

CLIME CAPITAL LIMITED
ABN 99 106 282 777

An Investment Company



2006 Annual Report

TABLE OF CONTENTS

1. DIRECTORY	1
2. CHAIRMAN'S LETTER	2
3. CORPORATE GOVERNANCE STATEMENT	7
4. DIRECTORS' REPORT	12
5. AUDITOR'S INDEPENDENCE DECLARATION.....	26
6. INCOME STATEMENT	27
7. BALANCE SHEET.....	28
8. STATEMENT OF CHANGES IN EQUITY	29
9. CASH FLOW STATEMENT	30
10. NOTES TO THE FINANCIAL STATEMENTS.....	31
11. DIRECTORS' DECLARATION	42
12. INDEPENDENT AUDIT REPORT	43
13. ASX ADDITIONAL INFORMATION.....	45

DIRECTORY

Directors

Roger Montgomery
Geoffrey Wilson
Tony Hockey
Julian Gosse

Company Secretary

Cameron Fellows

Registered Office and Contact Details

Suite 1, Level 1
7 Macquarie Place,
Sydney, NSW 2000
Telephone: (02) 9252 8522
Facsimile: (02) 9252 8422
Email:
info@clime.com.au

Share Registry

Registries Limited
28 Margaret Street
Sydney NSW 2000

Telephone: (02) 9290 9600
Facsimile: (02) 9279 0664

For all enquiries relating to
your shareholding, dividends
(including participation in the
Dividend Reinvestment Plan)
and related matters please
contact the share registry.

Auditor

Moore Stephens Sydney
Level 7
20 Hunter Street
Sydney NSW 2000

Telephone: (02) 8236 7700
Facsimile: (02) 9233 4636

Stock Exchange Codes:

Shares
CAM

FINANCIAL CALENDAR anticipated dates only

***Final Dividend Paid
16 October 2006***

***Special Dividend Paid
15 December 2006***

***Annual General Meeting
To be confirmed***

***Half Year End
31 December 2006***

***Half year results
announcement
February 2007***

***Interim Dividend
March 2007***

***Year End
30 June 2007***

***Annual Report
September 2007***

2006 CHAIRMAN'S LETTER TO SHAREHOLDERS

Dear Shareholder,

Our first year located at the city offices of Loftus Capital Partners Limited has had a real impact on all aspects of our portfolio management duties and I am pleased to report that I am enjoying my roles even more than I was while stationed in Balmain.

The results for the 2006 financial year are pleasing and reflect a higher proportion of the portfolio invested in businesses rather than cash. The portfolio rose 28.7%, and despite an average of 32% held in cash, significantly outperformed the S&P ASX 300 Industrial Accumulation index, which rose 7.8% for the year.

And since 30 June, I am pleased to note our out-performance has continued.

As I have always indicated, we will stay in the safety of cash until attractive investment opportunities present themselves. It has taken a couple of years to invest a meaningful quantity of the portfolio, and in the future you can be certain nothing will change – we will only invest a meaningful amount when an opportunity meets the following criteria 1) it is a wonderful business, and 2) it can be purchased at a price below our estimate of intrinsic value.

Remember that we are investors in 'businesses' rather than 'stocks', so if we cannot find those opportunities amongst listed companies we may seek them amongst unlisted candidates. We have never had a size restriction either, so a wonderful opportunity may be small, medium or large. If it has bright prospects, requires little of your manager's time, generates a high return on equity, has little or no debt, is available at a significant discount to its economic value and is throwing off substantial quantities of cash for us to invest elsewhere it will be considered.

Clime, having invested an average of 68% of its funds in equities during the year, produced a profit after tax of \$5,800,748 to 30 June 2006, up 600% from the previous year. Earnings per share on the average number of shares on issue during the year of 31.8 million was 18.3 cents per share.

The Board elected to declare a fully franked ordinary dividend of 2.25 cents and a fully franked special dividend of 2 cents – a total of 4.25 cents, fully franked.

By the end of the 2006 calendar year, shareholders will have received 7.25 cents per share. During the year shareholders who participated in the bonus issue also received an additional share for every twelve already held and the recently declared dividends will be paid on the greater number of shares.

Selecting Candidates

Many events at which I am invited to speak are attended by Clime shareholders and I have been asked on numerous occasions if I would take some time to explain the quantitative aspects of Clime's selection process.

With perhaps an exception or two, it seems Clime's long terms goals and those of its owners are perfectly aligned, so I am a little surprised that I have not taken you through this process earlier.

We'll attempt the task with an obvious and successful example; The Reject Shop (TRS) – there's not much point in teaching you how to pick businesses that lose money.

To begin, let me summarise what we liked, on the qualitative side, that was known in 2004 and early 2005. The Reject Shop was a small company with a big company board; Barry Saunders was formerly a board member at Coles Myer and Woolworths and CEO of Big W and Target – and Brian Beattie, The Reject Shop's Chairman, had worked with Barry and was previously Managing Director of Target and Coles supermarkets. Management also had relationships with their counterparts at WalMart in the US and would be sending staff over for training and study.

The Reject Shop enjoys ninety percent brand awareness amongst adult Australians thanks in part to a determination to locate stores in very high traffic areas (usually close to a major supermarket). Management, in all its communications, revealed a zealous attachment to an organic growth strategy as opposed to growth-by-acquisition under a 5-year strategic plan. We liked the fact the company actually had a 5-year strategic plan.

While we are not retailers we were convinced there was merit behind the change to "drive isle" store layouts. A great deal of focus was being placed on systemising the buying function and entrenching successful buying. Buying the right products in the right volumes and at the right prices is the key to success in discount variety.

More generally, we believed a low average unit price suggested the good times might keep on rolling even if they didn't for the broader economy. A tight supply chain was a given, and management information system enhancements included radio frequency technology which, in one example, sent store sales information to Barry's mobile phone at 8.30pm each night!

Finally, the business was just one third of the way through a realistic store roll-out plan and many of the analysts' comments in the press were negative, influenced by the difficulty Millers Retail and The Warehouse Group were experiencing;

Every store's a \$2 shop now. Australian Financial Review. By Susannah Moran

"Once the exclusive domain of a few \$2 shops, outlets flogging anything from cheap make-up to clothes have been appearing on the retail landscape...an operator can rent a shop front, bring in a crate of goods and see how they go against the longer term discounters."

Reject finds plenty of support. Australian Financial Review. By Simon Evans

"Robust sales of strapless silicon bras, toilet paper, plastic storage items and greeting cards have enabled The Reject Shop to lift its full year profit forecast...Constellation Capital management's George Raftopoulos said yesterday retailers generally were starting to face rising cost pressures as wage bills and rentals costs rose and times were likely to get tougher."

Discount Specialists get a run for their money. Australian Financial Review By Tracy Lee

"But times are tough in retail and tougher still for discount variety stores. Miller's Retail, the owner of Crazy Clarks and Go-Lo, announced recently it would close 80 stores in an attempt to head off losses of \$86 million. But as stores close and sales slide at the big discounters, smaller independent operators are flourishing and squeezing margins in a crowded market."

If you have been a shareholder since Clime Capital floated you will understand patience. We have to wait for a great business to come along at just the right price. The Reject Shop was being offered at the right price because many had tarred it with the same brush as Millers Retail and the Warehouse Group. One glance at The Reject Shop's economic performance however told us this was a genuine diamond in the rough.

The prospectus was dated 28th April 2004 and shares in The Reject Shop were being offered at \$2.00. For reasons that will become obvious, it would have been easy to advise John Shuster – a joint founder of The Reject Shop – not to sell 3.7 million of his 4.3 million shares into the float.

The prospectus was terrific because it was neat, informative and upfront about the use of the funds that were being raised. Note 2.3 **Offer Proceeds** read: "The Company will not retain any proceeds from the amounts raised under the Offer."

I cannot tell you how many prospectuses I have seen where the equivalent note says something about the funds raised being used for "working capital and growth" and yet the bulk goes to the vendors and, looking at the Pro-Forma balance sheet, it is easy to see that while a few dollars may go into the company, significantly more comes out through the payment of retained earnings, revaluation reserves and repayment of director loans. Some companies even borrow funds prior to the float against the

revaluations of property, to be then paid out subsequent to the raising and this is on top of the money received from the sale of the vendor's shares. A not insignificant number of companies start their listed life with less cash, artificially inflated intangibles and more debt than before they raised tens or hundreds of millions through a float.

Slashing and burning on the way out and blowing hot air into the balance sheet by inflating goodwill usually doesn't pass our smell test, as it simply reflects an inappropriate attitude towards new shareholders by the vendors and their advisors - either we must be stupid or they don't care.

The Reject Shop was totally different. Sure, it was being spun out of a Macquarie Private Equity Trust, but the stated objective of that trust is to buy unlisted businesses and generate a return from an eventual sale to another private equity investor, a trade buyer or a through a listing on the Australian Stock Exchange.

In 2004 The Reject Shop was forecast to earn \$5 million. In 2004 the company actually earned \$5.6 million and paid \$2 million in dividends to its vendors. Taking into account the \$15.6 million of beginning equity, the retained earnings and the franking on the dividends, return on equity to the owners of the business in 2004 was 42.8%. A number like this is rare, but to find a company that produced similar numbers in the each of the three previous years, and on rising equity to boot, was exceptional.

In our valuation, using the 2004 results, we adopted the equity per share of 72 cents (\$17.4 million / 24.1 million shares), we assumed a conservative 33% return on equity in the future (the company hadn't earned less than 43% in the last four years) and that a third of the returns would be reinvested (based on the 10.3 million that had been paid out in dividends between 2001 and 2004 inclusive and the \$16.5 million in profits earned over the same period). We then adopted a 15% required return which was conservative considering the company had \$17 million of equity, just \$2.4 million of interest bearing liabilities and no goodwill or other intangibles on the balance sheet (its brand had to be worth something - 90% of Australian's knew the brand which also becomes stronger when you narrow its focus).

Our calculation, which reduces to: $ROE/RR \times Equity\ per\ share$ (see the bond discussion in Warren Buffett's 1982 letter to Berkshire Hathaway shareholders), produced an estimated value of \$3.05 per share. I have heard a whisper, admittedly on an internet chat forum for shares, that some software sales people, not fund managers, think our formula may be flawed. It's not.

The shares were floated at \$2.00 - a 52% discount to their value - so it didn't take us too many months to start buying (I guess I must be a slow learner too). It did however take

a while to accumulate any meaningful quantity of shares. As at the date of this report, Clime Capital owns 1.2 million shares.

At the time of writing The Reject Shop's return on equity has risen to 52%, equity will rise to \$30.4 million or \$1.20 per share, interest bearing liabilities have fallen to \$1 million and may be zero next year and our valuation is around \$8.00 per share.

The market has now changed its tune too, with the shares trading at \$7.80. Pretty soon we expect plaudits for The Reject Shop in the financial press and typically the articles will begin not with a reference to the exceptional business performance or growth in economic value that Barry and Brian and their team have achieved, but with a reference to the performance of the shares since listing.

Importantly for those shareholders who have purchased the SherpPro valuation software we use at Clime Capital (www.sherpapro.com.au), you will observe that valuations are not fixed. They change with improvements and impairments to business performance. If a company can maintain or grow an attractive rate of return on equity and sustain it on increasing equity, its value will rise. Similarly, a change to the required return, due to a change in interest rates can also have an impact on valuations, although these change less frequently, because at 15% we currently have a huge buffer between our discount rate and the risk free rate. Generally valuations are updated when a company makes an acquisition, divests a business, updates its profit guidance or changes its dividend policy.

I trust this has provided some insights into our thinking and processes, and explains why The Reject Shop represents a meaningful amount (over 20%) of the portfolio's market value and 25% of the invested portion.

As an owner of the company (as opposed to a trader of its shares), it would be remiss of Clime not to promote the stores, so, for more information on The Reject Shop and store locations visit www.rejectshop.com.au/locations.asp and grab yourself a bargain – I can personally vouch for the #1 branded toothpaste and the toilet paper which, according to my wife, is cheaper than anywhere else.

Sincerely,

A handwritten signature in black ink, appearing to read 'Roger Montgomery', with a stylized flourish at the end.

Roger Montgomery
Chairman
21 September 2006

CORPORATE GOVERNANCE STATEMENT

This statement outlines the main corporate governance practices adopted by the Company, which comply with the ASX Corporate Governance Council recommendations unless otherwise stated.

Board of Directors and its Committees

Role of the Board

The Board's primary role is the protection and enhancement of long-term shareholder value. To fulfill this role the Board seeks to address:

- (a) the prudential control of the Company's operations;
- (b) the resourcing, review and monitoring of executive management;
- (c) the timeliness and accuracy of reporting to shareholders; and
- (d) the determination of the Company's broad objectives.

Board Processes

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

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

Composition of the Board

The names of the Directors of the Company in office at the date of this Statement are set out in the Directors' Report.

The Board is comprised of three non-executive Directors. Mr J Gosse and Mr A Hockey are the independent Directors. The Board does not have a majority of independent Directors. The Board has considered its composition and believes that as the principal management function, being the management of the investments, resides with Clime

CORPORATE GOVERNANCE STATEMENT (continued)

Asset Management Pty Limited, the participation of two independent Directors is appropriate for the Company.

An independent Director is considered to be a Director:

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

In accordance with the Company's constitution, each year at the Annual General Meeting one third of the Directors must retire from office and be eligible for re-election.

Performance Evaluation of Directors

The Company undertakes annual reviews of Directors' performance.

Nomination Committee

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

The Nomination Committee comprised the following members during the year:

- J Gosse (Chairman)
- A Hockey

The Nomination Committee did not meet during the year ended 30 June 2006. The terms and conditions of the appointment and retirement of non-executive Directors are

CORPORATE GOVERNANCE STATEMENT (continued)

set out in a letter of appointment. The performance of all Directors is reviewed annually by the Chairman. Directors whose performance is unsatisfactory are asked to retire.

Director Dealing in Company Shares

Directors and senior management may acquire shares in the Company, but are prohibited from dealing in Company shares whilst in possession of price-sensitive information.

Independent Professional Advice and Access to Company Information

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

Remuneration Committee

The Remuneration Committee reviews and makes recommendations to the Board on remuneration of the Directors themselves. The Remuneration Committee meets once a year.

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

The members of the Remuneration Committee during the year were:

- J Gosse (Chairman)
- A Hockey

Audit Committee

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

The members of the Audit Committee during the year were:

- J Gosse (Chairman)
- A Hockey

CORPORATE GOVERNANCE STATEMENT (continued)

The responsibilities of the Audit Committee are to ensure that:

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

The Audit Committee:

- (a) requires the administrator, White Outsourcing Pty Ltd, to report annually on the operation of internal controls;
- (b) reviews the external audit of internal controls and liaises with the external auditor; and
- (c) conducts any other investigations and obtains any other information it requires in order to report to the Board on the effectiveness of the internal control system.

Risk Management Policy

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

Executive Management

The Company's operations are conducted through Clime Asset Management Pty Limited (Investment Manager) and White Outsourcing Pty Ltd (Administration Manager).

CORPORATE GOVERNANCE STATEMENT (continued)

These entities incorporate the specialist wholesale investment and administration personnel who undertaken the Company's executive operations.

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

Ethical Standards

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

Shareholder Communications

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

- All information lodged with the ASX is available on the Company's website at www.clime.com.au
- An Annual Report will be mailed to shareholders at the close of the financial year;
- Net asset backing per share is released to the ASX by the 14th day following each month-end and is sent via email to shareholders who register their interest;
- Any information of a material nature affecting the Company is disclosed to the market through release to the ASX as soon as the Company becomes aware of such information, in accordance with the ASX Continuous Disclosure requirement.

DIRECTORS' REPORT

The Directors present their report together with the financial report of Clime Capital Limited ("the Company" or "Clime Capital") for the year 1 July 2005 to 30 June 2006 and the auditor's report thereon.

Directors:

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

- Mr. Roger Montgomery - Chairman, Executive Director, COO
- Mr. Geoffrey J Wilson - Non-Executive Director
- Mr. Anthony Hockey - Independent, Non-Executive Director
- Mr. Julian J Gosse - Independent, Non-Executive Director

Directors have been in office since the start of the financial year to the date of this report unless stated otherwise.

Principal Activities

The principal activity of the Company during the financial year was investment in securities listed on the Australian Stock Exchange. No significant changes in the nature of the principal activities occurred during the financial year. No changes to this activity are anticipated in the future.

Review of Operations

The Company has a 25 year management agreement with investment manager, Clime Asset Management Pty Limited (commencement date – 2 February 2004). The length of such contracts is a cause of some debate however it was sought by the manager to ensure shareholders receive consistency in investment management style over a long period of time and not suffer the consequences associated with key individuals leaving the funds management firm for a better offer elsewhere. Indeed the press has widely covered the disadvantages associated with large fund management groups where the key individual(s) is retained only by salary rather than ownership. One of the advantages of many boutique managers is that the person choosing the shares for the portfolio is also an owner of the business. Consistency in management style and consistency in key staff are essential ingredients for long-term out-performance.

DIRECTORS' REPORT (continued)

During the year the portfolio received dividend and trust distributions of \$1,535,975 (2005: \$396,332) and interest income of \$578,105 (2005: \$892,462).

At 30 June 2006 the share component of the portfolio held the following listed securities:

Portfolio (listed securities only) - 30 June 2006

Company	Qty	\$ Total Consideration	\$ Effective Cost Price	\$ Market Price 30/06/06	Change	\$ Market Value
TRS	1,110,495	4,149,545	3.74	6.10	63.25%	6,774,020
CCP	661,595	2,653,048	4.01	7.10	77.05%	4,697,324
IIF	1,000,000	2,173,678	2.17	2.23	2.59%	2,230,000
TLS	605,000	2,403,165	3.97	3.68	-7.36%	2,226,400
OMP	547,756	1,680,489	3.07	3.39	10.50%	1,856,893
SFC	298,778	1,509,467	5.05	5.70	12.82%	1,703,034
SOL	174,181	1,571,240	9.02	7.99	-11.43%	1,391,706
MXUPA	13,202	1,179,440	89.34	90.00	0.74%	1,188,180
WBBPB	7,539	881,606	116.94	126.50	8.18%	953,684
GNCPA	9,100	949,370	104.33	103.00	-1.27%	937,300
GNSPA	7,700	768,227	99.77	100.05	0.28%	770,385
BKWPA	6,213	669,277	107.72	105.45	-2.11%	655,161
FRI	697,639	568,899	0.82	0.91	11.59%	634,851
TOX	2,800,000	344,111	0.12	0.14	9.85%	378,000
WFLPA	2,500	250,000	100.00	102.50	2.50%	256,250
AAZPB	2,400	242,143	100.89	101.75	8.50%	244,200
DWS	230,000	232,031	1.01	1.05	4.08%	241,500
SGBPC	1,750	175,000	100.00	100.40	0.40%	175,700
TWR	42,000	102,086	2.43	2.82	16.02%	118,440
		<u>\$22,502,822</u>				<u>\$27,433,028</u>

You will note the difference between the purchase price and the market value is an unrealised gain of \$4,930,206. Current year unrealised gains on investments are disclosed as 'Net Unrealised Gains on Held for Trading Investments' in the Income Statement.

Realised gains for the year ended 30 June 2006 amounted to \$1,712,563 and were predominantly derived from the profitable realisation during the year of holdings in Toll Holdings (ASX: FWD) and Corporate Express (ASX: CXP).

DIRECTORS' REPORT (continued)

The Company received \$8,363,346 from the issue of new shares. The new shares were issued primarily as a result of the exercise of options and the completion of a share placement in April 2006. New funds were also raised due to the participation of shareholders in the Company's Dividend Reinvestment Plan.

Further information on the future prospects of the Company is contained in the Chairman's report on pages 2 to 6.

Operating Results for Announcement to the Market

Performance

Clime Capital Limited (ASX Code: CAM) is pleased to report that the invested portfolio rose 42% (excluding cash) in the twelve months to June 30, 2006 (28.7% including cash), compared with a 7.8% increase in the S&P/ASX 300 Industrial Accumulation Index.

Since 30 June 2006 the portfolio has continued to outperform the relevant indices.

Source of Performance

While much of the return is attributable to the performance of the two largest holdings – The Reject Shop and Credit Corp – some of the performance improvement over the previous year can be attributed to the decision of the Manager (Clime Asset Management Pty Limited) to move to the offices of Loftus Capital Partners (ASX Code: LCP) – 75% owner of the Manager.

The permanent move from Balmain to the Sydney CBD has resulted in the Manager benefiting from the additional analyst and dealing resources provided by Loftus Capital Partners.

Furthermore, a decision was made during the year to invest a significant proportion of the portfolio in the Contrarian Value strategy (refer Clime's Prospectus), which generated approximately \$1 million dollars in gains.

Earnings and Dividends

Clime, having invested an average of 68% of its funds in equities during the year, has announced a profit after tax of \$5,800,748 to 30 June 2006 - up 600% from the previous year. Earnings per share on the weighted average number of shares on issue during the year was 18.3 cents per share.

DIRECTORS' REPORT (continued)

Directors Tony Hockey, Julian Gosse, Roger Montgomery and Geoff Wilson have elected to declare an ordinary dividend of 2.25 cents and a special dividend of 2 cents – a total of 4.25 cents, fully franked.

For the 2006 calendar year, shareholders will have received 7.25 cents per share (fully franked). During the year shareholders also received an additional share for every twelve already held and 4.25 cents will have been paid on the greater number of shares.

Shareholders who received bonus shares also received a 10.85% pre-tax yield in calendar 2006

A shareholder who subscribed for 1,000 shares at \$1.00 in Clime's initial public offering or through the exercise of options will, for the calendar 2006 year, have received dividends of 1 cent on 1000 shares, then 2 cents on 1,000 shares, then 2.25 cents on 1,083 shares and a special dividend of 2 cents on 1,083 shares. The total fully franked yield on the original investment is 7.60% or 10.85% pre tax.

Bonus Issue and Dividend Explanation

It has come to the attention of the Board that some shareholders don't know they own more shares than they originally purchased or subscribed to.

On 27 April 2006 each shareholder received 1 share for every 12 they already held. The number of shares held by each shareholder therefore increased by 8%. If you originally subscribed for 1,000 shares, you would now have 1,083 shares. You now receive dividends on the larger balance of shares, which enhances the return on your original investment.

If you subscribed for 1,000 shares for \$1.00 (\$1,000.00), you would now have 1,083 shares trading at 97.5 cents (\$1,056.00) and will have received \$96.00 in fully franked dividends (including the dividends declared in this announcement). This corresponds to a 19.3% pre-tax return and excludes the 10% growth in pre-tax NTA (as at 30 June 2006) above the \$1.00 issue price.

Also note that Clime's reported NTA of \$1.06 after tax at 30 June 2006, after adjusting for the bonus issue, would have been \$1.14 per share.

Valuation

As proponents of value investing, and with a disciplined formula for estimating intrinsic value, we are often asked how Clime Capital Limited stacks up against our own valuation. The valuation is dependent on a number of inputs; equity per share, return on equity, required return and the split between profits retained and distributed.

DIRECTORS' REPORT (continued)

Using Clime's own approach to valuation and assuming a continuation of the present return on equity, which is clearly optimistic (we don't expect to achieve 28% returns every year), the valuation (adopting a 20% required pre-tax return) is \$1.39.

Significant Changes in State of Affairs

No significant changes in the economic entity's state of affairs occurred during the year.

Share Issue

Fully paid, ordinary shares on issue as at 30 June 2006 are 36,424,891 (2005: 25,086,589).

Please refer to Note 13 in the Notes to the Financial Statements for further information on the movement of issued and paid-up capital during the year.

Options

At the date of this report, the unissued shares of the Company under option are nil (2005: 24,647,635). In the period from 1 July 2005 to 15 December 2005, 3,985,869 options were exercised. The remaining unexercised options expired on 15 December 2005.

Dividends Paid or Recommended

The Directors propose to pay a fully franked final dividend of 2.25 cents per share and a fully franked special dividend of 2 cents per share – a function of the strong operating cash flow and franking credits generated from the receipt of investee company dividends, together with the significant realised gain on disposal of trading investments during the year.

For purposes of determining eligibility the dividend will apply to shareholders on the register at close of business 29 September 2006. Approximate date of payment will be 16 October 2006.

DIRECTORS' REPORT (continued)

Dividends paid during the year include:

Fully Franked Final Ordinary Dividend of \$0.01 per share paid on 14 October 2005 - \$274,386.

Fully Franked Special Dividend \$0.01 per share paid on 12 January 2006 - \$292,107.

Fully Franked Interim Dividend \$0.02 per share paid on 13 April 2006 - \$669,372.

Zero percent (0.00%) attributable to discount capital gains.

Shareholders are reminded that a dividend reinvestment plan is in place. Participating shareholders will be allotted ordinary shares in lieu of a fully franked dividend payment. Shares will be allotted at weighted average market price of shares sold on the ASX on the closing date and three days preceding that date. Shares allotted in accordance with the dividend reinvestment plan will be allotted approximately 15 December 2006.

Shareholders wishing to check or change their current status with respect to participating in the dividend reinvestment plan should contact:

Blake Stelzer
Registries Limited
Level 2, Margaret Street
Sydney NSW 2000
Telephone (02) 9290 9600
Facsimile (02) 9279 0664

DIRECTORS' REPORT (continued)

Information on Directors:

Mr. Roger Montgomery (Age 35) – Executive Chairman

Experience and expertise

Mr. Roger Montgomery was appointed to the Board of the Company in September 2003. Mr. Montgomery is the founder and Managing Director of Clime Asset Management Pty Ltd, an investment management company, dealer and financial adviser and has more than 10 years' experience in the Australian securities and derivatives industry. Prior to his involvement with Clime Asset Management Pty Ltd, Mr. Montgomery was the Managing Director of Investors Advantage Pty Ltd, an investment education company whose clients have included the ASX, the Sydney Futures Exchange, the Financial Services Institute of Australasia and a number of financial institutions and private investors. Mr. Montgomery holds a Bachelor of Commerce from the University of Melbourne and is a Senior Fellow of the Financial Services Institute of Australasia.

Other current directorships

Mr. Montgomery does not presently hold any other directorships of listed companies.

Special responsibilities

Executive Chairman
Chief Operating Officer

Mr. Geoffrey Wilson (Age 48) – Non-Executive Director

Experience and expertise

Mr. Geoffrey Wilson was appointed Non-Executive Director in November 2003. Mr. Wilson has had 26 years' experience in the Australian and international securities industries. He holds a Bachelor of Science Degree and a Graduate Management Qualification. He is also a Fellow of the Institute of Company Directors and a Fellow of the Financial Services Institute of Australasia.

Other current directorships

Mr. Geoffrey Wilson is the Chairman of WAM Capital Ltd (appointed March 1999), Wilson Investment Fund Limited (appointed June 2003), Wilson Leaders Limited (appointed October 2003) and the Australian Stockbrokers Foundation Limited. Mr. Wilson is also a director of Mariner Wealth Management Limited (appointed September 1999) and Cadence Capital Limited.

Special responsibilities

None

DIRECTORS' REPORT (continued)

Mr. Julian Gosse (Age 56) – Independent, Non-Executive Director

Experience and expertise

Mr. Julian Gosse was appointed to the Board of the Company in 2003. Mr. Gosse has extensive experience in banking and broking both in Australia and overseas, having worked in London for Rowe and Pitman, in the United States for Janney Montgomery and Scott and in Canada for Wood Gundy. Mr. Gosse has been involved in the establishment, operation and ownership of several small businesses and is currently working as an Executive Director of Advanced Management Planning Limited.

Other current directorships

Mr. Julian Gosse is Chairman of ITL Limited and a Director of Wilson Leaders Limited, Wilson Investment Fund Limited, Mariner Wealth Management Limited (formerly known as JAM Development Capital Limited) and Blue Chip Financial Solutions Limited.

Special responsibilities

Chairman of Audit Committee

Chairman of Remuneration Committee

Chairman of Nomination Committee

Mr. Anthony Hockey (Age 41) – Independent, Non-Executive Director

Experience and expertise

Mr. Anthony Hockey was appointed to the Board of the Company in 2003. Mr. Hockey is the Managing Director of Hocfin Consulting Pty Ltd and has over 12 years' experience in strategy and business performance improvement, primarily in the financial services and wealth management industry. Prior to establishing Hocfin Consulting Pty Ltd, Mr. Hockey held the position of Head of Strategy and Corporate Advice with ING Australia and was responsible for assessing mergers and acquisitions, providing due diligence analysis and operations integrations advice. Mr. Hockey was also Strategy and Planning Manager, Head of Project Management (ING Funds Management) and Operations Executive (Australian Portfolio Managers). He has held the position of principal consultant, PricewaterhouseCoopers (Management Consulting Services) where he led business improvement initiatives for companies operating across a wide range of industries. Anthony holds a Master of E-Commerce Management, MGSM, a Master of Commerce Degree, University of NSW and Bachelor of Economics Degree, University of Sydney.

Other current directorships

Mr. Hockey does not presently hold any other directorships of listed companies.

Special responsibilities

Member of Audit Committee

Member of Remuneration Committee

Member of Nomination Committee

DIRECTORS' REPORT (continued)

Mr. Cameron Fellows (Age 29) – Company Secretary

Mr. Cameron Fellows was appointed Company Secretary in February 2006. Mr. Fellows is the Financial Controller / Company Secretary of investment company Loftus Capital Partners Limited. Mr. Fellows previously held a senior accounting position with Village Roadshow Limited and, prior to that, worked for over 8 years in the audit practice of PricewaterhouseCoopers. Mr. Fellows is a Chartered Accountant, Chartered Company Secretary and a Fellow of the Financial Services Institute of Australasia.

Directors' Meetings

Director	No. eligible to attend	Attended
Roger J Montgomery	5	5
Anthony Hockey	5	5
Geoffrey Wilson	5	4
Julian J Gosse	5	5

Audit Committee Meetings

The main responsibilities of the Audit Committee are set out in the Corporate Governance section on pages 9 and 10 of this Annual Report.

Director	No. eligible to attend	Attended
Anthony Hockey	3	3
Julian J Gosse	3	3

Remuneration Report

(a) Directors' and Executives' disclosures

The Board from time to time determines remuneration of Non-Executive Directors within the maximum amount approved by the shareholders. Non-Executive Directors are not entitled to any other remuneration.

In accordance with the ASIC Class Order 06/50: "Transfer of Remuneration Information into the Directors' Report", the Company has transferred the remuneration disclosures required by AASB 124 from the notes to the financial statements to the Directors' Report under the heading "Remuneration Report".

DIRECTORS' REPORT (continued)

Names and positions held by Directors and key management personnel in office at any time during the financial year are:

Mr Roger J Montgomery	Chairman
Mr Anthony Hockey	Non-Executive Director
Mr Geoffrey J Wilson	Non-Executive Director
Mr Julian J Gosse	Non-Executive Director
Mr Cameron Fellows	Company Secretary

Cameron Fellows was appointed Company Secretary, effective from 16 February 2006.

(b) Directors' Remuneration Practices

The Company's policy for determining the nature and amount of emoluments of Directors of the Company is as follows:

The maximum total remuneration of the Directors of the Company has been set at \$110,000 per annum, to be divided amongst them as they agree. The scope of the Company's operations and frequency of board meetings are a principal determinant of fee level. Non-Executive Directors do not receive bonuses nor are they issued options or securities.

Roger Montgomery receives \$60,000 per annum from the Company under an employment agreement between the Company and Roger Montgomery which was resolved at a meeting of the Directors held in October 2004. For the financial year ended 30 June 2006, Roger Montgomery earned \$60,000 in remuneration. The Company has retained Roger Montgomery as its Chief Operating Officer, reporting directly to the Board. Refer to section (c) of the Remuneration Report for further information.

(c) Employment Contracts of Directors

The employment conditions of the managing Director, Mr Roger Montgomery, the executive Director and key management personnel are formalised in contracts of employment. Other than the Managing Director, all directors are permanent employees of Clime Capital Limited. Mr Roger Montgomery is employed under a fixed three-year contract, which commenced on 1 October 2003 and expires on 30 September 2006.

No performance based incentive has been included in the employment contract.

The employment contracts stipulate a range of one-month to three-month resignation periods. The Company may terminate an employment contract without cause by providing 12 months written notice or making payment in lieu of notice, based on the individual's annual salary component together with a redundancy payment of between 5% and 10% of the individual's fixed salary component. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the Company can terminate employment at any time. Any options not exercised before or on the date of termination will lapse.

DIRECTORS' REPORT (continued)

(d) Directors' Remuneration:

2006	Salaries & Fees \$	Super Contribution \$	Total \$
Directors			
Mr Roger J Montgomery	55,046	4,954	60,000
Mr Anthony Hockey	15,291	1,376	16,667
Mr Geoffrey J Wilson	9,174	826	10,000
Mr Julian J Gosse	18,807	1,651	20,458
Mr Cameron Fellows	3,670	330	4,000
	<u>101,988</u>	<u>9,137</u>	<u>111,125</u>

2005	Salaries & Fees \$	Super Contribution \$	Total \$
Directors			
Mr Roger J Montgomery	36,697	3,303	40,000
Mr Anthony Hockey	18,349	1,651	20,000
Mr Geoffrey J Wilson	9,174	826	10,000
Mr Julian J Gosse	18,349	1,651	20,000
	<u>82,568</u>	<u>7,431</u>	<u>90,000</u>

Remuneration that remains outstanding as at 30 June 2006 is included in Note 12 of the Financial Statements. Management fees and performance fees paid to companies related to Directors are detailed in Note 16(a) of the Financial Statements.

(e) Directors' Shareholdings:	Opening Balance	Purchases/ (Disposals)	Closing Balance
Directors			
Mr Roger J Montgomery	96,530	126,919	223,449
Mr Anthony Hockey	50,000	4,167	54,167
Mr Geoffrey J Wilson	250,000	111,931	361,931
Mr Julian J Gosse		-	-
	<u>396,530</u>	<u>243,017</u>	<u>639,547</u>

(f) Directors' Benefits

For the financial year ended 30 June 2006, Roger Montgomery was a Director of the Manager, Clime Asset Management Pty Limited, to whom management and performance fees totalling \$561,006 were paid during the year. A company associated with Mr Geoffrey Wilson has an interest in Boutique Asset Management Pty Ltd, to whom management fees of \$84,686 were paid during the year. Mr Geoffrey Wilson is also a Director of Boutique Asset Management Pty Ltd.

DIRECTORS' REPORT (continued)

The Company must pay a management fee of 1% of gross assets per annum to the Manager or as it directs. The Manager is entitled to a performance fee where the portfolio has increased over the performance calculation period relative to the All Ordinaries Accumulation Index.

Where the Portfolio of the Company has increased relative to the All Ordinaries Index, the Manager will be entitled to a performance fee. Performance fees of \$309,493 were paid and/or payable for the year ended 30 June 2006. The formulae for the calculation of both management and performance fees can be found on page 29 of the Company Prospectus.

These amounts are in addition to the above Directors' remuneration.

Since the end of the previous financial year, no Directors have received or become entitled to receive a benefit (other than those detailed above) by reason of a contract made by the Company or a related Company with the Director or with a firm of which he is a member or with a Company in which he has a substantial financial interest.

Events Subsequent to the Balance Sheet Date

Tweed Takeover Bid Abandoned

A highly conditional takeover bid for all of the shares in Clime Capital Limited was announced on 1 August 2006 by a company controlled by Mr David Tweed, Australian Share Purchasing Corporation Pty Ltd. The Board, supported by the Company's solicitors, held serious concerns regarding the structure and terms of the bid, in addition to aspects of the content of the bid document.

The Australian Securities & Investments Commission shared many of these concerns, and the bid was withdrawn by Mr Tweed on 9 August 2006 following correspondence between ASIC and ASPC.

The Board is still considering its options with respect to the possibility of recovering costs from ASPC and its related parties.

Likely Developments

The Directors have no plans for new developments in the operations of the Company and propose to continue to invest available funds in marketable securities.

Environmental Issues

The Company's operations are not regulated by any significant environmental regulations under a law of the Commonwealth or of a state or Territory.

Indemnification and Insurance of Officers

The Company has agreed to indemnify, to the extent permitted by the Corporations Act, each officer in respect of certain liabilities that the officer may incur as a result of, or by reason of (whether solely or in part), being or acting as an officer of the Company. The Company has also agreed to use its best endeavors to ensure that it maintains a

DIRECTORS' REPORT (continued)

Directors' and officers' policy of insurance for each Director at all times whilst a Director, and for a period of seven years after each Director ceases to hold office in the Company.

The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the Directors and Officers' liability and legal expenses of insurance contracts as such disclosure is prohibited under the terms of the contract.

Proceedings On Behalf Of Company

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

The Company was not a party to any such proceedings during the period.

Non Audit Services

During the year Moore Stephens Sydney, the Company's auditor, have performed certain other services in addition to their statutory duties. Details of the amount paid to the auditors are disclosed in Note 4 to the financial statements.

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.

DIRECTORS' REPORT (continued)

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under Section 307C of the *Corporations Act 2001* is set out on page 26.

Signed in accordance with a resolution of the Board of Directors

A handwritten signature in black ink, appearing to be 'R. Montgomery', written in a cursive style.

R. MONTGOMERY

Chairman

21 September 2006

PARTNERS:

Andrew Blackwell CA
Chris Chandran CA
Stephen Humphrys FCA
Garry Leyshon FCA
Wayne Morton FCA
Joe Shannon CA
Robert Southwell CA
Spiro Tzannes FCA
Charlie Viola (Affiliate ICAA)
Bob Webster FCA
Scott Whiddett CA

CLIME CAPITAL LIMITED
ABN 99 106 282 777

CONSULTANTS:

Pat Bugden FCA
Anja Dorrell CA

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of Clime Capital Limited for the year ended 30 June 2006, I declare that, to the best my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

MOORE STEPHENS SYDNEY

S M WHIDDETT
Partner

Dated in Sydney, this 21st day of September 2006

CLIME CAPITAL LIMITED
ABN 99 106 282 777
INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006 \$	2005 \$
Investment income from ordinary activities			
Investment revenue	3	2,114,080	1,288,794
Net realised gains on disposal of held for trading investments		1,712,563	688,729
Net unrealised gains/(losses) on held for trading investments		5,332,700	(267,256)
		<hr/>	<hr/>
Total investment income from ordinary activities		9,159,343	1,710,267
Management fees		(336,199)	(247,676)
Performance fees		(309,493)	-
Administrative expenses	5	(250,139)	(133,595)
Brokerage expenses		(98,052)	(37,186)
Directors' fees and company secretarial fees		(111,125)	(90,000)
Meeting expenses		(196,944)	-
Other general expenses from ordinary activities		(54,053)	(68,178)
		<hr/>	<hr/>
Total expenses		(1,356,005)	(576,635)
Net profit before income tax expense		7,803,338	1,133,632
Income tax expense	6(a)	(2,002,590)	(302,591)
		<hr/>	<hr/>
Net profit attributable to members of the company		5,800,748	831,041
		<hr/>	<hr/>
Basic earnings per share	8	18.28 cents	2.75 cents
		<hr/>	<hr/>
Diluted earnings per share	8	18.28 cents	3.69 cents
		<hr/>	<hr/>

*This Income Statement should be read in conjunction with
the Notes to the Financial Statements which follow.*

CLIME CAPITAL LIMITED
ABN 99 106 282 777
BALANCE SHEET
AS AT 30 JUNE 2006

	Note	2006 \$	2005 \$
ASSETS			
Cash and cash equivalents	15(a)	9,348,461	1,796,134
Trade and other receivables	9	2,374,511	38,319
Bills receivable	10	2,025,665	12,697,555
Investment portfolio held for trading	11	27,433,028	11,221,016
Deferred tax assets	6(d)	88,588	990
TOTAL ASSETS		41,270,253	25,754,014
LIABILITIES			
Trade and other payables	12	1,042,250	134,211
Current tax liabilities	6(b)	350,868	309,799
Deferred tax liabilities	6(c)	1,574,011	4,320
TOTAL LIABILITIES		2,967,129	448,330
NET ASSETS		38,303,124	25,305,684
EQUITY			
Issued capital	13	33,119,171	24,686,614
Retained profits	14	5,183,953	619,070
TOTAL EQUITY		38,303,124	25,305,684

*This Balance Sheet should be read in conjunction with
the Notes to the Financial Statements which follow.*

CLIME CAPITAL LIMITED
ABN 99 106 282 777
STATEMENT OF CHANGES IN EQUITY
AS AT 30 JUNE 2006

	2006	2005
	\$	\$
Total equity at the beginning of the year	25,305,684	18,036,497
Direct equity adjustments		
<i>Investment portfolio</i>		
Net unrealised gains on Long-term Investment Portfolio	-	85,136
Tax on net unrealised gains on Long-term Investment Portfolio	-	(25,541)
Transfer of net gains to Income Statement on realisation	-	(211,041)
Total direct equity adjustments	-	(151,446)
Net profit attributable to members of the company	5,800,748	831,041
Total recognised income and expense for the year	5,800,748	831,041
Transactions with shareholders		
Dividends paid	(1,235,865)	(441,657)
Transaction costs arising from issue of shares	(71,556)	(232,689)
Issue of shares	8,504,113	7,263,938
	7,196,692	6,589,592
Total equity at the end of the year	38,303,124	25,305,684

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

CLIME CAPITAL LIMITED
ABN 99 106 282 777
CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006 \$	2005 \$
Cash flows from operating activities			
Dividends received		1,308,451	372,146
Interest received		581,081	909,798
Trust distributions		44,552	24,186
Payments for administration expenses		(628,737)	(315,524)
Investment manager's fees paid		(295,722)	(224,114)
Income tax (paid)/refund		(341,451)	25,395
Net cash provided by operating activities	15(b)	668,174	791,887
Cash flows from investing activities			
Proceeds from sale of investments		36,088,545	16,756,374
Payments for purchase of investments		(46,932,207)	(23,828,257)
Payments for purchase of bank bills		-	(2,145,518)
Proceeds from sale of bank bills		10,671,889	-
Net cash used in investing activities		(171,773)	(9,217,401)
Cash flows from financing activities			
Dividends paid		(896,081)	(318,354)
Share issue transaction costs		(71,556)	(175,404)
Proceeds from exercise of options		3,985,869	126,194
Proceeds from share placements		2,857,768	1,396,041
Proceeds from issue of shares		1,179,926	5,620,710
Net cash provided by financing activities		7,055,926	6,649,187
Net increase in cash held		7,552,327	(1,776,327)
Cash and cash equivalents at beginning of the financial year		1,796,134	3,572,461
Cash and cash equivalents at end of the financial year	15(a)	9,348,461	1,796,134

*This Cash Flow Statement should be read in conjunction with
the Notes to the Financial Statements which follow.*

CLIME CAPITAL LIMITED
ABN 99 106 282 777
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report prepared in accordance with applicable Accounting Standards, the Corporations Act 2001, Urgent Issues Group Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

Clime Capital Limited is a publicly listed company, incorporated and domiciled in Australia.

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

Basis of preparation

First-time Adoption of Australian Equivalents to International Financial Reporting Standards

In accordance with the requirements of AASB 1: First-time Adoption of Australian Equivalents to International Financial Reporting Standards, adjustments to the entity accounts resulting from the introduction of AIFRS have been applied retrospectively to 2005 comparative figures.

These accounts are the first annual financial statements of the Company to be prepared in accordance with AIFRS. The accounting policies set out below have been consistently applied to all years presented.

Reconciliations of the transition from previous Australian GAAP to AIFRS have been included in Note 2 to this report.

Accounting policies

(a) Investments

i) Classification

Investments consist of shares in publicly listed and unlisted companies and investments in fixed interest securities.

It is considered that the information needs of shareholders in a company of this type are better met by stating investments at fair value rather than historical cost and by presenting the Balance Sheet on a liquidity basis.

ii) Valuation

All investments are classified as "held-for-trading" investments and are recognised at fair value including the potential tax charges that may arise from the future sale of the investments.

iii) Unrealised gains and losses

Unrealised gains and losses are included in operating profit for the year and are transferred to an asset revaluation reserve, net of the potential tax charges that may arise from the future sale of the investments.

iv) Investment income

Dividend income is recognised in the Income Statement on the day on which the relevant investment is first quoted on an "ex-dividend" basis.

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

(b) Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the Balance Sheet.

CLIME CAPITAL LIMITED
ABN 99 106 282 777
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(b) Income Tax (cont)

Deferred tax is accounted for using the balance sheet liability method in respect of temporary difference arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the Income Statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

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

(c) Bills of Exchange

Bills receivable are held at face value less unearned discount. Revenue and costs are recognised on an effective yield basis.

(d) Cash and cash equivalents

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

Interest revenue is recognised as it occurs, taking into account the effective yield on the financial asset.

(e) Revenue recognition

Dividends and distributions are brought to account on the date that the shares or units are traded 'ex-dividend'. Interest income is brought to account on an accruals basis as it is earned.

(f) Goods and Services Tax (GST)

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

Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from, or payable to, the ATO is included as an asset or liability in the Balance Sheet.

Cash flows are presented in the Cash Flow Statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

CLIME CAPITAL LIMITED
ABN 99 106 282 777
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(g) Operating segments

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

(h) Dividends

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

(i) Issued capital

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

(j) Comparative figures

When required by Accounting Standards, comparative figures have been adjusted to conform the changes in presentation for the current financial year.

2. FIRST ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

The adoption of AIFRS has not had any material effect upon the total equity as reported at either 1 July 2004 or 30 June 2005.

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

	2005 \$
Profit after tax as previously reported	620,000
<i>Adjustments to profit:</i>	
Net realised gains on Long-term Investment Portfolio	301,487
Income tax effect on change in classification	(90,446)
Profit after tax under AIFRS	831,041

(c) Cash flow statements

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

CLIME CAPITAL LIMITED
ABN 99 106 282 777
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

	2006	2005
	\$	\$
3. INVESTMENT INCOME FROM ORDINARY ACTIVITIES		
Dividends received	1,418,170	372,146
Trust distributions	117,805	24,186
Interest	578,105	892,462
TOTAL	2,114,080	1,288,794
 4. AUDITORS' REMUNERATION		
Remuneration of the auditor of the Company for:		
Audit and review of the financial reports	19,690	14,200
Other professional services	8,004	8,067
Other services provided by associated entity	56,836	35,944
TOTAL	84,530	58,211
 5. ADMINISTRATIVE EXPENSES		
ASX fees	18,339	9,726
Audit fees	19,690	14,200
Other professional services	64,840	44,011
Custody fees	24,895	20,476
Share registry fees	122,375	45,182
TOTAL	250,139	133,595
 6. TAXATION		
(a) Income tax expense		
The prima facie tax on profit from ordinary activities before income tax is reconciled to income tax as follows:		
Prima facie tax payable on profit from ordinary activities before income tax at 30%	2,341,001	340,090
Less tax effect of:		
Imputation gross up on dividends received	133,517	(37,499)
Franking credits on dividends received	(471,928)	-
Income tax expense relating to ordinary activities	2,002,590	302,591

CLIME CAPITAL LIMITED
ABN 99 106 282 777
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006 \$	2005 \$
6. TAXATION			
(b) Current tax liabilities			
Movements during the year were as follows:-			
Balance at the beginning of the financial year		309,799	68,057
Current income tax expense	6(a)	2,002,590	302,591
Temporary differences		(1,961,521)	(60,849)
		350,868	309,799
(c) Deferred tax liabilities			
Provision for deferred income tax comprises the estimated expense at current income tax of 30% on the following items:			
Provision for capital gains tax on unrealised investments		1,570,395	-
Temporary differences		3,616	4,320
		1,574,011	4,320
(d) Deferred tax assets			
Deferred tax assets comprises the estimated expense at current income tax rates on the following items:			
Temporary differences		88,588	990
<p>The potential future income tax benefit will only if-</p> <ul style="list-style-type: none"> (i) the Company derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised; (ii) the Company continues to comply with the conditions for deductibility imposed by the law, and (iii) no changes in tax legislation adversely affect the Company in realising the benefit. 			
(e) Income tax expense recognised in the Income Statement			
Current income tax expense		523,529	212,145
Deferred income tax relating to the origination and reversal of temporary differences		1,479,061	-
		2,002,590	212,145
(f) Income tax recognised directly in equity			
The following current amounts were charged directly to equity during the year			
Current tax share issue expenses		28,153	23,860

CLIME CAPITAL LIMITED
ABN 99 106 282 777
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

	2006	2005
	\$	\$
7. DIVIDENDS		
(a) Recognised in the current year		
A fully franked final dividend in respect of the 2005 year of 1 cent per share paid on 14 October 2005 (2005: A fully franked final dividend in respect of the 2004 year of 1 cent per share paid on 15 September 2004)	274,386	191,703
A fully franked special dividend in respect of the 2006 year of 1 cent per share paid on 12 January 2006 (2005: nil)	292,107	-
A fully franked interim dividend of 2 cents (2005: 1 cent) per share paid on 13 April 2006	669,372	249,954
	<u>1,235,865</u>	<u>441,657</u>
(b) Not recognised in the current year		
Since the end of the year, the directors declared a fully franked final dividend of 2.25 cents per share payable on 16 October 2006 and a fully franked special dividend of 2 cents per share payable on 15 December 2006.	<u>1,548,058</u>	
(c) Dividend franking accounts		
The amount of franking credits available to shareholders for the subsequent financial year, adjusted for franking credits that will arise from the payment of the current tax liability	709,609	338,311
Subsequent to year end, the franking account will be reduced by the proposed final dividend and special dividend to be paid on 16 October 2006 and 15 December 2006 retrospectively.	<u>(663,453)</u>	<u>(117,594)</u>
	<u>46,156</u>	<u>220,717</u>
The tax rate at which paid dividends have been franked is 30% (2005: 30%)		
8. EARNINGS PER SHARE		
Basic earnings per share	<u>18.28 cents</u>	<u>2.75 cents</u>
Diluted earnings per share	<u>18.28 cents</u>	<u>3.69 cents</u>
Weighted average number of ordinary shares used in the calculation of basic earnings per share	<u>31,733,503</u>	<u>22,521,501</u>
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	<u>31,733,503</u>	<u>22,528,352</u>

CLIME CAPITAL LIMITED
ABN 99 106 282 777
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

	2006	2005
	\$	\$
9. TRADE AND OTHER RECEIVABLES		
Income receivable	194,395	14,399
Unsettled trades	2,135,437	-
Other debtors	44,679	23,920
	<u>2,374,511</u>	<u>38,319</u>

Terms and conditions

Unsettled trades are non-interest bearing and are secured by the Australian Stock Exchange - National Guarantee Fund. They are settled within 3 days of the sale being executed. Other debtors consists of GST receivables that can be recovered from the ATO. No interest is applicable on these accounts.

10. BILLS RECEIVABLE

Discounted bills of exchange	<u>2,025,665</u>	<u>12,697,554</u>
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Terms and conditions

Bills receivable have a weighted average maturity date of 5 July 2006 (2005: 12 August 2005) and a weighted average interest rate of 5.73% p.a. (2005: 5.79% p.a.).

11. INVESTMENT PORTFOLIO

Quoted investments at net fair value	<u>27,433,028</u>	<u>11,221,016</u>
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12. TRADE AND OTHER PAYABLES

Accrued expenses	59,081	55,545
Amount payable to related parties	404,042	53,325
Unsettled trades	579,127	25,340
	<u>1,042,250</u>	<u>134,210</u>

Terms and conditions

Unsettled trades are non-interest bearing and are secured by the Australian Stock Exchange - National Guarantee Fund. They are settled within 3 days of the purchase being executed.

Accrued expenses are settled within the terms of payment offered, which is usually within 30 days. Amounts payable to related parties includes the director's fees and management fees payable to Clime Asset Management Pty Limited and BAM Pty Limited. No interest is applicable to these accounts.

CLIME CAPITAL LIMITED
ABN 99 106 282 777
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

	2006	2005
	\$	\$
13. ISSUED CAPITAL		
Issued and paid-up capital		
36,424,891 (2005: 25,086,589) ordinary fully paid shares	33,119,171	24,686,614
Movements during the year		
Balance at beginning of the year	24,686,614	17,655,365
3,985,869 options exercised (2005: 126,194)	3,985,869	126,194
4,203,966 shares placed to new investors (2005: 1,396,041)	4,037,694	7,014,441
346,054 shares issued under the dividend reinvestment plan	339,783	123,303
Cost of issue of capital	(50,089)	(232,689)
2,802,413 bonus shares issue based on a ratio of one bonus share issued for every twelve shares owned	-	-
Reversal of year end tax adjustment in cost of issue of capital	119,300	-
Balance at the end of the year	33,119,171	24,686,614

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

At 30 June 2005, 24,647,635 options to acquire one ordinary share at a price of \$1 were on issue. Those options expired on 15 December 2005. At 30 June 2006, there are no options on issue.

14. RETAINED PROFITS

Balance at the beginning of the year	619,070	229,686
Net profit attributable to members of the company	5,800,748	831,041
Dividends provided for or paid	(1,235,865)	(441,657)
Balance at end of financial year	5,183,953	619,070

15. CASH FLOW INFORMATION

(a) Reconciliation of cash

For the purpose of the Cash Flow Statement, cash includes cash at bank and held by custodian. Cash at the end of the year shown in the Cash Flow Statement is reconciled to the Balance Sheet as follows:-

Cash and cash equivalents	9,348,461	1,796,134
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The weighted average interest rate for cash as at 30 June 2006 is 5.50% (2005: 4.10%)

CLIME CAPITAL LIMITED
ABN 99 106 282 777
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

	2006	2005
	\$	\$
15. CASH FLOW INFORMATION		
(b) Reconciliation of net profit attributable to members of the company to net cash provided by operation activities		
Net profit attributable to members of the company	5,800,748	831,041
(Gain)/loss in sales of investments	(1,712,563)	(688,728)
Unrealised gains on investments	(3,755,586)	304,442
Changes in assets and liabilities:		
Increase/(decrease) in trade and other payables	333,495	(53,499)
(Increase)/decrease in trade and other receivables	(179,996)	66,443
Increase in current tax liability	182,076	332,188
Net cash provided by operating activities	668,174	791,887

16. RELATED PARTY TRANSACTIONS

All transactions with related entities were made on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

(a) Management and performance fees paid to companies related to the Directors were as follows:

Clime Asset Management Pty Ltd	- Mr Roger J Montgomery	561,006	185,757
Boutique Asset Management Pty Ltd	- Mr Geoffrey J Wilson	84,686	61,919
		645,692	247,676

As at 30 June 2006, \$71,903 (2005: \$23,562) of the year's management fees remain unpaid and within payables.
As at 30 June 2006, \$332,140 (2005: nil) of the year's performance fees remain unpaid and within payables.

(b) All dividends paid and payable by the Company to Directors and Director related entities are on the same basis as to other shareholders.

CLIME CAPITAL LIMITED
ABN 99 106 282 777
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

17. KEY MANAGEMENT PERSONNEL DISCLOSURE

The names and position held of the Company's key management personnel (including Directors) in office at any time during the financial year are:

Roger Montgomery (Chairman)	- Director
Anthony Hockey	- Director
Geoffrey Wilson	- Director
Julian Gosse	- Director
Cameron Fellows	- Company Secretary (appointed 16 February 2006)

(a) Remuneration

There are no executives that are paid by the Company. Clime Asset Management Pty Ltd, the investment manager of the Company, remunerates Roger Montgomery in respect of his role as Managing Director of the Manager. The Manager also provides day to day management of the Company and is remunerated as outlined in the Director's Report.

The Company has applied the exemption under Corporations Amendments Regulation 2006 which exempts listed companies from providing remuneration disclosures in relation to their key management personnel in their annual financial reports by Accounting Standard AASB 124 Related Party Disclosures. These remuneration disclosures are provided in the remuneration Report of the Directors' Report designated as audited.

(b) Shareholdings

2006	Balance at 1 July 2005	Shares acquired / (disposed)	Balance at 30 June 2006
Ordinary Shares			
Roger Montgomery (Chairman)	96,530	126,919	223,449
Anthony Hockey	50,000	4,167	54,167
Geoffrey Wilson	250,000	111,931	361,931
Julian Gosse	-	-	-
	396,530	243,017	639,547
2005	Balance at 1 July 2004	Shares acquired / (disposed)	Balance at 30 June 2005
Ordinary Shares			
Roger Montgomery (Chairman)	96,001	529	96,530
Anthony Hockey	50,000	-	50,000
Geoffrey Wilson	250,000	-	250,000
Julian Gosse	-	-	-
	396,001	529	396,530

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

CLIME CAPITAL LIMITED
ABN 99 106 282 777
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

18. FINANCIAL INSTRUMENTS

(a) Terms, conditions and accounting policies

The Company's accounting policies are included in Note 1, while the terms and conditions of each class of financial asset, financial liability and equity instrument, both recognised and unrecognised at the balance date, are included under the appropriate note for that instrument.

(b) Credit risk exposures

Credit risks represents the loss that would be recognised if counterparties failed to perform as contracted. The credit risk on financial assets, excluding investments, of the Company which have been recognised on the Balance Sheet, is the carrying amount. The Company is not materially exposed to any individual credit risk.

(c) Net fair values

The carrying amounts of financial instruments in the balance sheet approximate their net fair values.

(d) Interest rate risk exposure

The Company's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets are disclosed in the relevant note.

(e) Market risk

Market risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

By its nature, as a listed investment company that invests in tradeable securities, the Company will always be subject to market risk as it invests its capital in securities which are not risk free as the market price of these securities can fluctuate.

The Company can seek to reduce market risk by not being overly exposed to one company or one particular sector of the market. The Company does not have set parameters as to a minimum or maximum amount of the portfolio that can be invested in a single company or sector.

19. CONTINGENT LIABILITIES

There has been no change in contingent liabilities since the last annual reporting date.

20. EVENTS SUBSEQUENT TO BALANCE DATE

Dividend

The final dividend of 2.25 cents per share fully franked as recommended by the Directors will be paid subsequent to balance date and is not provided for in the Balance Sheet. Refer to Note 7 of this report.

The special dividend of 2 cents per share fully franked as recommended by the Directors will also be paid subsequent to balance date and is not provided for in the Balance Sheet. Refer to Note 7 of this report.

CLIME CAPITAL LTD
ABN 99 106 282 777
DIRECTORS' DECLARATION

The Directors of Clime Capital Limited declare that:

1. The financial statements and the additional disclosures included in the Directors' Report designated as set out on pages 12 to 25, are in accordance with the Corporations Act 2001, including:
 - (a) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
 - (b) giving a true and fair view of the financial position of the company as at the 30th June 2006 as represented by the results of operations and cash flows, for the year ended on that date; and
2. The Chief Operating Officer of the Company and Managing Director of Clime Asset Management Pty Limited has declared that:
 - (a) the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the *Corporation Act*;
 - (b) the financial statements notes for the financial year comply with the Accounting Standards; and
 - (c) the financial statements and notes for the financial year give a true and fair view.
3. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Board of Directors:



R. MONTGOMERY
Chairman
21 September 2006

PARTNERS:

Andrew Blackwell CA
Chris Chandran CA
Stephen Humphrys FCA
Garry Leysdon FCA
Wayne Morton FCA
Joe Shannon CA
Robert Southwell CA
Spiro Tzannes FCA
Charlie Viola (Affiliate ICAA)
Bob Webster FCA
Scott Whiddett CA

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF CLIME CAPITAL LIMITED

CONSULTANTS:

Pat Bugden FCA
Anja Dorrell CA

Scope

The financial report and remuneration disclosures and directors' responsibility

The financial report comprises the Income Statement, Balance Sheet, Cash Flow Statement, Statement of Changes in Equity, accompanying notes to the financial statements, and the Directors' Declaration for Clime Capital Limited ("the Company") for the year ended 30 June 2006.

As permitted by the *Corporations Regulations 2001*, the Company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), required by Accounting Standards AASB 124 *Related Party Disclosures*, under the heading "Remuneration Report" on pages 20 to 23 of the "Directors' Report" and not in the financial report.

The Directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for preparation and presentation of the remuneration disclosures contained in the directors' report in accordance with the *Corporations Regulation 2001*.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement and that the remuneration disclosures in the "Directors' Report" comply with Accounting Standard AASB 124. The nature of an audit is influenced by factors such as the use of professional judgment, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's financial position, and of its performance as represented by the results of its operations and cash flows and whether the remuneration disclosures comply with Accounting Standard AASB 124.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

Audit opinion

In our opinion,

1. the financial report of Clime Capital Limited is in accordance with:
 - a. the *Corporations Act 2001*, including:
 - i. giving a true and fair view of Clime Capital Limited's financial position as at 30 June 2006 and of its performance for the year ended on that date; and
 - ii. complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and
 - b. other mandatory financial reporting requirements in Australia.
2. the remuneration disclosures that are contained under the heading "Remuneration Report" on pages 20 to 23 of the "Directors' Report" comply with Accounting Standard AASB 124 and the *Corporations Regulations 2001*.



S WHIDDETT
Partner



MOORE STEPHENS SYDNEY

Dated in Sydney, this 21st day of September 2006

ASX ADDITIONAL INFORMATION

DETAILS OF SHAREHOLDERS

Statement of Shareholdings

At 22nd August 2006, 1,230 members held 36,424,891 ordinary shares in the Company. The twenty largest ordinary shareholdings were equivalent to 36.66% of the 36,424,891 ordinary shares issued. The distribution of shares was as follows: -

No. of Ordinary Shares Held	No. of Ordinary Shareholders
1 - 1,000	61
1,001 – 5,000	274
5,001 - 10,000	234
10,001 - 100,000	594
100,001 and over	67
	1,230

Substantial Shareholders

There was one substantial shareholder, National Exchange Pty Limited, which held 5,937,501 (16.3%) ordinary shares as at 22 August 2006.

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

Voting Rights

On a show of hands, every member present has one vote and upon a poll, every member present in person or by proxy has one vote for each share held.

TOP TWENTY SHAREHOLDERS

Name	Balance	% Issue
National Exchange Pty Ltd	5,937,501	16.30
Invia Custodian Pty Limited <LOFTUS A/C>	1,029,577	2.83
Super John Pty Limited	1,005,208	2.76
Mr John Stephen Michael Heathers & Mrs Margaret Jean Heathers <HEATHERS FAMILY S/FUND A/C>	597,018	1.63
McNiven & Co Pty Ltd <EXECUTIVE SUPER FUND A/C>	564,236	1.55
Ms Holly Ann McNiven	564,236	1.55
Storfund Pty Ltd <KENNARDS SELF STOR S/F A/C>	541,667	1.49
Double Pty Limited	320,000	0.88
Huoncan Super Pty Ltd <HUONCAN SUPER FUND A/C>	300,000	0.82
Mr Geoffrey James Wilson	292,500	0.80
Mr Malcolm David Fuller	270,834	0.74
Mr John Charles McCormick	226,748	0.62
Ms Fleur Leong	223,899	0.62
Ms Sheryl Gates	216,667	0.60
Ms Christine Elizabeth Johnson	216,667	0.60
Naumai Pty Limited <SEXTON UNIT A/C>	216,667	0.60
IQTEL Australia Pty Ltd <THE MENZIES FAMILY A/C>	216,667	0.60
Mr Geoffrey Gordon Brown & Mrs Janet Ann Brown <GEOFF G BROWN P/L S/FUND A/C>	213,790	0.59
Ms Cheryl Maria Athayde	204,086	0.56
Ms Betty-Rose Astbury	196,500	0.54
	13,354,468	36.66

Investment Transactions

The total number of contract notes that were issued for transactions in securities during the financial year was 1,060 (2005: 299). Each contract note could involve multiple transactions. The total brokerage paid on these contract notes was \$105,227 (2005: 47,705).