office 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.

Notes to the Financial Statements for the Year Ended 30 June 2006

	2006 \$'000's	2005 \$'000's
19. Notes to the Statement of Cash Flows		
a) RECONCILIATION OF CASH		
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:		
Cash at bank	221	1
Units in Cash Management Trusts and Deposits at Call	8,302	3,918
	8,523	3,919
b) RECONCILIATION OF OPERATING PROFIT AFTER INCOME TAX TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Profit for the year	16,764	13,222
Add/(less) net realised capital gains	(3,682)	(1,849)
Net cash provided by operating activities before changes in assets and liabilities	13,082	11,373
Adjustments for:		
(Increase)/decrease in prepayments	(7)	55
(Increase)/decrease in debtors	(446)	(526)
(Increase)/decrease in deferred tax asset- current period	69	(7)
(Increase)/decrease in deferred tax asset - losses utilised to offset capital gains tax	-	(263)
Increase / (decrease) in current tax	(380)	-
(Increase)/decrease in prepaid interest (on bills)	(40)	-
Increase / (decrease) in deferred tax liability	21	-
Non cash dividend received	(36)	-
Increase/(decrease) in non current provisions	209	130
Increase/(decrease) in creditors	1	20
Net cash provided by operating activities	12,473	10,782
c) FINANCING FACILITIES		
The Company's financing facilities are set out in note 14 of these Financial Statements		
20. Earnings per Share		
	2006 cents	2005 cents
Basic earnings per share	15.5	12.7
Basic earnings per share before net realised gains on investment portfolio	12.1	10.9
Basic earnings per share before special dividends and net realised gains on investment portfolio	10.9	9.2

There were no factors which cause diluted earnings to be different from basis earnings per share.

Notes to the Financial Statements for the Year Ended 30 June 2006

	2006 \$'000's	2005 \$'000's
Profit reconciliation used in the calculation of earnings per share		
Profit for the year	16,764	13,222
Net realised gains on investment portfolio	(3,682)	(1,849)
Special dividends received	(1,300)	(1,781)
Net profit before net realised gains on investment portfolio and special dividends received	11,782	9,592

Earnings per share for the 2006 year are calculated on a weighted average adjusted number of shares taking into account the new issue in May 2006. 2005 comparative figures have also been adjusted for the bonus element in the 2006 rights issue.

Weighted average number of ordinary shares

Issued ordinary shares at 1 July	104,921,314	103,894,002
Effect of shares issued in October 2005	433,721	433,360
Effect of shares issued in April 2006	70,025	93,160
Effect of rights shares issued in May 2006	2,464,482	-
Weighted average number of ordinary shares for the year	107,889,542	104,420,522

21. Additional Financial Instruments Disclosure

INTEREST RATE RISK

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

2006	Note	Floating Interest Rate \$'000
Financial Assets		
Cash	8	8,523
Weighted average interest rate		5.20%
2005		
Financial Assets		
Cash	8	3,919
Weighted average interest rate		4.81%

Notes to the Financial Statements for the Year Ended 30 June 2006

22. Additional Financial Instruments Disclosure (Continued)

INTEREST RATE RISK (Continued)

Borrowings

On 15 June 2005, the Company entered a Multi-option Facility of \$36,000,000 with ANZ Banking Group Ltd which expires on 2 July 2008, and of which \$25,000,000 is fixed within a range rate between 5.59 – 7.00% for a period of two years and then \$30m is fixed at 5.90% for one year. The remaining facilities are at floating rates, normally rolled (reset) on a 90 day basis.

CREDIT RISK EXPOSURE

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

The Company minimises concentration of credit risk by undertaking transactions with a number of counterparties which are principally recognised banks or members of the Australian Stock Exchange.

NET FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Valuation Approach

Listed shares, convertible notes and redeemable preference shares are readily traded on organised markets in a standard form.

The net fair value of listed shares, convertible notes and redeemable preference shares are determined by valuing them at current quoted market prices at balance date. 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 Note 10.

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

23. Segment Reporting

The Company operates as an investment company in Australia.

Directors' Declaration

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 33, and the remuneration disclosures that are contained in the Remuneration report on page 12 of the Directors' Report, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2006 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 and the Corporations Regulations 2001; and
 - (b) The remuneration report on page 12 of the Directors' Report complies with Australian Accounting Standard AASB 124 Related Party Disclosures.

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 2006.

Dated at Melbourne this 18th day of August 2006.

Signed in accordance with a resolution of the directors.



C B Goode
Director

Independent Audit Report



Independent audit report to the members of Diversified United Investment Limited

Scope

We have audited the financial report of Diversified United Investment Limited (“the Company”) for the financial year ended 30 June 2006, consisting of the income statement, statement of changes in equity, balance sheet, statement of cash flows, accompanying notes 1 to 23 and the directors’ declaration. We have audited the disclosures made by the Company, as permitted by the *Corporations Regulations 2001*, about the remuneration of directors and executives (“remuneration disclosures”), including those required by Australian Accounting Standard AASB 124 *Related Party Disclosures* (“AASB 124”), under the heading “Remuneration report” on page 12 of the directors’ report and not in the financial report. The Company’s directors are responsible for the financial report and the Remuneration report. The directors are also responsible for preparing the relevant reconciling information regarding the adjustments required under the Australian Accounting Standard AASB 1 *First-time Adoption of Australian equivalents to International Financial Reporting Standards*. We have conducted an independent audit of this financial report and the remuneration report in order to express an opinion on them to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement and the remuneration disclosures comply with AASB 124. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report and the remuneration report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Australian equivalents to International Financial Reporting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the Company’s financial position, and performance as represented by the results of its operations and its cash flows and whether the remuneration disclosures comply with AASB 124.

The audit opinion expressed in this report has been formed on the above basis.

Audit opinion

In our opinion:

- (1) the financial report of Diversified United Investment Limited is in accordance with:
 - a) the *Corporations Act 2001*, including:
 - i) giving a true and fair view of the Company’s financial position as at 30 June 2006 and of its performance for the financial year ended on that date; and;
 - ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
 - b) other mandatory financial reporting requirements in Australia; and
- (2) the remuneration report on page 12 of the directors’ report complies with Australian Accounting Standard AASB 124 *Related Party Disclosures*.

KPMG

Michelle Somerville
Partner

Melbourne

18 August 2006

Additional Information

Distribution of Shareholders as at 31 July 2006.

Category Holders	Ordinary Shares		
	Units	No of Holders	%
1 – 1,000	96,881	476	0.08%
1,001 – 5,000	2,335,424	756	1.90%
5,001 – 10,000	5,993,443	831	4.89%
10,001 – 100,000	29,003,378	1,240	23.65%
100,001 and over	85,231,774	77	69.48%
	122,660,900	3,380	100.00%

There were 321 ordinary shareholders holding less than a marketable parcel (157 shares) at 31 July 2006.

Substantial Shareholders

The number of shares held by the substantial shareholders and their associates as at 31 July 2006 are set out below:

Shareholder	Ordinary Shares
The Ian Potter Foundation Ltd, Dundee Trading Pty Ltd and Australian United Investment Company Limited	30,513,484
The Myer Family Investments Pty Ltd and associates	13,106,095
Australian Foundation Investment Company Limited	12,030,202
Argo Investments Limited	10,857,929

Voting Rights

At 31 July 2006 there were 3,380 holders of ordinary shares of the Company. 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 2006 were:

Shareholder	Ordinary Shares	% Held
1. M F Custodians Ltd	13,106,095	10.68
2. The Ian Potter Foundation Ltd	12,479,720	10.17
3. Australian Foundation Investment Company Ltd	12,030,202	9.81
4. Australian United Investment Company Ltd	11,645,754	9.49
5. Argo Investments Limited	10,857,929	8.85
6. Dundee Trading Pty Ltd	6,388,010	5.21
7. Beta Gamma Pty Ltd (Walsh Street Super Fund A/C)	1,406,834	1.15
8. Mr Charles Barrington Goode	1,181,433	0.96
9. Mutual Trust Pty Ltd	1,116,938	0.91
10. Mr Daryl Albert Dixon & Mrs Katherine Dixon	787,180	0.64
11. Mr Richard Raymond Hinds	716,872	0.58
12. Mr James Vincent Chester Guest	553,312	0.45
13. Yelgarn Pty Ltd	530,097	0.43
14. Primrose Properties Pty Ltd	466,148	0.38
15. UBS Wealth Management Australia Nominees Pty Ltd	446,774	0.36
16. Mr G Tilbrook & Mrs E A Mead (I & J Radman Family A/c)	425,000	0.35
17. Questor Financial Services Ltd	422,940	0.35
18. Chabar Pty Ltd	389,889	0.32
19. Pards Pty Ltd	386,928	0.32
20. Somoke Pty Ltd	360,287	0.29
	75,698,342	61.70

Brokerage Paid

The amount of brokerage paid or charged to the Company during the financial year ended 30 June 2006 totalled \$136,282 (2005:\$42,629). 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 2006

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

	Market Value \$	30/6/06 Units Held	% of Portfolio at Market Value	30/6/05 Units Held
Australian Equities				
Oil & Gas				
Woodside Petroleum Ltd	39,600,000	900,000	9.2	900,000
Construction Material				
Boral Ltd	284,900	35,000	0.1	100,000
CSR Ltd	-	-	-	100,000
Containers & Packaging				
Amcor Ltd	-	-	-	59,600
Metals & Mining				
Alumina Ltd	21,937,500	3,250,000	5.1	2,500,000
BHP Billiton Ltd	29,000,000	1,000,000	6.7	675,000
Iluka Resources Ltd	982,500	150,000	0.2	-
Macarthur Coal Ltd	1,120,000	250,000	0.3	-
Rio Tinto Ltd	23,340,000	300,000	5.4	300,000
WMC Resources Ltd	-	-	-	1,000,000
Machinery				
Crane Group Ltd	-	-	-	200,000
Trading Co & Distributors				
Alesco Corporation Ltd	5,424,000	600,000	1.3	600,000
Commercial Services Supplies				
ABC Learning Centres Ltd	1,920,000	300,000	0.4	-
Brambles Industries Ltd	11,000,000	1,000,000	2.5	700,000
Transportation Infrastructure				
Australian Infrastructure Fund	1,040,000	500,000	0.2	-
ConnectEast Group	1,145,000	1,000,000	0.3	-
Macquarie Airports	2,302,500	750,000	0.5	750,000
Macquarie Communications Infrastructure Group	5,910,000	1,000,000	1.4	1,000,000
Macquarie Infrastructure Group	5,376,000	1,600,000	1.2	1,300,000
Transurban Group	9,035,000	1,300,000	2.1	1,000,000

List of Investments as at 30 June 2006

	Market Value \$	30/6/06 Units Held	% of Portfolio at Market Value	30/6/05 Units Held
Hotels Restaurants & Leisure				
Tabcorp Holdings Ltd	15,200,000	1,000,000	3.5	1,000,000
Media				
News Corporation Inc Class A Common CDI	7,758,000	300,000	1.8	250,000
Publishing & Broadcasting Ltd	2,731,500	150,000	0.6	-
Southern Cross Broadcasting (Aust) Ltd	7,350,000	700,000	1.7	700,000
Village Roadshow Ltd 'A' Class Pref	3,375,000	1,500,000	0.8	1,500,000
Food & Drug Retailing				
Coles Myer Ltd	5,680,000	500,000	1.3	-
Foodland Associated Ltd	-	-	-	100,000
Metcash Ltd	1,870,748	500,000	0.4	-
Woolworths Ltd	8,060,000	400,000	1.9	-
Beverages				
Coca-Cola Amatil Ltd	1,772,500	250,000	0.4	-
Foster's Group Ltd	3,829,000	700,000	0.9	700,000
Health Care Providers & Services				
DCA Group Ltd	1,395,000	500,000	0.3	-
Ramsay Health Care Ltd	720,750	75,000	0.2	75,000
Biotechnology				
CSL Ltd	8,331,250	155,000	1.9	155,000
Banks				
ANZ Banking Group Ltd	26,590,000	1,000,000	6.2	1,000,000
Commonwealth Bank of Australia Ltd	22,205,000	500,000	5.1	500,000
National Australia Bank Ltd	14,064,000	400,000	3.3	400,000
St George Bank Ltd	8,799,000	300,000	2.0	300,000
Westpac Banking Corporation Ltd	18,624,000	800,000	4.3	800,000
Diversified Financials				
Perpetual Trustees Australia Ltd	14,630,000	200,000	3.4	200,000
Suncorp-Metway Ltd	9,675,000	500,000	2.2	300,000
Washington H Soul Pattinson & Company Ltd	4,794,000	600,000	1.1	600,000
Insurance				
AXA Asia Pacific Holdings Ltd	6,270,000	1,000,000	1.5	900,000
Henderson Group Plc	940,000	500,000	0.2	-
IOOF Holdings Ltd	5,950,000	500,000	1.4	500,000
QBE Insurance Group Ltd	18,450,000	900,000	4.3	900,000

List of Investments as at 30 June 2006

	Market Value \$	30/6/06 Units Held	% of Portfolio at Market Value	30/6/05 Units Held
Real Estate				
Australand Property Group	7,245,000	3,500,000	1.7	3,500,000
Stockland Trust Group	2,106,000	300,000	0.5	300,000
Westfield Group Ltd	20,796,000	1,200,000	4.8	600,000
Electronic Equipment				
Vision Systems Ltd	-	-	-	2,500,000
Diversified Telecommunications Services				
Telstra Corporation Ltd	-	-	-	1,000,000
Gas Utilities				
Alintagas Ltd	1,564,500	150,000	0.4	150,000
Australian Gas Light Company Ltd	10,506,000	600,000	2.4	600,000
SP AusNet Group	2,520,000	2,000,000	0.6	-
Total Australian Equities	423,219,648		98.0	
Cash & Bills of Exchange	8,523,041		2.0	
Total	431,742,689		100.0	

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Diversified United Investment Limited

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