

**CLIME CAPITAL LIMITED**  
**ABN 99 106 282 777**

**An Investment Company**



**2008 Annual Report**

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## **DIRECTORY**

### ***Directors***

Roger Montgomery  
Geoffrey Wilson  
Anthony 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  
Level 7, 207 Kent 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***

Deloitte Touche Tohmatsu  
Level 1  
225 George Street  
Sydney NSW 2000

Telephone: (02) 9322 7000  
Facsimile: (02) 9322 7001

### **Securities Exchange Codes:**

Fully Paid Ordinary Shares CAM  
Converting Preference Shares CAMPA

## **FY09 FINANCIAL CALENDAR anticipated dates only**

***Final Dividend***  
N/A

***Annual General Meeting***  
13 November 2008

***Half Year End***  
31 December 2008

***Half year results  
announcement***  
February 2009

***Interim Dividend***  
March 2009 \*

***Year End***  
30 June 2009

***Annual Report***  
September 2009

\* - Subject to declaration by  
Directors

## **CHAIRMAN'S LETTER**

Dear Fellow Shareholder,

ANZ is up 8 per cent in one day, the next day its shares fall 3 per cent. Resources, the banks, and retailers rise and fall in magnitudes that cash provides over an entire year.

What is going on? While hedge funds and short sellers have a part, they are bit players in a much greater saga. What you are witnessing represents the symptoms of global asset and debt liquidation, also known as deleveraging.

For some months now, I have explained that the Australian stock market will fail to rally sustainably in the immediate future simply because the Australian economy is largely driven by the consumer and the consumer is now suffering from a hangover following a decade-long asset and debt binge. (Experts on one side of the debate warned last year that Australians had too much debt. Experts on the other side - usually those employed by the institutions doing the lending - argued that the debt was not high because wealth had increased so much). Now of course, asset prices have fallen but the debt remains, and so balance sheets need to be rebuilt or new balance sheets need to step in before consumer confidence can return.

The volatility we are experiencing at present is symptomatic of two things - asset liquidation and an observable lack of liquidity (buyers). Investment banks, global hedge funds and individual consumers, responding to rising funding costs, deleverage their balance sheets by selling assets, Babcock & Brown, Centro, Allco and even mum's & dad's sell what they can. First the things they need to and if that fails, the better quality and more liquid assets. The result, because of arbitrage, is that all asset prices fall and the Chinese idea - ripples from a pebble dropped into the middle of a pond eventually reach everything in the pond - holds true.

The three primary asset classes - Australian stocks, bonds and property are all in the pond and the ripples are still splashing against the shore.

The asset liquidation produces volatility, which for many increases risk, increasing the return buyers require, reducing the prices they are willing to pay and in turn reducing liquidity, producing even more dramatic falls.

When property falls 10 per cent or stocks fall 20 per cent, the impact is not as significant as when those same falls trigger mortgage defaults or margin calls respectively. The latter, known as debt liquidation, results in institutions taking possession of the assets and dumping them back on the market. And the short seller's bit part appears in this scene, as they trade in anticipation of the default or margin call.

This second phase of selling - the debt liquidation - is something that the United States is in the throes of.

It is also the very thing that if left unchecked can catapult a market and economy into a much more tangible crisis. The bailout of Bear Sterns, Fannie Mae and Freddie Mac and others are examples of the steps needed to be taken to ensure a more widespread disaster / depression is averted. And because early and private bargain hunters are underwater, capital for buying is being restricted amid a fear that it could get much worse. Fresh liquidity and balance sheet stability are therefore needed to restore confidence, which in turn leads to investment and spending. Only then will asset markets in aggregate rise sustainably.

While it remains too early to expect a bottom to be reached in the Australian stock market, no-one can predict the absolute bottom and investors need to be reminded that this is the environment in which true long term bargains are found and serious wealth can accrue.

Sincerely

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

**Roger Montgomery**  
Chairman

## **REVIEW OF OPERATIONS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008**

The year has been a tumultuous one and one that I am certain all shareholders (including myself) would like to put behind them. The adverse impact on Clime's portfolio for the year ended 30 June 2008 from the general market malaise has been compounded by the decision to retain and add to the investment in Credit Corp following that company's first earnings downgrade in November. The total loss to the portfolio from this investment alone was over \$12 million.

The Manager, Clime Investment Management Limited, believes it was seriously misled by public statements made by Credit Corp which has resulted in substantial realised losses. Clime Capital has joined a legal action to seek a recoupment of the losses.

While we are certainly not alone in reporting losses and declining portfolio values, we are unique in that we openly warned investors of the then impending crisis and then underestimated the impact on, what to us seemed, a very remote Australian portfolio of shares.

In August last year I wrote "it appears that the problems for United States mortgagees and the economy would fit nicely into a Deborah Conway song. It's only the beginning. ...Next year, in aggregate, a substantially larger number of sub prime mortgages will be reset...the risk of adverse surprises is high."

In March, this year, following a trip to the US, I wrote "we could see the US was already in a recession. Housing, auto manufacturing and financial institutions were reporting numbers quite different to the US government's aggregate statistics. We also formed the view that the depth of the credit crisis was being underestimated".

Australian Banks will ultimately be beneficiaries, vis-à-vis market share gains, as second and lower-tiered participants struggle to source funding for their lending activities. While we remain convinced that ultimately this logic is correct, we erred when the banks themselves disclosed the importation of their own significant rise in funding costs.

In the 2007 financial year, Clime Capital's portfolio rose over 40% to \$72.8 million and the invested portion 53%. In 2008, however the portfolio declined to \$49.8 million. Essentially all of the gains made in the 2006/07 financial year were erased in the 2007/08 financial year.

Upon reassessing prospects for many of the businesses we followed and discovering little value, we raised cash in late February and the portfolio has begun outperforming again.

While we remain confident our model for evaluating companies is robust, I must admit it is not a replacement for a polygraph, which in some interviews with management could prove useful. We mitigate some of the risks with the adoption of very strict criteria and disciplines but occasionally a company's leader can take not only shareholders on a fanciful journey but even fellow directors and chairmen.

The current conditions in the financial markets will place managers, investors, owners and Boards under significant pressure both exogenous and self-imposed (or perhaps

self-inflicted). The responses to this pressure will be telling and for some the response will have been foretold.

In the Bible, [John 9:34] Jesus tells the Pharisees: *“The hired hand is not the shepherd who owns the sheep. So when he sees the wolf coming, he abandons the sheep and runs away. Then the wolf attacks the flock and scatters it. The man runs away because he is a hired hand and cares nothing for the sheep.”*

Under considerable pressure, some individuals will respond to the current crisis by running away and many already have. Some will stay but cut corners at the expense of shareholders and others will ride through it knowing that this crisis, like all crises before it, will end.

On an unrelated note, the year saw our 2006 concerns about ABC Learning validated. In April 2006 with ABC Learning's shares trading at \$8.00, we estimated its worth at just 25% or less of that price. Today the shares are suspended but last traded at just over 50 cents. When Wesfarmers announced its proposed takeover of Coles we were on the soapbox again, warning that the price paid and timing could prove damaging to the value of Wesfarmers – with the shares likely to follow. With the shares over \$40.00 at the time and now closer to \$30.00, shareholders may wonder why we do not short company's shares.

In bear markets such activity seems wise but in rising markets, which over the years tend to dominate, short selling requires impeccable timing and a much stronger fortitude than I was born with.

We will continue to adhere to our valuation and identification process with the confidence that it has helped us avoid the calamities (though it is limited in its polygraphing abilities) and is able to more rationally value companies than the traditional models that remain well entrenched in my industry.

### **Market Irrationality**

Many investors believe the market is efficient – correctly factoring in all available information about a company. One might argue however (I certainly will here) that Clime's current share price is proof that the efficient market theory is redundant.

Before taking a look at Clime's share price and its assets, it may be worthwhile revisiting an alternative framework to the efficient market theory – Benjamin Graham's Mr Market Theory.

Benjamin Graham many years ago described the mental attitude toward market fluctuations that is most conducive to investment success.

He said that you should imagine market quotations as coming from a remarkably accommodating fellow named Mr. Market who is your partner in a private business. Without fail, Mr. Market appears daily and names a price at which he will either buy your interest or sell you his.

Even though the business that the two of you own may have economic characteristics that are stable, Mr. Market's quotations will be anything but. For, sad to say, the poor

fellow has incurable emotional problems. At times he feels euphoric and can see only the favourable factors affecting the business. When in that mood, he names a very high buy-sell price because he fears that you will snap up his interest and rob him of imminent gains. At other times he is depressed and can see nothing but trouble ahead for both the business and the world. On these occasions he will name a very low price, since he is terrified that you will unload your interest on him.

Mr. Market has another endearing characteristic: He doesn't mind being ignored. If his quotation is uninteresting to you today, he will be back with a new one tomorrow. Transactions are strictly at your option. Under these conditions, the more manic-depressive his behavior, the better for you.

But, like Cinderella at the ball, you must heed one warning or everything will turn into pumpkins and mice: Mr. Market is there to serve you, not to guide you. It is his pocketbook, not his wisdom that you will find useful. If he shows up some day in a particularly foolish mood, you are free to either ignore him or to take advantage of him, but it will be disastrous if you fall under his influence.<sup>1</sup>

As at 30 June 08, Clime Capital ordinary shares were trading at 90 cents. At that date, Clime's portfolio was made up of 68 cents cash and the remainder [41 cents] a portfolio of shares consisting of the following:

### **Investment Portfolio**

<b>Company</b>	<b>Quantity</b>	<b>\$ Total Consideration</b>	<b>\$ Effective Cost Price</b>	<b>\$ Market Price @ 30/06/08</b>	<b>% Unrealised Gain/(loss)</b>	<b>\$ Market Value</b>
MIT	2,189,784	4,425,757	2.02	1.53	-24.30%	3,350,370
TRS	255,224	1,498,861	5.87	9.50	61.76%	2,424,628
MXUPA	30,896	2,466,383	79.83	70.00	-12.31%	2,162,720
WFLPA	25,622	2,364,748	92.29	82.00	-11.15%	2,101,004
HLD	11,918,193	1,788,978	0.15	0.16	3.26%	1,847,320
BKWPA	17,468	1,834,475	105.02	98.20	-6.49%	1,715,358
FPS	492,739	1,256,251	2.55	2.46	-3.51%	1,212,138
ASB	403,416	1,118,518	2.77	2.57	-7.31%	1,036,779
IBC	2,127,026	1,266,899	0.60	0.47	-21.09%	999,702
DTL	153,647	1,088,379	7.08	5.60	-20.94%	860,423
AAZPB	6,180	615,971	99.67	92.34	-7.36%	570,667
MMA	621,505	361,297	0.58	0.58	-0.23%	360,473
CCP	641	4,052	6.32	0.78	-87.66%	500
		<b>20,090,569</b>			<b>-7.21%</b>	<b>18,642,082</b>

And remember the shares themselves have fallen dramatically from 2007 highs.

<sup>1</sup> <http://www.sandmansplace.com>

With CAM shares trading at 90 cents and 68 cents per share represented by cash, the remaining 41 cents of shares were trading at 22 cents through CAM's shares. CAM's share price reflected a 46% discount to the deeply discounted share portfolio.

With a similar cash weighting, CAM's ordinary shares continue to trade at a significant discount to the Company's net tangible assets as at the date of this report.

It would seem the market remains as schizophrenic and disoriented today as Benjamin Graham described decades ago.

## **Outlook**

The current market malaise is simply a function of the fact that over extremely long periods, the performance of the stock market is related to aggregate profits, and aggregate profit growth over equally long periods should be bound by rates of economic growth. Over shorter periods the market, in its 'wisdom' sometimes gets ahead of itself and when that happens a correction is the only means by which the situation can be rectified.

It is presently my view that a sustainable recovery in the share market will require a rebuilding of consumer confidence, which first requires a rebuilding of personal balance sheets.

For many years economists told anyone who was listening, high levels of personal debt held by Australian consumers was not a problem because of high levels of personal wealth. Much of that personal wealth however has now been eroded by property and share market falls (which any economist must have known was possible) but the debt remains, and is now a substantially larger portion of those balance sheets.

For a sustainable recovery to occur, consumers need to regain confidence. To regain confidence, they need to regain control of their personal finances which currently must seem "at risk".

Having said that, a great deal of wonderful companies are now displaying share prices closer to their intrinsic value than I can recall. Perhaps more importantly, the share prices of many excellent businesses (high ROE, low debt and bright prospects) have returned to 2004 and 2005 levels, yet those same businesses are worth very much more than they were then. These are the businesses I am interested in pursuing on your behalf with the strong sense that in 2018 we will look back on this period as one of rare opportunity.



**Roger Montgomery**  
Chairman

## **DIRECTORS' REPORT**

Your directors present their report on the Company for the financial year ended 30 June 2008.

### **Directors**

The following persons were Directors of Clime Capital Limited during the whole of the financial year and up to the date of this report:

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

### **Information on Directors**

**Mr. Roger Montgomery (Age 37)** - **Executive Chairman**

#### ***Experience and expertise***

Mr. Roger Montgomery is the founder and Managing Director of Clime Asset Management Pty Limited, an investment management company, dealer and financial adviser. Mr. Montgomery has more than 15 years' experience in the Australian securities and derivatives industry. Prior to his involvement with Clime Asset Management Pty Limited, 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 is also a Non-Executive Director of Headline Group Limited.

#### ***Former directorships in last 3 years***

Mr. Montgomery has not held any other directorships of listed companies within the last three years.

#### ***Special responsibilities***

Executive Chairman

Chief Operating Officer

#### ***Interests in shares***

382,342 ordinary shares in Clime Capital Limited

## **DIRECTORS' REPORT (continued)**

### **Mr. Geoffrey Wilson (Age 50) - Non-Executive Director**

#### ***Experience and expertise***

Mr. Geoffrey Wilson has had 28 years' experience in the Australian and international securities industry. 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 Senior Fellow of the Financial Services Institute of Australasia.

Mr. Geoffrey Wilson was appointed as a Non-Executive Director in November 2003.

#### ***Other current directorships***

Mr. Wilson is the Chairman of WAM Capital Limited, Wilson Investment Fund Limited, WAM Active Limited, the Australian Stockbrokers' Foundation Limited and Ascham Foundation. He is a Director of Australian Leaders Fund Limited (formerly known as Wilson Leaders Fund Limited), Cadence Capital Limited, Vietnam Fund Limited, Incubator Capital Limited, the Sporting Chance Cancer Foundation, Australian Fund Managers Foundation and Odyssey House McGrath Foundation.

#### ***Former directorships in last 3 years***

Mr. Wilson is formerly a Director of Keybridge Capital Limited (formerly known as Mariner Wealth Management Limited) from September 1999 to October 2006.

#### ***Special responsibilities***

None

#### ***Interests in shares***

361,931 ordinary shares in Clime Capital Limited

### **Mr. Julian Gosse (Age 58) - Independent, Non-Executive Director**

#### ***Experience and expertise***

Mr. Julian Gosse was appointed Non-Executive Director in November 2003. He 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 also been involved in the establishment, operation and ownership of several small businesses.

#### ***Other current directorships***

Mr. Gosse is Chairman of ITL Limited and Northern Crest Investments Limited (formerly known as Blue Chip Financial Solutions Limited). He is also a Director of Australian Leaders Fund Limited (formerly known as Wilson Leaders Fund Limited) and Wilson Investment Fund Limited.

#### ***Former directorships in last 3 years***

Mr. Gosse was formerly a Director of Mariner Bridge Investments Limited (formerly known as Mariner Wealth Management Limited) until October 2006.

## **DIRECTORS' REPORT (continued)**

### ***Special responsibilities***

Chairman of Audit Committee  
Chairman of Remuneration Committee  
Chairman of Nomination Committee

### ***Interests in shares***

NIL

### **Mr. Anthony Hockey (Age 43) - Independent, Non-Executive Director**

#### ***Experience and expertise***

Mr. Anthony Hockey is the Managing Director of Hocfin Consulting Pty Limited and has over 14 years' experience in strategy and business performance improvement, primarily in the wealth management industry. Prior to establishing Hocfin Consulting Pty Limited, he held the position of Head of Strategy and Corporate Advice with ING Australia where he was responsible for assessing merger & acquisition opportunities and providing operations integration advice. Prior to that he was a management consultant with PricewaterhouseCoopers where he led business performance improvement initiatives for clients operating across a wide range of industries.

Mr. Hockey holds a Master of Management (MGSM), a Master of Commerce (University of NSW) and a Bachelor of Economics (University of Sydney) and a Diploma, Company Directors Course (AICD).

#### ***Other current directorships***

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

#### ***Former directorships in last 3 years***

Mr. Hockey has not held any other directorships of listed companies within the last three years.

### ***Special responsibilities***

Member of Audit Committee  
Member of Remuneration Committee  
Member of Nomination Committee

### ***Interests in shares***

33,595 ordinary shares in Clime Capital Limited

## **DIRECTORS' REPORT (continued)**

### **Company Secretary**

The name of the Company Secretary who was in office for the duration of the financial year is:

#### **Mr. Cameron Fellows (Age 31)**

Mr. Cameron Fellows was appointed to the position of Company Secretary in February 2006. He is the Group Financial Controller / Company Secretary of the listed financial services company Clime Investment Management Limited. He 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 holds a Bachelor of Commerce from the University of Melbourne and is a Chartered Accountant, Chartered Company Secretary and a Fellow of the Financial Services Institute of Australasia.

### **Meetings of Directors**

The numbers of meetings of the Company's Board of Directors, and of each Board Committee held during the year ended 30 June 2008, and the numbers of meetings attended by each Director were:

<b>Director</b>	<b>Board Meetings</b>		<b>Audit Committee Meetings</b>	
	<b>A</b>	<b>B</b>	<b>A</b>	<b>B</b>
Mr. Roger Montgomery	5	5	-	-
Mr. Geoffrey Wilson	5	4	1*	1*
Mr. Julian Gosse	5	3	3	2
Mr. Anthony Hockey	5	5	3	3

\* - Mr. Geoffrey Wilson attended an Audit Committee meeting by resolution of the Board in order to stand in for the absent Mr. Julian Gosse.

A - Number of meetings eligible to attend

B - Number of meetings attended

### **Rotation and Election of Directors**

In accordance with the Company's Constitution:

- Mr. Roger Montgomery and Mr. Anthony Hockey retire by rotation and, being eligible, offer themselves for re-election.

### **Principal Activities**

The principal activity of the Company during the financial year was investing in securities listed on the Australian Securities Exchange.

There was no significant change in these activities during the current financial year.

## DIRECTORS' REPORT (continued)

### Operating Result

The net loss after providing for tax amounted to (\$14,928,802) (2007: profit of \$11,500,608).

### Dividends Paid or Recommended

Dividends paid or recommended during the financial year are as follows:

	2008 \$	2007 \$
Final ordinary dividend paid during the year of 2.75c per share in respect of the prior financial year (2007: 2.25c per share)	1,026,842	819,562
Special ordinary dividend paid in respect of the 2007 financial year of 2.00c per share	-	734,348
Interim ordinary dividend paid in respect of the 2007 financial year of 2.50c per share	-	924,992
Converting preference share dividend recommended in respect of the June 07 quarter of 3.0c per share	-	229,937
Converting preference share dividend paid in respect of the September 07 quarter of 4.5c per share	344,906	-
Converting preference share dividend paid in respect of the December 07 quarter of 4.5c per share	344,906	-
	<u>1,716,654</u>	<u>2,708,839</u>

The Company is legally unable to declare a dividend for the year ended 30 June 2008 due to an insufficient level of retained profits. The Company has significant cash reserves and franking credits, and the Board intends to resume paying dividends as soon as possible subject to generating sufficient profits in the 2009 financial year.

### Review of Operations

#### Investment income from ordinary activities

Investment income for the period decreased by approximately 201% to negative \$17.6 million (FY07: positive \$17.4 million). This decrease was primarily caused by realised and unrealised losses on the investment portfolio of \$21.06 million in comparison with realised and unrealised gains in the prior year of \$14.67 million. The most significant contribution to the current year's investment losses was a \$12.8 million loss recorded on the company's investment in Credit Corp Group Limited.

The Board notes that Credit Corp Group Limited is now the subject of potential legal action funded by IMF (Australia) Ltd on behalf of a group of aggrieved shareholders (of which Clime Capital is a member) due to alleged misleading and deceptive conduct by the company and alleged breaches of its continuous disclosure obligations. Clime Capital disposed of its holding in Credit Corp during February 2008.

## **DIRECTORS' REPORT (continued)**

### **Review of Operations (continued)**

#### *Net (loss) / profit attributable to members of the company*

Profit from ordinary activities after tax attributable to members decreased by approximately 230% to a loss of \$14.93 million (FY07: profit of \$11.50 million). As noted above, the primary driver for the significant loss for the year was a pre-tax loss of \$12.8 million realised on the company's investment in Credit Corp Group Limited. The volatile, extremely difficult investment environment experienced since December 07 has also been a significant contributor to the losses sustained during the period.

In accordance with the relief provided by Class Order 98/2395, as issued by the Australian Securities and Investments Commission, the Company is not required to reproduce information required in the Directors' Report if it has been included elsewhere in the Annual Report. As such, for further analysis of the operations of the Company, please refer to the Review of Operations beginning on page 4 of this Annual Report.

### **Significant Changes in State of Affairs**

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

### **After Balance Date Events**

No matters or circumstances have arisen since the end of the financial year which significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

### **Future Developments**

At this time the Directors are not aware of any developments likely to have a significant effect upon the operations of the Company.

### **Environmental Issues**

The Company's operations are not regulated by any significant law of the Commonwealth or of a State or Territory relating to the environment.

### **Insurance of Officers**

During the financial year, the Company paid a premium for an insurance policy insuring all Directors and officers against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in their capacity as Director or officer of the Company, other than conduct involving a willful breach of duty in relation to the Company. In accordance with common commercial practice, the insurance policy prohibits disclosure of the nature of the liability insured against and the amount of the premium.

## **DIRECTORS' REPORT (continued)**

### **Non-Audit Services**

The Company may decide to employ the auditor on assignments additional to their statutory duties where the auditor's expertise and experience with the Company is important.

Details of the amounts paid or payable to the auditor (Deloitte Touche Tohmatsu) for audit and non-audit services provided during the year are set out in note 3 of the attached Financial Report.

The Board of Directors has considered the position and, in accordance with the advice received from the Audit Committee is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services, as set out in note 3 of the attached Financial Report, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Audit Committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

## **DIRECTORS' REPORT (continued)**

### **Remuneration Report (Audited)**

The remuneration report is set out under the following main headings:

- A Principles used to determine the nature and amount of remuneration
- B Details of remuneration
- C Service agreements
- D Additional information

The information provided under headings A-D includes remuneration disclosures that are required under section 300A of the Corporations Act 2001.

#### **A Principles used to determine the nature and amount of remuneration**

##### *Executive Directors and Other Executives*

Remuneration packages are set at levels that are intended to attract and retain first class executives capable of managing the Company and achieving its strategic objectives. The remuneration packages of executives are based on a fixed component only, reflecting the core performance of their duties.

The only two executives employed by the Company, namely Mr. Roger Montgomery and Mr. Cameron Fellows, are employed in their capacities as Executive Chairman and Company Secretary respectively.

The management of the investment portfolio has been outsourced to Clime Asset Management Pty Ltd in accordance with a 25 year management agreement. As such, the Board does not consider it appropriate or meaningful to provide either a performance-based or equity-based remuneration component to the Company's executive remuneration packages.

The Remuneration Committee is responsible for making recommendations to the Board on remuneration policies and packages applicable to the Board members and executives of the Company. The Board's remuneration policy is to ensure the remuneration package properly reflects the person's duties, responsibilities and the level of performance, and that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

##### *Non-Executive Directors*

Fees and payments to Non-Executive Directors reflect the demands which are made on, and the responsibilities of, the Directors. Remuneration of Non-Executive Directors is determined by the full Board within the maximum amount approved by the shareholders from time to time. The payments to Non-Executive Directors do not include retirement benefits other than statutory superannuation. Consultation with Non-Executive Directors outside their duties as Directors is treated as external consultation and is subject to additional fees by consent of the Board.

The Company has a policy that Non-Executive Directors are not entitled to retirement benefits and may not participate in any bonus scheme (where applicable).

## DIRECTORS' REPORT (continued)

### Remuneration Report (continued)

#### *Directors' Fees*

The current base remuneration was last reviewed with effect from October 2007. The Non-Executive Directors' fees are inclusive of committee fees.

Non-Executive Directors' fees are determined within a Non-Executive Directors' base remuneration pool, which is periodically recommended for approval by shareholders. The Non-Executive Directors' base remuneration pool currently stands at \$150,000 per annum.

#### *Base Remuneration*

Structured as a total remuneration package which may be delivered as a combination of cash and salary-sacrificed superannuation contributions at the executives' discretion.

Executives are offered a competitive base remuneration that comprises a fixed component of remuneration. Base remuneration for executives is reviewed annually to ensure the executives' pay is competitive with the market.

### **B Details of remuneration**

#### *Amounts of remuneration*

Details of the remuneration of the Directors of Clime Capital Limited are set out in the following tables. With the exception of the Company's Directors, there are no key management personnel (as defined in AASB 124 Related Party Disclosures) employed by the Company.

The Company Secretary / Financial Controller, Mr. Cameron Fellows, is a company executive whose remuneration must be disclosed under the *Corporations Act 2001* as he is one of the 5 highest remunerated executives.

### ***Key management personnel and other executives of Clime Capital Limited***

2008	Short-term Employee Benefits			Post-Employment	Share-Based	Termination	Total
	Cash salary, fees and commissions	Cash bonus	Non-monetary benefits	Benefits	Payments		
Name	\$	\$	\$	Super-annuation	Options	Benefits	\$
<i>Non-Executive Directors</i>							
Geoffrey Wilson	10,000	-	-	-	-	-	10,000
Julian Gosse	20,000	-	-	-	-	-	20,000
Anthony Hockey	20,000	-	-	-	-	-	20,000
<b>Sub-total Non-Executive Directors</b>	<b>50,000</b>	-	-	-	-	-	<b>50,000</b>
<i>Executive Directors</i>							
Roger Montgomery	60,000	-	-	-	-	-	60,000
<b>Total Key Management Personnel Compensation</b>	<b>110,000</b>	-	-	-	-	-	<b>110,000</b>
<i>Other Company Executives</i>							
Cameron Fellows <sup>1</sup>	18,000	-	-	-	-	-	18,000

<sup>1</sup> Denotes one of the highest paid executives of the Company, as required to be disclosed under the *Corporations Act 2001*.

## DIRECTORS' REPORT (continued)

### Remuneration Report (continued)

2007 Name	Short-term Employee Benefits			Post-Employment Benefits	Share-Based Payments	Termination Benefits \$	Total \$
	Cash salary, fees and commissions \$	Cash bonus \$	Non-monetary benefits \$	Super-annuation \$	Options \$		
<i>Non-Executive Directors</i>							
Geoffrey Wilson	10,000	-	-	-	-	-	10,000
Julian Gosse	20,000	-	-	-	-	-	20,000
Anthony Hockey	20,000	-	-	-	-	-	20,000
<b>Sub-total Non-Executive Directors</b>	<b>50,000</b>	-	-	-	-	-	<b>50,000</b>
<i>Executive Directors</i>							
Roger Montgomery	60,000	-	-	-	-	-	60,000
<b>Total Key Management Personnel Compensation</b>	<b>110,000</b>	-	-	-	-	-	<b>110,000</b>
<i>Other Company Executives</i>							
Cameron Fellows <sup>1</sup>	12,000	-	-	-	-	-	12,000

<sup>1</sup> Denotes one of the highest paid executives of the Company, as required to be disclosed under the *Corporations Act 2001*.

### **C Service Agreements**

Remuneration and other terms of employment for the Executive Directors and other senior executives are formalised in service agreements with annual adjustments (once agreed by the Remuneration Committee) notified in writing. Provisions relating to the term of agreement, periods of notice required for termination and relevant termination payments are set out below.

#### **Mr. Roger Montgomery**

#### **Executive Chairman**

- Term of agreement – No fixed term
- Notice period for termination by employee – 3 months
- Notice period for termination by company – 12 months
- Payment of a termination benefit on early termination by the company – in lieu of 12 months' notice and other than for gross misconduct – equal to a maximum of 100% of the annual remuneration package current at the time of termination. A redundancy payment of 10% of the annual remuneration package current at the time of termination will also be payable

#### **Mr. Cameron Fellows**

#### **Company Secretary / Financial Controller**

- Term of agreement – No fixed term
- Notice period for termination by employee – 1 month
- Notice period for termination by company – 1 month
- Payment of a termination benefit on early termination by the company – in lieu of 1 month's notice and other than for gross misconduct – equal to a maximum of 8.33% of the annual remuneration package current at the time of termination

## DIRECTORS' REPORT (continued)

### Remuneration Report (continued)

#### D Additional Information

##### *Performance of Clime Capital Limited*

The tables below set out the summary information regarding the company's earnings and movements in shareholder wealth for the five years to 30 June 2008:

##### *Income Statement – Historical Analysis*

	30 June 2008	30 June 2007	30 June 2006	30 June 2005	30 June 2004
	\$	\$	\$	\$ <sup>1</sup>	\$ <sup>1</sup>
<b>Investment income</b>	(17,618,537)	17,385,671	9,159,343	1,288,794	483,182
<b>Net (loss) / profit pre-tax</b>	(18,657,962)	15,637,114	7,803,338	832,145	311,073
<b>Net (loss) / profit post-tax</b>	(14,928,802)	11,500,608	5,800,748	620,000	229,686

<sup>1</sup> Clime Capital Limited adopted the Australian equivalents to International Financial Reporting Standards with effect from 1 July 2005, which resulted in various changes to its accounting policies from that date. The above results for the years ended 30 June 2004 and 30 June 2005 are reported in accordance with Clime Capital Limited's previous accounting policies as permitted under Australian Accounting Standards as applicable at that time.

##### *Movements in Shareholder Wealth – Historical Analysis*

	30 June 2008	30 June 2007	30 June 2006	30 June 2005	30 June 2004
				<sup>1</sup>	<sup>1</sup>
<b>Share price at start of year</b>	\$1.40	\$0.95	\$0.89	\$0.87	\$1.00
<b>Share price at end of year</b>	\$0.90	\$1.40	\$0.95	\$0.89	\$0.87
<b>NTA – Pre-Tax</b>	\$1.11	\$1.56	\$1.10	\$1.01	\$1.02
<b>NTA – Post-Tax<sup>2</sup></b>	\$1.11	\$1.47	\$1.06	\$1.01	\$1.02
<b>Interim dividend – Ords<sup>3</sup></b>	-	2.5cps	2.0cps	1.0cps	-
<b>Final dividend – Ords<sup>3,4</sup></b>	-	2.75cps	2.25cps	1.0cps	1.0cps
<b>Special dividend – Ords<sup>3</sup></b>	-	2.0cps	1.0cps	-	-
<b>Preference share dividends<sup>3</sup></b>	9.0cps	3.0cps	N/A	N/A	N/A
<b>Bonus share issue – Ords</b>	-	-	1 for 12	-	-
<b>Basic EPS</b>	(41.60cps)	30.56cps	18.28cps	2.75cps	1.30cps
<b>Diluted EPS</b>	(41.60cps)	30.20cps	18.28cps	2.75cps	1.30cps

<sup>1</sup> Clime Capital Limited adopted the Australian equivalents to International Financial Reporting Standards with effect from 1 July 2005, which resulted in various changes to its accounting policies from that date. The above earnings per share results for the years ended 30 June 2004 and 30 June 2005 are reported in accordance with Clime Capital Limited's previous accounting policies as permitted under Australian Accounting Standards as applicable at that time.

<sup>2</sup> Post-tax NTA as at 30 June 2008 of \$1.11 per share does not include an additional 5 cents per share of tax losses which are available for future use by the Company.

<sup>3</sup> Fully franked dividends (franked to 100% at 30% corporate tax rate)

<sup>4</sup> Declared after each respective balance date and not reflected in the financial statements

## **DIRECTORS' REPORT (continued)**

### **Proceedings on Behalf of Company**

As at the date of this report, no person has applied for leave of Court to bring proceedings on behalf of the Company or to 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 year.

### **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 20.

Signed in accordance with a resolution of the Directors.

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

**Roger Montgomery**

Chairman

Sydney

29 September 2008

The Board of Directors  
Clime Capital Limited  
Level 1, 7 Macquarie Place  
Sydney NSW 2000

Dear Board Members

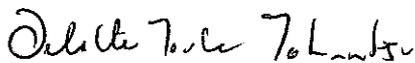
**Clime Capital Limited**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Clime Capital Limited.

As lead audit partner for the audit of the financial statements of Clime Capital Limited for the financial year ended 30 June 2008, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



Deloitte Touche Tohmatsu  
Deloitte Touche Tohmatsu



Alfred Nehama  
Partner

Chartered Accountants  
Sydney, 29 September 2008

## **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 Company has a Board and two executive officers (including the Executive Chairman and Company Secretary). Subject at all times to any written guidelines issued by the Board of Directors of Clime Capital Limited, the day-to-day management and investment of funds is primarily carried out by Clime Asset Management Pty Ltd (the Manager) in accordance with a management agreement.

The role of the Board is to set strategic direction and to be responsible for the overall corporate governance of the Company which includes:

- to oversee and monitor the performance of the Manager's compliance with the management agreement and to ensure that the Manager is monitoring the performance of other external service providers;
- ensuring adequate internal controls exist and are appropriately monitored for compliance;
- ensuring significant business risks are identified and appropriately managed;
- approving the interim and final financial statements and related reports and other communications to the ASX and shareholders; and
- setting appropriate business standards and a code for ethical behaviour.

The Board aims to ensure that all Directors and the Investment Manager act with the utmost integrity and objectivity, and endeavours to enhance the reputation of the Company. The Board should act in a manner designed to create and build sustainable value for shareholders.

#### *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.

## **CORPORATE GOVERNANCE STATEMENT (continued)**

### *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 and one Executive Director. Two of the Company's Non-Executive Directors, Mr J Gosse and Mr A Hockey, are also independent.

Whilst the Board acknowledges the benefits of a majority of independent Directors, it believes that it can adequately achieve the Company's objectives with the current Board's level of expertise and without unnecessarily burdening shareholders with the additional costs associated of adding further independent Directors to the Board. The Board also notes that the principal management function, being the management of the Company's investments, resides with the Investment Manager, Clime Asset Management Pty Ltd.

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.

The Chairman is not independent. The Board believes that an independent Chairman does not necessarily improve the function of the Board. The Board believes that in circumstances where the Chairman is a significant driver behind the business and has a material stake in its performance, that it can add value to the Company.

All Directors (with the exception of the Managing Director, where applicable) must retire from office no later than the third annual general meeting (AGM) following their last election. Any Directors appointed by the Board must be duly appointed at the next AGM.

## **CORPORATE GOVERNANCE STATEMENT (continued)**

### *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 terms and conditions of the appointment and retirement of non-executive Directors are set out in a letter of appointment. The performance of all Directors is reviewed periodically by the Chairman. Directors whose performance is unsatisfactory are asked to retire.

### *Remuneration Committee*

The Remuneration Committee reviews and makes recommendations to the Board on remuneration of the Directors themselves. The Remuneration Committee meets periodically to review the terms of remuneration packages for executive and non-executive directors.

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 must not also be the Chairman of the Board. The Committee is responsible for considering the effectiveness of the systems of internal control and financial reporting. Due to the size and structure of the Board, and having regard to the number of Non-Executive Directors, it is not currently practicable for the Audit Committee to consist of more than two members. 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:

1. Oversee the existence and maintenance of internal controls and procedures to ensure compliance with all applicable regulatory obligations;
2. Oversee the financial reporting process;
3. Review the annual and half-year financial reports and recommend them for approval by the Board;
4. Nominate external auditors; and
5. Review the existing external audit arrangements.

The Audit Committee also requires the Company's administrator, FundBPO Pty Ltd, to report annually on the operation of internal controls.

The external audit firm partner responsible for the Company's audit attends Audit Committee meetings by invitation and presents to the Audit Committee twice per year. The Audit Committee formally reports to the Board after each of its meetings.

### *External Auditor*

The Company and Audit Committee policy is to appoint external auditors who clearly demonstrate quality and independence. Deloitte Touche Tohmatsu was appointed as the external auditor in November 2007. It is Deloitte Touche Tohmatsu's policy to rotate audit engagement partners on listed companies in accordance with the Corporations Act 2001.

The external auditor is requested to attend the AGM and to be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

### *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.

Risks are identified and assessed by the Company's Board as well as by the Company's auditors. Controls (which may include policies, procedures, reviews, audits and/or obtaining appropriate insurance) are implemented to deal with risks based on an assessment of:

- The nature and extent of the risk facing the Company;
- The extent and categories of risks which the Board considers acceptable to bear;
- The likelihood of the risk materialising;

## **CORPORATE GOVERNANCE STATEMENT (continued)**

- The Company's ability to minimize the risk of incident and its resultant impact on the business should a particular risk materialise; and
- The costs of operating particular controls relative to the benefit obtained by managing the relevant risk.

The Investment Manager, Clime Asset Management Pty Ltd, will report any instances of control or policy failure or breach to enable the Board to consider whether relevant controls require reassessment, strengthening or improvement and whether the level of monitoring by the Audit Committee and the Board is adequate.

In accordance with the ASX Corporate Governance Principles and Recommendations, the Investment Manager is required to state to the Board in writing that:

- The Company's financial reports present a true and fair view, in all material respects, of the Company's financial position and operational results and are in accordance with relevant Accounting Standards;
- The statement above is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- The Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

### *Director and Executive Dealing in Company Shares*

Directors and executives are not required to hold a minimum number of shares in order to hold their positions. All Director and executive shareholdings are disclosed in the Related Parties note within the Annual Report.

Subject to not being in possession of undisclosed price-sensitive information (and with adequate time being provided for the information to be reflected in the Company's share price), Directors and executives may deal in shares of the Company. On the basis that Clime Capital Limited is a listed investment company obligated to disclose its net tangible asset position on a monthly basis, the Board believes that the Company's shareholders are generally fully informed.

### *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.

## **CORPORATE GOVERNANCE STATEMENT (continued)**

### *Executive Management*

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

These entities, together with the Company's Executive Chairman and Company Secretary, incorporate the specialist wholesale investment and administration personnel who undertake 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 and Code of Conduct*

The Board has developed a Code of Conduct (the Code) which applies to all Directors and executives. The Code is reviewed and updated as necessary to ensure it reflects the highest standards of behaviour and professionalism and the practices necessary to maintain confidence in the Company's integrity.

In summary, the Code requires that at all times all company personnel act with the utmost integrity, objectivity and in compliance with the letter and spirit of both the law and Company policies.

A copy of the Code is available on the Company's website.

### *Shareholder Communications*

The Board informs shareholders of all major developments affecting the Company's state of affairs.

The Company Secretary is primarily responsible for coordinating the disclosure of information to shareholders and regulators under the direction of the Board.

Relevant information is communicated to the Company's shareholders through the following measures:

- All information lodged with the ASX is available on the Company's website at [www.clime.com.au](http://www.clime.com.au)
- An Annual Report will be mailed at the close of the financial year to those shareholders who have elected to receive a hard copy. Alternatively, for those shareholders who so choose, a link to a copy of the Annual Report on the Company's website will be emailed in lieu of a hard copy;
- Net asset backing per share is released to the ASX by the 14<sup>th</sup> day following each month-end;

## **CORPORATE GOVERNANCE STATEMENT (continued)**

- 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.

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and understanding of the Company's strategy and goals.

The following charters and policies are available on request or can be found in the Corporate Governance section of the Company's website at [www.clime.com.au](http://www.clime.com.au):

- Board of Directors Charter
- Code of Conduct
- Securities Dealing Policy
- Continuous Disclosure Policy
- Communications Policy
- Audit Committee Charter
- Remuneration Committee Charter
- Nomination Committee Charter
- Risk Management Policy

**CLIME CAPITAL LIMITED**  
**ABN 99 106 282 777**  
**INCOME STATEMENT**  
**FOR THE YEAR ENDED 30 JUNE 2008**

	Note	2008 \$	2007 \$
<b>Investment income from ordinary activities</b>			
Investment revenue	2	3,442,536	2,719,633
Net realised (loss) / gain on disposal of financial assets at fair value through profit or loss		(6,839,289)	6,759,828
Net unrealised (loss) / gain on financial assets at fair value through profit or loss		<u>(14,221,784)</u>	<u>7,906,210</u>
<b>Total investment income from ordinary activities</b>		(17,618,537)	17,385,671
Management fees		(622,516)	(529,712)
Performance fees		-	(722,594)
Administrative and brokerage expenses		(288,909)	(371,870)
Directors' fees and company secretarial fees		(128,000)	(122,000)
Meeting expenses		<u>-</u>	<u>(2,381)</u>
<b>Total expenses</b>		(1,039,425)	(1,748,557)
<b>Net (loss) / profit before income tax expense</b>		(18,657,962)	15,637,114
<b>Income tax benefit / (expense)</b>	4(a)	<u>3,729,160</u>	<u>(4,136,506)</u>
<b>Net (loss) / profit attributable to members of the company</b>		<u>(14,928,802)</u>	<u>11,500,608</u>
<b>Basic earnings per share</b>	6	<u>(41.60) cents</u>	<u>30.56 cents</u>
<b>Diluted earnings per share</b>	6	<u>(41.60) cents</u>	<u>30.20 cents</u>

*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 2008**

	Note	2008 \$	2007 \$
<b>ASSETS</b>			
Cash and cash equivalents	14(a)	30,762,037	21,643,591
Trade and other receivables	7	443,200	855,035
Financial assets at fair value through profit or loss	8	18,642,082	51,252,788
Deferred tax asset	4(d)	61,327	104,213
Current tax asset		396,186	-
Other assets	9	28,320	19,121
<b>TOTAL ASSETS</b>		<b>50,333,152</b>	<b>73,874,748</b>
<b>LIABILITIES</b>			
Trade and other payables	10	190,525	1,780,165
Current tax liabilities	4(b)	-	1,717,245
Deferred tax liabilities	4(c)	63,471	3,850,650
Provisions	11	-	229,937
<b>TOTAL LIABILITIES</b>		<b>253,996</b>	<b>7,577,997</b>
<b>NET ASSETS</b>		<b>50,079,156</b>	<b>66,296,751</b>
<b>EQUITY</b>			
Issued capital	12	52,748,890	52,321,029
Retained (losses) / profits	13	(2,669,734)	13,975,722
<b>TOTAL EQUITY</b>		<b>50,079,156</b>	<b>66,296,751</b>

*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**  
**FOR THE YEAR ENDED 30 JUNE 2008**

	Note	2008 \$	2007 \$
<b>Total equity at the beginning of the year</b>		66,296,751	38,303,124
<b>Net (loss) / profit attributable to members of the company</b>		(14,928,802)	11,500,608
<b>Total recognised income and expense for the year</b>		(14,928,802)	11,500,608
<b>Transactions with shareholders</b>			
Dividends paid	5	(1,716,654)	(2,708,839)
Transaction costs arising from issue of shares		-	(153,745)
Issue of shares		427,861	19,355,603
		(1,288,793)	16,493,019
<b>Total equity at the end of the year</b>		50,079,156	66,296,751

*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 2008**

	Note	2008 \$	2007 \$
<b>Cash flows from operating activities</b>			
Proceeds from disposal of financial assets at fair value through profit or loss		69,592,492	52,585,236
Payments for financial assets at fair value through profit or loss		<u>(58,611,760)</u>	<u>(59,744,567)</u>
		10,980,732	(7,159,331)
Dividends and trust distributions received		2,134,022	1,790,795
Interest received		1,401,790	700,797
Payments for administration expenses		(371,835)	(412,097)
Investment manager's fees paid		(1,378,966)	(866,812)
Income tax paid		(2,128,566)	(440,952)
<b>Net cash provided by operating activities</b>	14(b)	<u>10,637,177</u>	<u>(6,387,600)</u>
<b>Cash flows from investing activities</b>			
Proceeds from sale of bank bills		-	2,025,665
<b>Net cash used in investing activities</b>		<u>-</u>	<u>2,025,665</u>
<b>Cash flows from financing activities</b>			
Dividends paid		(1,518,731)	(1,518,275)
Share issue transaction costs		-	(219,636)
Proceeds from issue of convertible preference shares		-	18,394,976
<b>Net cash provided by financing activities</b>		<u>(1,518,731)</u>	<u>16,657,065</u>
<b>Net increase in cash held</b>		9,118,446	12,295,130
Cash and cash equivalents at beginning of the financial year		21,643,591	9,348,461
<b>Cash and cash equivalents at end of the financial year</b>	14(a)	<u>30,762,037</u>	<u>21,643,591</u>

*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 2008**

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

The financial report of the company complies with all Australian equivalents to International Financial Reporting Standards (AIFRS) in their entirety. The financial report is prepared from records of the company on an accrual basis. The directors revalue the trading portfolio on a daily basis.

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

**Accounting policies**

**(a) Investments**

**i) Classification**

The Company's investments in publicly listed and unlisted companies, and investments in fixed interest securities, are classified as financial assets at fair value through profit or loss.

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) 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.

Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Realised gains and losses are measured as the difference between the historical cost of the investments and proceeds from sale.

**iv) Impairment of financial assets**

The Board assesses at each balance date whether there is objective evidence that a financial asset, or group of financial assets, is impaired. In the case of equity securities classified as financial assets through profit or loss, a significant or prolonged decline in the fair value of a security below its cost is considered in determining whether the security is impaired. If any such evidence exists for financial assets at fair value through profit or loss, an impairment loss is recognised through the income statement in the period in which it arises.

The impairment loss represents the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the asset's fair value less costs to sell.

**(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 substantively enacted by the reporting date.

**CLIME CAPITAL LIMITED**  
**ABN 99 106 282 777**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2008**

**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 differences 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 recognised as an expense or income 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) 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 accrues, taking into account the effective yield on the financial asset.

**(d) 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.

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.

**(e) Earnings per share**

**i) Basic earnings per share**

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

**ii) Diluted earnings per share**

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Potential ordinary shares are anti-dilutive when their conversion to ordinary shares would increase earnings per share or decrease the loss per share from continuing operations. The calculation of diluted earnings per share does not assume conversion, exercise, or other issue of potential ordinary shares that would have an anti-dilutive effect on earnings per share.

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**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

**(f) 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.

**(g) 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.

**(h) 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.

**(i) Adoption of new and revised accounting standards**

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2008 reporting periods. The directors' assessment of the impact of these new standards (to the extent relevant to the Company) and interpretations is set out below:

*(i) AASB 8 Operating Segments and AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8.*

AASB 8 and AASB 2007-3 are effective for annual reporting periods beginning on or after 1 January 2009.

The Company has not adopted these standards early. Application of these standards will not affect any of the amounts recognised in the financial statements.

*(ii) Revised AASB 101 Presentation of Financial Statements and AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101.*

AASB 101 (Revised) is applicable to annual reporting period beginning on or after 1 January 2009.

The Company has not adopted this standard early. The revised standard requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity. Application of the standard will not affect any of the amounts recognised in the financial statements.

*(iii) Revised AASB 123 Borrowing Costs and AASB 2007-6 Amendments to Australian Accounting Standards arising from AASB 123*

Revised AASB 123 is applicable for reporting periods beginning on or after 1 January 2009

The Company has not adopted this standard early. Application of the standard will not affect any of the amounts recognised in the financial statements, nor will it affect any of the disclosures in the financial report. Application of the standard will therefore have no impact on the Company's financial statements.

**(j) Functional and presentation currency**

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

	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
<b>2. INVESTMENT REVENUE</b>		
Dividends received	1,129,454	1,630,135
Trust distributions	719,073	380,775
Interest	1,594,009	708,723
<b>TOTAL</b>	<b>3,442,536</b>	<b>2,719,633</b>

**3. AUDITORS' REMUNERATION**

Remuneration of the auditor of the Company, Deloitte Touche Tohmatsu, (FY07: DTT NSW) in relation to:

Audit and review of the financial reports	25,297	19,000
Other professional services	-	1,054
<b>TOTAL</b>	<b>25,297</b>	<b>20,054</b>

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4. TAXATION	Note	2008 \$	2007 \$
<b>(a) Income tax expense</b>			
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%		(5,597,389)	4,691,134
Less tax effect of:			
Imputation gross up on dividends received		230,456	155,948
Franking credits on dividends received		(545,905)	(632,388)
Under provision in prior year		15,135	2,273
Other		-	(80,461)
		<u>(5,897,703)</u>	<u>4,136,506</u>
Temporary differences not brought to account		434,546	
Tax losses not brought to account		1,733,997	-
		<u>(3,729,160)</u>	<u>4,136,506</u>
<b>Income tax expense/(benefit) relating to ordinary activities</b>			
The applicable weighted average effective tax rates are as follows:			
		-20%	26%
		<b>\$</b>	<b>\$</b>
<b>(b) Current tax liabilities</b>			
Income Tax		-	1,717,245
<b>(c) Deferred tax liabilities</b>			
Provision for deferred income tax comprises the estimated tax payable at the current income tax rate of 30% on the following items:			
Provision for tax on unrealised gains on investment portfolio		-	3,831,989
Temporary differences		63,471	18,661
		<u>63,471</u>	<u>3,850,650</u>
<b>(d) Deferred tax assets</b>			
Deferred tax assets comprises the estimated tax deductible at the current income tax rate of 30% on the following items:			
Tax benefit on listing costs		57,840	98,832
Temporary differences		3,487	5,381
		<u>61,327</u>	<u>104,213</u>
<b>(e) Income tax (benefit) / expense recognised in the Income Statement</b>			
Current income tax expense		-	216,899
Under provision in prior year		15,135	2,273
Deferred income tax relating to the origination and reversal of temporary differences		<u>(3,744,295)</u>	<u>3,917,334</u>
		<u>(3,729,160)</u>	<u>4,136,506</u>

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**4. TAXATION (cont)**

<b>(f) Tax losses</b>	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
Unused temporary differences for which no deferred tax asset has been recognised	1,448,487	-
Unused tax losses for which no deferred tax asset has been recognised	5,779,990	-
	<u>7,228,477</u>	<u>-</u>
Potential tax benefit @ 30%	<u>2,168,543</u>	<u>-</u>

**(g) Income tax recognised directly in equity**

The following current amounts were charged directly to equity during the year

Current tax - share issue expenses	-	65,891
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**5. DIVIDENDS**

**(a) Recognised in the current year**

**Dividends paid in the current year**

A fully franked dividend on ordinary shares in respect of the 2007 year of 2.75 cents per share paid on 15 October 2007 (2007: A fully franked final dividend in respect of the 2006 year of 2.25 cents per share paid on 16 October 2006)

1,026,842	819,562
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A fully franked special dividend on ordinary shares in respect of the 2007 year of 2 cents per share paid on 15 December 2006

-	734,348
---	---------

A fully franked interim dividend on ordinary shares of 2.5 cents per share paid on 30 March 2007

-	924,992
---	---------

A fully franked dividend on converting preference shares in respect of the 2007 year of 4.5 cents per share paid on 23 October 2007 (2007: Nil)

344,906	
---------	--

A fully franked dividend on converting preference shares in respect of the 2008 year of 4.5 cents per share paid on 23 January 2008 (2007: Nil)

344,906	
---------	--

**Dividends provided for in the current year**

2007: A fully franked dividend on converting preference shares of 3.0 cents per share for the two month period ending 30 June 2007 payable on 23 July 2007

-	229,937
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<u>1,716,654</u>	<u>2,708,839</u>
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**(b) Not recognised in the current year**

2007: Since the end of the year, the directors declared a fully franked final dividend of 2.75 cents per share payable on 15 October 2007.

-	1,026,842
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**(c) Dividend franking account**

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, franking debits arising from the payment of the declared dividend and franking credits arising from dividends receivable

2,261,436	2,054,877
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2007: Subsequent to year end, the franking account will be reduced by the proposed final dividend to be paid on 15 October 2007

-	(440,075)
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<u>2,261,436</u>	<u>1,614,801</u>
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The tax rate at which paid dividends have been franked is 30% (2007: 30%)

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	2008 \$	2007 \$
<b>6. EARNINGS PER SHARE</b>		
<b>Basic earnings per share</b>	<b>(41.60) cents</b>	<b>30.56 cents</b>
<b>Diluted earnings per share</b>	<b>(41.60) cents</b>	<b>30.20 cents</b>
Earnings used in calculating basic earnings per share	(15,618,614)	11,270,671
Earnings used in calculating diluted earnings per share	(15,618,614)	11,500,608
Weighted average number of ordinary shares used in the calculation of basic earnings per share	37,542,361	36,881,536
Weighted average number of shares used in the calculation of diluted earnings per share	37,542,361	38,085,978
<b>Note - Diluted earnings per share</b>		
Weighted average number of shares used in the calculation of basic earnings per share	37,542,361	36,881,536
Add:		
Weighted average number of converting preference shares on issue <sup>1</sup>	0	1,204,442
Weighted average number of shares used in the calculation of diluted earnings per share	37,542,361	38,085,978

<sup>1</sup> 7,664,573 potential fully paid ordinary shares (representing the number of converting preference shares on issue during the year) have been excluded from the calculation of diluted earnings per share for the year ended 30 June 2008 because the impact of their inclusion would be anti-dilutive. Refer note 1(e)(ii) for further information.

**7. TRADE AND OTHER RECEIVABLES**

	2008 \$	2007 \$
Income receivable	329,161	422,436
Unsettled trades	99,381	357,957
Other debtors	14,658	74,642
	443,200	855,035

**Terms and conditions**

Income receivable represents dividends and interest accrued and receivable at balance date. Unsettled trades are non-interest bearing and are secured by the Australian Securities 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 to any of these amounts.

The credit risk exposure in relation to receivables is the carrying amount.

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	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
<b>8. INVESTMENTS IN FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT &amp; LOSS</b>		
(a) Financial assets at fair value through profit or loss		
(1) Listed and unlisted equities	11,360,505	46,953,697
(2) Interest bearing securities		
Convertible notes and preference shares	<u>7,281,577</u>	<u>4,299,091</u>
	<u>18,642,082</u>	<u>51,252,788</u>
<b>9. OTHER ASSETS</b>		
Prepayments	<u>28,320</u>	<u>19,121</u>
<b>10. TRADE AND OTHER PAYABLES</b>		
Accrued expenses	73,077	78,790
Amount payable to related parties	85,769	842,219
Unsettled trades	<u>31,679</u>	<u>859,156</u>
	<u>190,525</u>	<u>1,780,165</u>
<b>Terms and conditions</b>		
Unsettled trades are non-interest bearing and are secured by the Australian Securities Exchange - National Guarantee Fund. They are settled within 3 days of the purchase being executed.		
<b>11. PROVISIONS</b>		
Preference share dividend declared	<u>-</u>	<u>229,937</u>
<b>12. ISSUED CAPITAL</b>		
Issued and paid-up capital		
(a) 37,625,277 (2007: 37,339,717) ordinary fully paid shares	34,507,659	34,079,798
(b) 7,664,573 (2007: 7,664,573) converting preference fully paid shares	<u>18,241,231</u>	<u>18,241,231</u>
Balance at the end of the year	<u>52,748,890</u>	<u>52,321,029</u>

	<b>2008</b>	<b>2007</b>		
	<b>Number of shares</b>	<b>Number of shares</b>		
<b>(a) Ordinary shares</b>				
Balance at beginning of the year	37,339,717	36,424,891	34,079,798	33,119,171
Dividend reinvestment plan	<u>285,560</u>	<u>914,826</u>	<u>427,861</u>	<u>960,627</u>
Balance at the end of the year	<u>37,625,277</u>	<u>37,339,717</u>	<u>34,507,659</u>	<u>34,079,798</u>

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the Company does not have a limited amount of authorised capital and issued shares do not have a par value.

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**12. ISSUED CAPITAL (CONTINUED)**

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.

	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>Number of shares</b>	<b>Number of shares</b>	<b>\$</b>	<b>\$</b>
<b>(b) Converting preference shares</b>				
Balance at beginning of the year	7,664,573	-	18,241,231	-
Issued 30 April 2007	-	2,560,189	-	6,144,454
Issued 4 May 2007	-	2,604,384	-	6,250,522
Issued 7 May 2007	-	2,500,000	-	6,000,000
Cost of issue of capital	-	-	-	(153,745)
Balance at the end of the year	<u>7,664,573</u>	<u>7,664,573</u>	<u>18,241,231</u>	<u>18,241,231</u>

Holders of converting preference shares carry a right to be paid a quarterly dividend equal to 7.5% of the issue price annually, subject to the availability of profits and the Directors, at their discretion, determining to pay that dividend. The dividends payable are non-cumulative.

The converting preference shares automatically convert into ordinary shares in ten years, or sooner at the option of the holder. The converting preference shares are non-redeemable. In the event of winding up the Company, converting preference shareholders will rank ahead of Clime ordinary shareholders to the extent of the paid-up capital on the preference shares plus accrued but unpaid dividends.

Holders of converting preference shares are entitled to vote at shareholders' meetings in certain circumstances as outlined in the Prospectus dated 16 March 2007.

**13. RETAINED (LOSSES) / PROFITS**

Balance at the beginning of the year	13,975,722	5,183,953
Net (loss) / profit attributable to members of the company	(14,928,802)	11,500,608
Dividends provided for or paid	(1,716,654)	(2,708,839)
Balance at end of financial year	<u>(2,669,734)</u>	<u>13,975,722</u>

**14. CASH FLOW INFORMATION**

**(a) Reconciliation of cash**

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

Cash at bank	6,811,000	4,450,087
Short term bank deposits	23,951,037	17,193,504
Total cash and cash equivalents	<u>30,762,037</u>	<u>21,643,591</u>

The weighted average interest rate for cash and short-term deposits as at 30 June 2008 is 7.84% (2007: 6.35%).

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	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
<b>14. CASH FLOW INFORMATION</b>		
<b>(b) Reconciliation of net (loss) / profit attributable to members of the company to net cash provided by operation activities</b>		
Net (loss) / profit attributable to members of the company	(14,928,802)	11,500,608
Changes in assets and liabilities:		
(increase)/decrease in trade and other receivables	411,836	1,650,515
(increase)/decrease in investments at fair value through profit or loss	32,610,706	(23,819,760)
(increase)/decrease in prepayments	(9,199)	(19,120)
(increase)/decrease in current tax asset	(396,186)	-
(Increase)/decrease in deferred tax asset	42,886	(80,774)
Increase/(decrease) in trade and other payables	(1,589,640)	737,915
Increase/(decrease) in deferred tax liability	(3,787,179)	2,276,639
Increase/(decrease) in current tax liability	(1,717,245)	1,366,377
<b>Net cash provided by operating activities</b>	<b>10,637,177</b>	<b>(6,387,600)</b>

**15. RELATED PARTY TRANSACTIONS**

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

**(a) Management and Performance Fees**

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

Clime Asset Management Pty Ltd	- Mr Roger J Montgomery	<b>note (c)(i)</b>	466,887	1,119,878
Boutique Asset Management Pty Ltd	- Mr Geoffrey J Wilson	<b>note (c)(ii)</b>	155,629	132,428
			622,516	1,252,306

As at 30 June 2008, \$85,769 (2007: \$842,219) of the year's management and performance fees remain unpaid and within payables.

**(b) Dividends**

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

**(c) Nature of Relationships**

**(i) Clime Asset Management Pty Ltd**

Mr Roger Montgomery is the Managing Director of the Investment Manager, Clime Asset Management Pty Ltd (a wholly-owned subsidiary of ASX listed company Clime Investment Management Limited). Clime Asset Management Pty Ltd receives management and performance fees as remuneration for managing the Company's investment portfolio.

The investment management agreement entered into by the Company with the Investment Manager is for an initial period of 25 years commencing from the date of listing. The Company must pay a management fee of 1.00% of gross assets per annum to the Investment Manager, or to the party it directs, in respect of investment management services. A performance fee will also be payable on an annual basis in circumstances where the Investment Manager has generated returns in excess of the benchmark index.

**(ii) Boutique Asset Management Pty Ltd**

Boutique Asset Management Pty Ltd, a company associated with Mr Geoffrey Wilson, has an assignment from the Investment Manager to receive 25% of all management fees payable by the Company under the Management Agreement.

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**16. KEY MANAGEMENT PERSONNEL DISCLOSURE**

**(a) Remuneration of Directors and Other Key Management Personnel**

A summary of the remuneration of Directors and other key management personnel for the current and previous financial year is set out below:

	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
Short-term employee benefits	<u>128,000</u>	<u>122,000</u>

**(b) Shareholdings**

<b>2008</b>	<b>Balance at 1 July 2007</b>	<b>Shares acquired / (disposed)</b>	<b>Balance at 30 June 2008</b>
<b>Ordinary Shares</b>			
Roger Montgomery (Chairman)	321,893	60,449	382,342
Anthony Hockey	57,737	(24,142)	33,595
Geoffrey Wilson	361,931	-	361,931
Julian Gosse	-	-	-
	<u>741,561</u>	<u>36,307</u>	<u>777,868</u>

<b>2007</b>	<b>Balance at 1 July 2006</b>	<b>Shares acquired / (disposed)</b>	<b>Balance at 30 June 2007</b>
<b>Ordinary Shares</b>			
Roger Montgomery (Chairman)	223,449	98,444	321,893
Anthony Hockey	54,167	3,570	57,737
Geoffrey Wilson	361,931	-	361,931
Julian Gosse	-	-	-
	<u>639,547</u>	<u>102,014</u>	<u>741,561</u>

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

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**17. FINANCIAL INSTRUMENTS**

**(a) Financial Risk Management Objectives, Policies and Procedures**

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 balance date, are included under the appropriate note for that instrument.

Risks arising from holding financial instruments are inherent in the Company's activities, and are managed through a process of ongoing identification, measurement and monitoring. The Company is exposed to credit risk, liquidity risk and market risk. The Company is responsible for identifying and controlling the risks that arise from these financial instruments.

The risks are measured using a method that reflects the expected impact on the results and net assets attributable to unitholders of the Company from reasonably possible changes in the relevant risk variables. Information about these risk exposures at the reporting date, measured on this basis, is disclosed below. Information about the total fair value of financial instruments exposed to risk, as well as compliance with established investment mandate limits, is also monitored by the Company. These mandate limits reflect the investment strategy and market environment of the Company, as well as the level of risk that the Company is willing to accept, with additional emphasis on selected industries.

This information is prepared and reported to relevant parties within the Company on a regular basis as deemed appropriate.

Concentrations of risk arise when a number of financial instruments or contracts are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

In order to avoid excessive concentrations of risk, the Company monitors its exposure to ensure concentrations of risk remain within acceptable levels and either reduces exposure or uses derivative instruments to manage the excessive risk concentrations when they arise.

**(b) Credit risk**

Credit risk 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) Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. This risk is controlled through the Company's investment in financial instruments, which under market conditions are readily convertible to cash. In addition, the Company maintains sufficient cash and cash equivalents to meet normal operating requirements.

*Maturity analysis for financial liabilities*

Financial liabilities of the Company comprise trade and other payables which have no contractual maturities but are typically settled within 30 days.

**(d) 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. The market prices of these securities can and do fluctuate in accordance with multiple factors.

The Company seeks to reduce market risk by attempting to invest in equity securities where there is a significant 'margin of safety' between the underlying companies' value and share price. The Company does not have set parameters as to a minimum or maximum margin of safety, nor does it have set parameters regarding a minimum or maximum amount of the portfolio that can be invested in a single company or sector.

**(i) Interest rate risk**

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.

At balance date, the Company has a significant proportion of its assets held in interest-bearing bank accounts and deposits at call. As such, the Company's revenues and assets are subject to interest-rate risk to the extent that the cash rate falls over any given period. Given that the Company does not have - nor has it ever had - any material interest-bearing liabilities at balance date, however, the Investment Manager does not consider it necessary to hedge the Company's exposure to interest rate risk.

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**17. FINANCIAL INSTRUMENTS (CONTINUED)**

**(i) Interest rate risk (continued)**

The table below summarises the pre-tax impact of both a decrease and increase in interest rates by 100 basis points. The analysis is based on the assumption that the change is based on the weighted average rate of interest on cash at bank and cash on deposit for the year (7.84% weighted average interest rate in 2008, and 6.35% weighted average interest rate in 2007).

2008		2007	
Change in interest rate	Effect on pre-tax profit (\$)	Change in interest rate	Effect on pre-tax profit (\$)
-100bps / +100bps	(203,317) / +203,317	-100bps / +100bps	(111,610) / +111,610

**(ii) Equity Price Risk**

Equity Price Risk is the risk that fair value of equities decreases as a result of changes in market prices, whether those changes are caused by factors specific to the individual stock or factors affecting the broader market. Equity price risk exposure arises from the Company's investment portfolio.

The table below summarises the pre-tax impact of both a general fall and general rise in market prices by 10%. The analysis is based on the assumption that the movements are spread equally over all assets in the investment portfolio.

2008		2007	
Change in equity price	Effect on pre-tax profit (\$)	Change in equity price	Effect on pre-tax profit (\$)
-10% / +10%	(1,864,208) / +1,864,208	-10% / +10%	(5,125,279) / +5,125,279

**(e) Net fair values**

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

**18. CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

The Company has no material contingent liabilities or contingent assets as at the time of this report.

**19. EVENTS SUBSEQUENT TO BALANCE DATE**

No dividends have been recommended by the Directors subsequent to the end of the financial year.

No matters or circumstances have arisen since the end of the financial year which significantly affected, or may significantly affect, the operations of the Company, the results of those operations or the state of affairs of the company in future financial years.

**20. COMPANY DETAILS**

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

Suite 1, Level 1  
7 Macquarie Place  
SYDNEY NSW 2000

**CLIME CAPITAL LIMITED**  
**ABN 99 106 282 777**  
**DIRECTORS' DECLARATION**

The Directors of Clime Capital Limited declare that:

- (a) in the Directors' opinion, the financial statements and notes for the financial year ended 30 June 2008 are in accordance with the *Corporations Act 2001*, including:
  - (i) section 296 (compliance with Accounting Standards); and
  - (ii) section 297 (true and fair view); and
- (b) in the Directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- (c) the Directors have been given the declarations required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Directors by:



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**Roger Montgomery**  
Chairman

Date: 29 September 2008

## **Independent Auditor's Report to the Members of Clime Capital Limited**

### **Report on the Financial Report**

We have audited the accompanying financial report of Clime Capital Limited, which comprises the balance sheet as at 30 June 2008, and the income statement, cash flow statement and statement of changes in equity for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration as set out on pages 28 to 44.

#### *Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

#### *Auditor's Responsibility*

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

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

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

*Auditor's Independence Declaration*

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

*Auditor's Opinion*

In our opinion:

- (a) the financial report of Clime Capital Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the company's financial position as at 30 June 2008 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

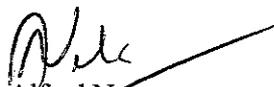
**Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 15 to 18 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

*Auditor's Opinion*

In our opinion the Remuneration Report of Clime Capital Limited for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001*.

  
DELOITTE TOUCHE TOHMATSU

  
Alfred Nehama  
Partner

Chartered Accountants  
Sydney, 29 September 2008

**ASX ADDITIONAL INFORMATION  
DETAILS OF SHAREHOLDERS**

The shareholder information set out below was applicable as at 15 September 2008.

**A. Distribution of Equity Securities**

Analysis of numbers of equity security holders by size of holding:

<u>Fully Paid Ordinary Shares</u>	<u>No. of Holders</u>
1 - 1,000	111
1,001 - 5,000	422
5,001 - 10,000	283
10,001 - 100,000	647
100,001 and over	73
	<u>1,536</u>

**Converting Preference Shares**

<u>Ordinary Shares</u>	<u>No. of Holders</u>
1 - 1,000	55
1,001 - 5,000	346
5,001 - 10,000	217
10,001 - 100,000	154
100,001 and over	5
	<u>777</u>

**B. Equity Security Holders**

***Twenty largest quoted equity security holders***

The names of the twenty largest holders of quoted equity securities are listed below:

<u>Name</u>	<u>Fully Paid Ordinary Shares</u>	
	<u>No. of Shares</u>	<u>Percentage of issued shares</u>
Clime Investment Management Limited	4,186,024	11.13
Super John Pty Ltd	710,742	1.89
Mr. & Mrs. Heathers <HEATHERS FAMILY S/FUND A/C>	597,018	1.59
Highland Endeavours Pty Ltd <HOWELL FAMILY A/C>	549,500	1.46
Storfund Pty Ltd <KENNARDS SELF STOR S/F A/C>	541,667	1.44
Dynasty Peak Pty Ltd <THE AVOCA SUPER FUND A/C>	361,931	0.96
Mr. Rory Dunlevy <DUNLEVY SUPER FUND A/C>	287,941	0.77
Hollymac Pty Ltd <HOLLYMAC SUPERANNUATION A/C>	287,296	0.76
Mr. Victor John Plummer	250,000	0.66
Mr. John Charles McCormick	246,126	0.65
Ms. Fleur Leong	243,034	0.65
Ms. Holly Ann McNiven	218,235	0.58
Ms. Christine Elizabeth Johnson	216,667	0.58
Naumai Pty Ltd <SEXTON UNIT A/C>	216,667	0.58
Iqtel Australia Pty Ltd <THE MENZIES FAMILY A/C>	216,667	0.58
Mr. & Mrs. Balsarini <A&K MERCANTILE PROV FUND A/C>	210,358	0.56
Mr. & Mrs. Woolfitt <BARTRE SUPER FUND A/C>	208,334	0.55
Mr. Don Holden & Mrs. Sue Holden	202,979	0.54
BT Portfolio Services Limited <APPLE CREEK SUPER FUND A/C>	202,267	0.54
Ms. Cheryl Maria Athayde	200,536	0.53
	<u>10,153,989</u>	<u>27.00</u>

**Converting Preference Shares**

Name	No. of Shares	Percentage of issued shares
Clime Investment Management Limited	937,739	12.23
D B Management Pty Ltd <D B SUPERANNUATION FUND A/C>	200,000	2.61
Mr. Gabriel Berger	152,650	1.99
Storfund Pty Ltd <KENNARDS SELF STOR S/F A/C>	135,417	1.77
Di Iulio Homes Pty Ltd <DI IULIO SUPER FUND A/C>	125,000	1.63
Mr. Anthony John Gill <THE STAG A/C>	100,000	1.31
Mr. & Mrs. Heathers <HEATHERS FAMILY S/FUND A/C>	100,000	1.31
Mr. Anthony & Mrs. Anne O'Neill <EVENPEAK SUPER FUND A/C>	62,500	0.82
Double Pty Ltd	60,000	0.78
Dr. Ronald & Mrs. Ann Dolton <R&A DOLTON SUPER FUND A/C>	60,000	0.78
Benmiren Nominees Pty Ltd <BENHAM SUPER BENEFIT A/C>	55,000	0.72
Barbright Australia Pty Ltd <INTERQUARTZ SUPER FUND A/C>	54,167	0.71
Mr. Richard Toohar	53,554	0.70
Ophi Investments Pty Ltd <WARTON CHIENG A/C>	50,000	0.65
Nellie Dick Enterprises Pty Ltd <EMPLOYEES SUPER FUND A/C>	50,000	0.65
Mr. Derek John Cantle <DJ & AI CANTLE FAMILY A/C>	45,407	0.59
Mrs. Dorothy Anne Abernethy	45,000	0.59
Mr. Gregory & Mrs. Linda Corinne Leseberg	43,500	0.57
Mr. Graham Peter Verbunt	43,334	0.56
Huntfun Pty Ltd <THE HUNT SUPER FUND A/C>	41,670	0.54
	2,414,938	31.51

***Unquoted equity securities***

There are no unquoted equity securities on issue as at the date of this report.

**C. Substantial Holders**

Substantial holders in the company are set out below (based on voting interest in fully paid ordinary shares only):

	Number held	Percentage
<i>Ordinary Shares</i>		
Clime Investment Management Limited	4,186,024	11.13%

**D. Voting Rights**

The voting rights attaching to each class of equity securities are set out below:

*(a) Fully Paid Ordinary Shares*

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

*(b) Converting Preference Shares*

One vote for each share held, but limited to matters affecting the rights of such shares.