

**SMALLCO INVESTMENT FUND**

**ARSN 103 148 107**

**FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2011**

**SMALLCO INVESTMENT FUND  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2011**

**TABLE OF CONTENTS**

	Page
Directors of the Responsible Entity's Report	2 - 3
Auditor's Independence Declaration	4
Statement of Comprehensive Income	5
Statement of Financial Position	6
Statement of Changes in Equity	7
Statement of Cash Flows	8
Notes to the Financial Statements	9 - 23
Directors' Declaration of the Responsible Entity	24
Independent Audit Report	25 - 26

**SMALLCO INVESTMENT FUND**  
**ARSN 103 148 107**

**DIRECTORS OF THE RESPONSIBLE ENTITY'S REPORT**

The directors of Smallco Investment Manager Limited, Responsible Entity of Smallco Investment Fund ("the Fund") present their report on the Fund for the financial year ended 30 June 2011.

**Directors**

The names of the directors of the Responsible Entity, who held office during or since the end of the year are:

Rob Hopkins  
Bill Ryan  
Michael Walsh

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

**Operations Results**

The net profit from ordinary activities for the year ended 30 June 2011 was \$8,823,450 (2010: net profit \$17,814,177).

**Principal Activity**

The principal activity of the Fund during the financial year was conducting securities investment activities in Australia, investing predominantly in small Australian listed companies.

No significant change in the nature of these activities occurred during the year.

**Significant Changes in State of Affairs**

In the opinion of the directors, other than the matters set out in this report, there were no significant changes in the Fund's state of affairs during the financial year.

**Review of Operations and Results**

A review of the operations of the Fund during the financial year and the results of those operations found that during the year, the Fund continued to engage in its principal activity and the results are disclosed in the attached financial statements.

**Fund Assets**

At 30 June 2011 the Fund held assets to the total value of \$74,953,472 (2010: \$78,801,763). The basis of valuation of the assets is disclosed in note 2 to the financial statements.

**Distributions Paid**

For the year ended 30 June 2011, the distribution paid or payable to unitholders is \$974,298 or \$0.0240 per unit (2010: \$2,497,659 or \$0.0584 per unit).

**Units on issue**

40,659,101 units of the Fund were on issue at 30 June 2011 (2010: 42,777,737). During the year, 2,797,301 (2010: 5,562,781) units were issued by the Fund and 4,915,937 (2010: 6,133,407) units were withdrawn.

**Future Developments**

The Fund will continue to be managed in accordance with the investment objectives and guidelines as set out in the governing documents of the Fund and in accordance with the provisions of the Fund's constitution.

**Environmental Issues**

The Fund's operations are not regulated by any significant environmental regulation under the law of the Commonwealth or of a State or Territory.

SMALLCO INVESTMENT FUND  
ARSN 103 148 107

DIRECTORS OF THE RESPONSIBLE ENTITY'S REPORT

**Indemnifying Officers and Auditor**

Other than detailed below, no indemnities have been given or insurance premiums paid, during or since the end of the financial year, for any person who is or has been an officer or auditor of the Fund, or the Responsible Entity.

The Responsible Entity has paid premiums totalling \$26,703.96 plus GST (2010: \$25,721) to insure each of the following directors of the Fund against liabilities for the costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director of the Fund, other than conduct involving a wilful breach of duty in relation to the Fund:

Rob Hopkins  
Bill Ryan  
Michael Walsh

**Proceedings on Behalf of the Fund**

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

The Fund was not a party to any such proceedings during the year.

**Fees Paid or Payable to the Responsible Entity**

Fees paid to the Responsible Entity and its associates out of Fund property during the year are disclosed in note 10 on page 17-18 of the financial statements. No fees were paid out of Fund property to the directors of the Responsible Entity during the year. The number of interests in the Fund held by the Responsible Entity or its associates as at the end of the financial year are disclosed in note 10 on page 17-18 of the financial statements.

**Events After the Reporting Period**

There has been no matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the Fund's operations in future financial years, the results of those operations or the Fund's state of affairs in future financial years.

**Auditor's Independence Declaration**

A copy of the auditor's independence declaration required under section 307C of the Corporations Act 2001 is set out on page 4.

Signed in accordance with a resolution of the Board of Directors of Smallco Investment Manager Limited, the Responsible Entity.



**Rob Hopkins**  
Director



**Bill Ryan**  
Director

Dated at Sydney  
22 September 2011

22 September 2011

The Board of Directors  
Smallco Investment Manager Limited  
Suite 1805, Level 18  
109 Pitt Street  
Sydney NSW 2000

**Crowe Horwath Sydney**

ABN 97 895 683 573

Member Crowe Horwath International

Level 15 309 Kent Street  
Sydney NSW 2000 Australia  
Tel +61 2 9262 2155  
Fax +61 2 9262 2190  
[www.crowehorwath.com.au](http://www.crowehorwath.com.au)

A WHK Group Firm

Dear Board of Directors of the Responsible Entity

### **SMALLCO INVESTMENT FUND**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Smallco Investment Manager Limited, as the responsible entity of Smallco Investment Fund.

As lead audit principal for the audit of the financial statements of Smallco Investment Fund for the financial year ended 30 June 2011, I declare that to the best of my knowledge and belief, that 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



**CROWE HORWATH SYDNEY**



**LEAH RUSSELL**  
Principal

**SMALLCO INVESTMENT FUND**  
**ARSN 103 148 107**

**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 30 JUNE 2011**

	Notes	2011 \$	2010 \$
<b>Revenue</b>			
Net gain on financial instruments held at fair value through profit or loss		8,128,905	17,441,541
Dividends and trust distributions		1,897,031	1,869,025
Interest income		440,732	126,308
Other income		1,364	-
<b>Total revenue from ordinary activities</b>		<u>10,468,032</u>	<u>19,436,874</u>
<b>Expenses</b>			
Administration fees		(108,470)	(114,597)
Management fees	10	(1,045,417)	(978,476)
Custody fees		(21,032)	(19,006)
Brokerage expense		(170,627)	(180,384)
Finance costs		(37,325)	(30,832)
Dividends paid on short stock		(38,510)	(53,200)
Auditors' remuneration	3	(42,680)	(41,800)
Other expenses from ordinary activities		(180,521)	(204,402)
<b>Total expenses from ordinary activities</b>		<u>(1,644,582)</u>	<u>(1,622,697)</u>
<b>Net operating profit for the year</b>		<u>8,823,450</u>	<u>17,814,177</u>
<b>Finance costs attributable to unitholders</b>			
Increase in net assets attributable to unitholders		(7,849,152)	(15,316,518)
Distribution to unitholders	8	(974,298)	(2,497,659)
<b>Profit for the year</b>		<u>-</u>	<u>-</u>
Other comprehensive income		-	-
<b>Total comprehensive income</b>		<u>-</u>	<u>-</u>

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

**SMALLCO INVESTMENT FUND**  
**ARSN 103 148 107**

**STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2011**

	Notes	2011 \$	2010 \$
<b>Assets</b>			
Cash and cash equivalents	4	9,243,526	10,355,203
Trade and other receivables	5	561,683	349,899
Financial assets held at fair value through profit or loss	6	<u>65,148,263</u>	<u>68,096,661</u>
<b>Total Assets</b>		<u>74,953,472</u>	<u>78,801,763</u>
<b>Liabilities</b>			
Trade and other payables	7	175,848	157,663
Financial liabilities held at fair value through profit or loss	6	2,265,500	8,581,918
Distributions payable	8	<u>974,298</u>	<u>2,497,659</u>
<b>Total Liabilities (excluding net assets attributable to unitholders)</b>		<u>3,415,646</u>	<u>11,237,240</u>
<b>NET ASSETS ATTRIBUTABLE TO UNITHOLDERS - LIABILITY</b>	9	<u>71,537,826</u>	<u>67,564,523</u>

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

**SMALLCO INVESTMENT FUND**  
**ARSN 103 148 107**

**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 30 JUNE 2011**

	2011 \$	2010 \$
<b>Total equity at the beginning of the financial year</b>	-	-
Profit/(loss) for the year	-	-
Other comprehensive income	-	-
Total comprehensive income	-	-
Transactions with owners in their capacity as owners	-	-
<b>Total equity at the end of the financial year</b>	-	-

Under Australian Accounting Standards, net assets attributable to unitholders are classified as a liability rather than equity. As a result there was no equity at the start or end of the year.

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.



**SMALLCO INVESTMENT FUND**  
**ARSN 103 148 107**

**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 30 JUNE 2011**

	Notes	2011 \$	2010 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Proceeds from sale of financial instruments held at fair value through profit or loss		39,524,326	26,320,469
Purchase of financial instruments held at fair value through profit or loss		(35,128,288)	(21,908,802)
Interest received		417,138	147,755
Sub-Underwriting fees		1,364	-
Dividends and trust distributions received		1,932,310	1,777,668
Manager fees		(1,042,453)	(961,257)
Administrative expenses		(447,070)	(540,225)
<b>Net cash inflow from operating activities</b>	11	<u>5,257,327</u>	<u>4,835,608</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Proceeds from unit issues		3,483,732	6,338,804
Payment on redemption of units		(8,761,239)	(9,510,700)
Distributions paid		(1,091,497)	(1,594,494)
<b>Net cash outflow from financing activities</b>		<u>(6,369,004)</u>	<u>(4,766,390)</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>		(1,111,677)	69,218
Cash and cash equivalents at the beginning of financial year		<u>10,355,203</u>	<u>10,285,985</u>
<b>Cash and cash equivalents at the end of the year</b>	4	<u>9,243,526</u>	<u>10,355,203</u>
<b>NON-CASH FINANCING ACTIVITIES</b>			
Reinvestment of units from distributions paid		<u>1,406,162</u>	<u>1,797,219</u>

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

**SMALLCO INVESTMENT FUND**  
**ARSN 103 148 107**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011**

**NOTE 1: CORPORATE INFORMATION**

The financial statements cover Smallco Investment Fund as an individual entity. The Fund was constituted on 31 October 2000.

Smallco Investment Fund is an Australian registered managed investment scheme under the Corporations Act 2001.

The Fund will be terminated on the 80th anniversary of the day before the Fund commenced.

The responsible entity of Smallco Investment Fund is Smallco Investment Manager Limited. The registered office is Suite 1805, Level 18, 109 Pitt Street, Sydney NSW 2000.

The financial statements of Smallco Investment Fund for the year ended 30 June 2011 were authorised for issue with a resolution of the directors of the Responsible Entity on 22 September 2011.

The financial statements are presented in Australian currency.

**NOTE 2: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

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

**(a) Basis of Preparation**

The financial statements are general purpose financial statements that have been prepared in accordance with the Fund's Constitution, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial statements have been prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

The Statement of Financial Position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current. Additional information regarding this are included in the relevant notes.

*Compliance with International Financial Reporting Standards (IFRS)*

The financial statements comply with Australian Accounting Standards, as issued by the Australian Accounting Standards Board, and IFRS, as issued by the International Accounting Standards Board.

**(b) Statement of Compliance**

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards ('IFRS').

**(c) Income Tax**

Under current legislation, the Fund is not subject to income tax provided the taxable income of the Fund is fully distributed either by way of cash or reinvestment (i.e. unitholders are presently entitled to the income of the Fund).

Financial instruments may include unrealised capital gains. Should such a gain be realised, that portion of the gain that is subject to capital gains tax will be distributed so that the Fund is not subject to capital gains tax.

Realised capital losses are not distributed to unitholders but are retained in the Fund to be offset against any realised capital gains. If realised capital gains exceed realised capital losses, the excess is distributed to unitholders.

The benefits of imputation credits and foreign tax paid are passed on to unitholders.

The Fund currently incurs withholding tax imposed by certain countries on investment income. Such income is recorded net of withholding tax in the Statement of Comprehensive Income.

**SMALLCO INVESTMENT FUND**  
**ARSN 103 148 107**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011**

**NOTE 2: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(d) Financial Instruments**

*(i) Classification*

The Fund's investments are classified as at fair value through profit or loss, being financial instruments designated at fair value through profit or loss upon initial recognition.

These include financial assets that are not held for trading purposes and which may be sold. These are investments in equity instruments.

Financial assets and financial liabilities designated at fair value through profit or loss upon initial recognition are those that are managed and their performance evaluated on a fair value basis in accordance with the Fund's documented investment strategy. The Fund's policy is for the responsible entity to evaluate the information about these financial assets on a fair value basis together with other related financial information.

The Fund makes short sales in which a borrowed security is sold in anticipation of a decline in the market value of that security. Short sales are classified as financial liabilities at fair value through profit or loss.

*(ii) Recognition/Derecognition*

The Fund recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date) and recognises changes in fair value of the financial assets or financial liabilities from this date.

Investments are derecognised when the right to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

*(iii) Measurement*

*Financial Assets and Liabilities Held at Fair Value through Profit or Loss*

Financial assets and liabilities held at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the Statement of Comprehensive Income.

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the Statement of Financial Position date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

*Loan and Receivables*

Loan assets are measured initially at fair value plus transaction costs and subsequently amortised using the effective interest rate method, less impairment losses if any. Such assets are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment.

If evidence of impairment exists, an impairment loss is recognised in profit or loss as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

If in a subsequent period the amount of an impairment loss recognised on a financial asset carried at amortised cost decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through profit or loss.

*(iv) Offsetting Financial Instruments*

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

**(e) Net Assets Attributable to Unitholders**

Units are redeemable at the unitholders' option and are therefore classified as financial liabilities. The units can be put back to the Fund at any time for cash equal to a proportionate share of the Fund's net asset value. The fair value of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) at the Statement of Financial Position date if unitholders exercised their right to put the units back to the Fund.

**SMALLCO INVESTMENT FUND**  
**ARSN 103 148 107**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011**

**NOTE 2: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(f) Revenue**

Investment income is recognised and measured at fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Fund and the revenue can be reliably measured. The following specific recognition criteria must also be met before income is recognised:

*Dividends and Distributions*

Revenue is recognised when the right to receive the payment is established. Dividends declared on securities sold short are recorded as a dividend expense on the ex-dividend date.

Trust distributions are recognised on an entitlements basis.

*Interest Income*

Investment income is recognised as the interest accrues (using effective interest rate method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

*Changes in the Fair Value of Investments*

Net gains or losses on investments as at fair value through profit or loss are calculated as the difference between the fair value at sale, or at year end, and the fair value at the previous valuation point. This includes both realised and unrealised gains and losses, but does not include interest or dividend revenue.

**(g) Expenses**

All expenses, including Responsible Entity's fees and custodian fees are recognised in the Statement of Comprehensive Income on an accruals basis.

**(h) Cash and Cash Equivalents**

For Statement of Cash Flows presentation purposes, cash and cash equivalents include cash on hand and deposits held at call with financial institutions.

Payments and receipts relating to the purchase and sale of investment securities are classified as cash flows from operating activities, as movement in the fair value of these securities represent the Fund's main income generating activity.

**(i) Increase/Decrease in Net Assets Attributable to Unitholders**

Income not distributed is included in net assets attributable to unitholders. Movements in net assets attributable to unitholders are recognised in the Statement of Comprehensive Income as finance costs.

**(j) Distributions**

In accordance with the Fund Constitution, the Fund fully distributes its distributable income to unitholders by cash or reinvestment. Distributable income is determined by reference to the taxable income of the Fund. The distributions are payable at the end of June each year.

**(k) Trade and Other Receivables**

Receivables include amounts for dividends, interest and securities sold where settlement has not yet occurred. Dividends are accrued when the right to receive payment is established. Interest is accrued at the reporting date from the time of last payment. Amounts are generally received within 30 days of being recorded as receivables.

**(l) Due from/to Brokers**

Amounts due from/to brokers represent payables from securities purchased and receivables for securities sold that have been contracted but not yet delivered at year end. Trades are recorded on trade date, and normally settled within three business days.

**(m) Trade and Other Payables**

These amounts represent liabilities for amounts owing by the Fund at year end which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

The distribution amount payable to unitholders as at the reporting date is recognised separately on the Statement of Financial Position when unitholders are presently entitled to the distributable income under the Fund's Constitution.

**SMALLCO INVESTMENT FUND**  
**ARSN 103 148 107**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011**

**NOTE 2: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(n) Goods and Services Tax (GST)**

The Fund qualifies for Reduced Input Tax Credits (RITCs) at a rate of 75% on investment management fees, custodial fees and other expenses. Accounts payable are inclusive of GST. The net amount of GST recoverable from the Australian Taxation Office (ATO) is included in receivables in the Statement of Financial Position. In the Statement of Comprehensive Income, expenses have been reported net of GST recoverable from the ATO. Cash flows relating to GST are included in the Statement of Cash Flows on a gross basis.

**(o) Impairment of Assets**

At each reporting date, the Responsible Entity reviews the carrying value of its assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the assets carrying value less costs to sell and value in use is compared to the asset's carrying value once its recoverable amount is expensed to the Statement of Comprehensive Income.

**(p) Applications and Redemptions**

Applications received for units in the Fund are recorded gross of any entry fees payable prior to the issue of units in the Fund. Unit redemption prices are determined by reference to the net assets of the Fund divided by the number of units on issue.

A 0.45% spread has been applied to both applications and redemptions.

**(q) New Accounting Standards and Interpretations**

The AASB has issued new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods and which the fund has decided not to early adopt. A discussion of those future requirements and their impact on the fund is as follows:

(i) *AASB 9 Financial Instruments (December 2010)* (applicable for annual reporting periods commencing on or after 1 January 2013).

This Standard is applicable retrospectively and includes revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments. The Fund has not yet determined any potential impact on the financial statements.

The key changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;
- removing the tainting rules associated with held-to-maturity assets;
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument;
- requiring financial assets to be reclassified where there is a change in an entity's business model as they are initially classified based on: (a) the objective of the entity's business model for managing the financial assets; and (b) the characteristics of the contractual cash flows; and
- requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.

(ii) *AASB 124 Related Party Disclosures* (applicable for annual reporting periods commencing on or after 1 January 2011).

This Standard removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities and clarifies the definition of a "related party" to remove inconsistencies and simplify the structure of the Standard. No changes are expected to materially affect the Fund.

**SMALLCO INVESTMENT FUND  
ARSN 103 148 107**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2011**

**NOTE 2: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(iii) AASB 1053: *Application of Tiers of Australian Accounting Standards and AASB 2010-2: Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements* [AASB 1, 2, 3, 5, 7, 8, 101, 102, 107, 108, 110, 111, 112, 116, 117, 119, 121, 123, 124, 127, 128, 131, 133, 134, 136, 137, 138, 140, 141, 1050 & 1052 and Interpretations 2, 4, 5, 15, 17, 127, 129 & 1052] (applicable for annual reporting periods commencing on or after 1 July 2013).

AASB 1053 establishes a revised differential financial reporting framework consisting of two tiers of financial reporting requirements for those entities preparing general purpose financial statements:

Tier 1: Australian Accounting Standards; and

Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 2 of the framework comprises the recognition, measurement and presentation requirements of Tier 1, but contains significantly fewer disclosure requirements.

The following entities are required to apply Tier 1 reporting requirements (ie full IFRS):

- for-profit private sector entities that have public accountability; and
- the Australian Government and state, territory and local governments.

Subject to AASB 1049, general government sectors of the Australian Government and state and territory governments would also apply Tier 1 reporting requirements.

The following entities can elect to apply Tier 2 of the framework when preparing general purpose financial statements:

- for-profit private sector entities that do not have public accountability;
- not-for-profit private sector entities; and
- public sector entities, whether for-profit or not-for-profit, other than the Australian Government and state, territory and local

AASB 2010-2 makes amendments to Australian Accounting Standards and Interpretations to give effect to the reduced disclosure requirements for Tier 2 entities. It achieves this by specifying the disclosure paragraphs that a Tier 2 entity need not comply with as well as adding specific "RDR" disclosures.

(iv) AASB 2009-12: *Amendments to Australian Accounting Standards* [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011).

This Standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. The Standard also amends AASB 8 to require entities to exercise judgment in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. The amendments are not expected to impact the Fund.

(v) AASB 2009-14: *Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement* [AASB Interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2011).

This Standard amends Interpretation 14 to address unintended consequences that can arise from the previous accounting requirements when an entity prepays future contributions into a defined benefit pension plan.

This Standard is not expected to impact the Fund.

(vi) AASB 2010-4: *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* [AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13] (applicable for annual reporting periods commencing on or after 1 January 2011).

This Standard details numerous non-urgent but necessary changes to Accounting Standards arising from the IASB's annual improvements project. Key changes include:

- clarifying the application of AASB 108 prior to an entity's first Australian-Accounting-Standards financial statements;
- adding an explicit statement to AASB 7 that qualitative disclosures should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments;
- amending AASB 101 to the effect that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income is required to be presented, but is permitted to be presented in the statement of changes in equity or in the notes;
- adding a number of examples to the list of events or transactions that require disclosure under AASB 134; and

**SMALLCO INVESTMENT FUND**  
**ARSN 103 148 107**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011**

**NOTE 2: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- making sundry editorial amendments to various Standards and Interpretations.

This Standard is not expected to impact the Fund.

(vii) AASB 2010-5: *Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042]* (applicable for annual reporting periods beginning on or after 1 January 2011).

This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. However, these editorial amendments have no major impact on the requirements of the respective amended pronouncements.

(viii) AASB 2010-6: *Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7]* (applicable for annual reporting periods beginning on or after 1 July 2011).

This Standard adds and amends disclosure requirements about transfers of financial assets, especially those in respect of the nature of the financial assets involved and the risks associated with them. Accordingly, this Standard makes amendments to AASB 1: First-time Adoption of Australian Accounting Standards, and AASB 7: Financial Instruments: Disclosures, establishing additional disclosure requirements in relation to transfers of financial assets.

This Standard is not expected to impact the Fund.

(ix) AASB 2010-7: *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127]* (applies to periods beginning on or after 1 January 2013).

This Standard makes amendments to a range of Australian Accounting Standards and Interpretations as a consequence of the issuance of AASB 9: Financial Instruments in December 2010. Accordingly, these amendments will only apply when the entity adopts AASB 9.

As noted above, the Fund has not yet determined any potential impact on the financial statements from adopting AASB 9.

(x) AASB 2010-8: *Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112]* (applies to periods beginning on or after 1 January 2012).

This Standard makes amendments to AASB 112: Income Taxes.

The amendments brought in by this Standard introduce a more practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model under AASB 140: Investment Property.

Under the current AASB 112, the measurement of deferred tax liabilities and deferred tax assets depends on whether an entity expects to recover an asset by using it or by selling it. The amendments introduce a presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

The amendments brought in by this Standard also incorporate Interpretation 121 into AASB 112.

The amendments are not expected to impact the Fund.

**SMALLCO INVESTMENT FUND  
ARSN 103 148 107**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2011**

**NOTE 2: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(xi) AASB 2010-9: *Amendments to Australian Accounting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters [AASB 1]* (applies to periods beginning on or after 1 July 2011).

This Standard makes amendments to AASB 1: First-time Adoption of Australian Accounting Standards.

The amendments brought in by this Standard provide relief for first-time adopters of Australian Accounting Standards from having to reconstruct transactions that occurred before their date of transition to Australian Accounting Standards.

Furthermore, the amendments brought in by this Standard also provide guidance for entities emerging from severe hyperinflation either to resume presenting Australian-Accounting-Standards financial statements or to present Australian-Accounting-Standards financial statements for the first time.

This Standard is not expected to impact the Fund.

(xii) AASB 2010-10: *Further Amendments to Australian Accounting Standards – Removal of Fixed Dates for First-time Adopters [AASB 2009-11 & AASB 2010-7]* (applies to periods beginning on or after 1 January 2013).

This Standard makes amendments to AASB 2009-11: Amendments to Australian Accounting Standards arising from AASB 9, and AASB 2010-7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010).

The amendments brought in by this Standard ultimately affect AASB 1: First-time Adoption of Australian Accounting Standards and provide relief for first-time adopters from having to reconstruct transactions that occurred before their transition date.

[The amendments to AASB 2009-11 will only affect early adopters of AASB 2009-11 (and AASB 9: Financial Instruments that was issued in December 2009) as it has been superseded by AASB 2010-7.]

(xiii) AASB 10 *Consolidated Financial statements* (effective from 1 January 2013) - AASB 10 Consolidated Financial statements introduces a single model of control, which is used to determine whether an Investee must be consolidated. The existence of control is determined based on the power to direct the activities of an Investee; exposure, or rights, to variable returns from its involvement with the investee; the ability to use its power over the investee to affect the amount of the investor's return. Management does not expect this to have significant impact on the Fund's financial statements.

(xiv) AASB 11 *Joint Arrangements* (effective from 1 January 2013) - AASB 11 Joint Arrangements classifies all joint arrangements as either joint operations or joint ventures. Management does not expect this to have significant impact on the Fund's financial statements as the Fund does not have joint arrangements .

(xv) AASB 12 *Disclosure of Involvement with other entities* (effective from 1 January 2013) - AASB 12 Disclosure of Involvement with other entities requires the disclosure of information to enable users to evaluate the nature of, and risks associated with, its interests in other entities and the effect of those interests on its financial position, financial performance, and cash flows. AASB 12 applies to all entities that have subsidiaries, associates, or unconsolidated structured entities, and requires disclosures grouped into four categories. Management does not expect this to have significant impact on the Fund's financial statements

This Standard is not expected to impact the Fund.



**SMALLCO INVESTMENT FUND**  
**ARSN 103 148 107**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011**

	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
<b>NOTE 3: AUDITOR'S REMUNERATION</b>		
Remuneration of the auditors for:		
- Audit or review services	34,760	34,100
- Other audit work under the Corporations Act 2001	7,920	7,700
- Tax compliance services	-	-
	<u>42,680</u>	<u>41,800</u>
 <b>NOTE 4: CASH AND CASH EQUIVALENTS</b>		
Cash held by Custodian	6,876,826	5,137,203
Cash held as collateral	2,366,700	5,218,000
	<u>9,243,526</u>	<u>10,355,203</u>
 <b>NOTE 5: TRADE AND OTHER RECEIVABLES</b>		
Dividends receivable	253,981	289,260
Interest accrued	27,757	4,163
GST receivable	85,725	30,926
Amounts due from brokers	194,220	-
Other receivable	-	25,550
	<u>561,683</u>	<u>349,899</u>
 <b>NOTE 6: FINANCIAL ASSETS HELD AT FAIR VALUE THROUGH PROFIT OR LOSS</b>		
Listed Australian equity securities		
- at fair value	65,148,263	68,096,661
Listed Australian equity securities sold short		
- at fair value	<u>(2,265,500)</u>	<u>(8,581,918)</u>
	<u>62,882,763</u>	<u>59,514,743</u>
An overview of the risk exposures relating to financial assets at fair value through profit or loss is included in note 12.		
 <b>NOTE 7: TRADE AND OTHER PAYABLES</b>		
<b>CURRENT</b>		
Trade creditors	71,541	60,823
Amounts due to brokers	-	-
Amounts payable to:		
- Smallco Investment Manager Limited	90,948	87,984
Monies not allocated to units	13,359	8,856
	<u>175,848</u>	<u>157,663</u>
 <b>NOTE 8: DISTRIBUTION PAYABLE</b>		
Distribution payable to unitholders	<u>974,298</u>	<u>2,497,659</u>

**SMALLCO INVESTMENT FUND**  
**ARSN 103 148 107**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011**

	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
<b>NOTE 9: NET ASSETS ATTRIBUTABLE TO UNITHOLDERS - LIABILITY</b>		
40,659,101 units (2010: 42,777,737 units)	<u>71,537,826</u>	<u>67,564,523</u>
	<b>2011</b>	<b>2011</b>
	<b>\$</b>	<b>Units</b>
<b>Units On Issue</b>		
Opening balance as at 1 July 2010	67,564,523	42,777,737
Applications	3,489,450	1,910,971
Units issued upon re-investment of distributions	1,406,163	886,330
Redemptions	(8,771,462)	(4,915,937)
Increase in net assets attributable to unitholders	8,823,450	-
Distribution provided	(974,298)	-
Closing Balance as at 30 June 2011	<u>71,537,826</u>	<u>40,659,101</u>
	<b>2010</b>	<b>2010</b>
	<b>\$</b>	<b>Units</b>
Opening balance as at 1 July 2009	53,627,724	43,348,363
Applications	6,333,762	4,116,211
Units issued upon re-investment of distributions	1,797,219	1,446,570
Redemptions	(9,510,700)	(6,133,407)
Increase in net assets attributable to unitholders	17,814,177	-
Distribution provided	(2,497,659)	-
Closing Balance as at 30 June 2010	<u>67,564,523</u>	<u>42,777,737</u>

As stipulated within the Fund constitution, each unit represents a right to an individual share in the Fund, and does not extend to a right to the underlying assets of the Fund. There are no separate classes of units and each unit has the same rights attaching to it as other units of the Fund.

**Capital Risk Management**

The Fund manages its net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders are classified as a liability. The amount of net assets attributable to unitholders can change significantly on a daily basis as the Fund is subject to daily applications and redemptions at the discretion of unitholders.

The Fund monitors the level of daily applications and redemptions relative to the cash levels of the Fund to manage this risk and aims to ensure there is adequate liquidity to meet the needs of unitholders.

**NOTE 10: RELATED PARTY TRANSACTIONS**

**Responsible Entity**

The responsible entity of Smallco Investment Fund is Smallco Investment Manager Limited.

**Key Management Personnel**

The names of each key management personnel holding the position of director of Smallco Investment Manager Limited during the financial year were Rob Hopkins, Bill Ryan and Michael Walsh. The directors of the Responsible Entity did not receive any remuneration, superannuation or retirement payments from the Fund. No director has entered into a material contract with the Fund since the beginning of the financial year and there were no material contracts involving directors' interests existing at year end. All transactions with related parties are conducted on normal commercial terms and conditions. Each director of the Responsible Entity is also a beneficiary of the Fund.

**SMALLCO INVESTMENT FUND**  
**ARSN 103 148 107**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011**

**NOTE 10: RELATED PARTY TRANSACTIONS (Continued)**

**Unitholdings of Key Management Personnel (and their related entities)**

<b>2011</b>	Balance at 1 July 2010 Units	Units acquired/ (disposed) Units	Balance at 30 June 2011 Units	Interest held %	Distributions payable by the Fund \$
William Ryan	4,056,088.99	49,372.75	4,105,461.74	10.10%	98,378
Rob Hopkins	658,719.88	139,217.01	797,936.89	1.96%	19,120
Michael Walsh	123,276.22	4,536.85	127,813.07	0.31%	3,063
<b>Total</b>	<b>4,838,085.09</b>	<b>193,126.61</b>	<b>5,031,211.70</b>	<b>12.37%</b>	<b>120,561</b>

  

<b>2010</b>	Balance at 1 July 2009 Units	Units acquired/ (disposed) Units	Balance at 30 June 2010 Units	Interest held %	Distributions payable by the Fund \$
William Ryan	3,797,392.03	258,696.96	4,056,088.99	9.48%	236,822
Rob Hopkins	579,824.17	78,895.71	658,719.88	1.54%	38,460
Michael Walsh	115,970.11	7,306.11	123,276.22	0.29%	7,198
<b>Total</b>	<b>4,493,186.31</b>	<b>344,898.78</b>	<b>4,838,085.09</b>	<b>11.31%</b>	<b>282,480</b>

**Manager's Remuneration**

Smallco Investment Manager Limited

**2011**  
\$

**2010**  
\$

During the year the following amounts were paid to the Responsible Entity (excluding GST) in accordance with the Constitution:

Management Fees	1,045,417	978,476
-----------------	-----------	---------

Smallco Investment Manager Limited is the Responsible Entity of the Smallco Investment Fund and provides accounting, treasury and investment services to the Fund in accordance with the Constitution of the Fund. During 2011 an amount of \$11,364 (2010: \$11,364) was paid to key management personnel of Smallco Investment Manager Limited out of the above stated amounts.

The amounts due and payable at 30 June 2011 to the Responsible Entity (including GST) in accordance with the Trust Constitution (disclosed in note 7 as current liabilities) was \$90,948 (2010: \$87,984).

**NOTE 11: CASH FLOW INFORMATION**

Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities

Profit for the year	8,823,450	17,814,177
<b>Cash Flows Classified as Operating Activities:</b>		
Brokerage expense	170,627	180,384
Net gain on financial instruments held at fair value through profit or loss	(8,128,905)	(17,441,541)
<b>Changes in Assets and Liabilities:</b>		
Increase in trade and other receivables	(17,564)	(103,313)
Increase/(Decrease) in trade and other payables	13,681	(25,765)
Decrease in financial assets held at fair value through the profit or loss	4,396,038	4,411,667
<b>Net Cash Inflow from Operating Activities</b>	<b>5,257,327</b>	<b>4,835,608</b>

**SMALLCO INVESTMENT FUND**  
**ARSN 103 148 107**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011**

**NOTE 12: FINANCIAL RISK MANAGEMENT (Continued)**

**(a) Market Risk (continued)**

*(iii) Interest Rate Risk*

The Fund's interest bearing financial assets expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The risk is measured using sensitivity analysis below.

The Fund's PDS allows it to hold up to 50% of the net assets attributable to unitholders in a floating interest rate bearing bank overdraft. Compliance with the Fund's PDS is reported to the Board of the Responsible Entity on a quarterly basis.

The table below summarises the Fund's exposure to interest rates risks. It includes the Fund's assets and liabilities at fair values, categorised by the earlier of contractual repricing or maturity dates.

	<b>Weighted Average Effective Interest Rate</b>		<b>Floating Interest Rate</b>		<b>Non - Interest Bearing</b>		<b>Total</b>	
	<b>2011 %</b>	<b>2010 %</b>	<b>2011 \$</b>	<b>2010 \$</b>	<b>2011 \$</b>	<b>2010 \$</b>	<b>2011 \$</b>	<b>2010 \$</b>
Financial Assets:								
Cash and cash equivalents	4.57%	3.59%	9,243,526	10,355,203	-	-	9,243,526	10,355,203
Trade and other receivables			-	-	561,683	349,899	561,683	349,899
Financial assets held at fair value through profit or loss			-	-	65,148,263	68,096,661	65,148,263	68,096,661
<b>Total Financial Assets</b>			<b>9,243,526</b>	<b>10,355,203</b>	<b>65,709,946</b>	<b>68,446,560</b>	<b>74,953,472</b>	<b>78,801,763</b>
Financial Liabilities:								
Financial liabilities held at fair value through profit or loss			-	-	2,265,500	8,581,918	2,265,500	8,581,918
Trade and other payables			-	-	175,848	157,663	175,848	157,663
<b>Total Financial Liabilities</b>			<b>-</b>	<b>-</b>	<b>2,441,348</b>	<b>8,739,581</b>	<b>2,441,348</b>	<b>8,739,581</b>
<b>Net exposure</b>			<b>9,243,526</b>	<b>10,355,203</b>	<b>63,268,598</b>	<b>59,706,979</b>	<b>72,512,124</b>	<b>70,062,182</b>

An analysis of financial liabilities by maturities is provided in paragraph (d) below.

The table below summarises the impact of an increase/decrease of interest rates on the Fund's operating profit and net assets attributable to unitholders through changes in fair value or changes in future cash flows. The analysis is based on the assumption that interest rates changed by +/- 75 basis points (2010: +/- 75 basis points) from the year end rates with all other variables held constant. The impact mainly arises from changes in the floating interest rate on cash.

**(b) Summarised Sensitivity Analysis**

The following table summarises the sensitivity of the Fund's operating profit and net assets attributable to unitholders to interest rate risk and price risk. The reasonably possible movements in the risk variables have been determined based on management's best estimate, having regard to a number of factors, including historical levels of changes in interest rates, historical correlation of the Fund's investments with the relevant benchmark and market volatility. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market shocks resulting from changes in the performance of the securities in which the Fund invests. As a result, historic variations in risk variables are not a definitive indicator of future variations in the risk variables.

	<b>Price Risk</b>		<b>Interest Rate Risk</b>	
	<b>Impact on Operating Profit / Net Assets Attributable to Unitholders</b>			
	<b>-15%</b>	<b>+15%</b>	<b>-75bps</b>	<b>+75bps</b>
<b>30 June 2011</b>	(9,432,414)	9,432,414	(69,326)	69,326
<b>30 June 2010</b>	(8,927,212)	8,927,212	(77,664)	77,664

**SMALLCO INVESTMENT FUND**  
**ARSN 103 148 107**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011**

**NOTE 12: FINANCIAL RISK MANAGEMENT**

The Fund's activities expose it to a variety of financial risks: market risk (including price risk and interest rate risk), credit risk and liquidity risk.

The Fund's overall risk management program focuses on ensuring compliance with the Fund's Product Disclosure Statement and seeks to maximise the returns derived for the level of risk to which the Fund is exposed. Financial risk management is carried out by the investment manager under policies approved by the Board of Directors of the Responsible Entity.

The Fund uses sensitivity analysis to measure its exposure to price risk and interest rate risk.

**(a) Market Risk**

*(i) Price Risk*

The Fund is exposed to equity securities price risk. This arises from investments held by the Fund for which prices in the future are uncertain. All securities investments present a risk of loss of capital. Except for equities sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from equities sold short can be unlimited.

The Responsible Entity mitigates this price risk through diversification and a careful selection of securities and other financial instruments within specified limits set by the Board of the Responsible Entity. All of the net assets attributable to unitholders are invested in Australian equity securities. Up to 100% of the Fund's equity investments are publicly traded and are listed on the Australian Stock Exchange. Compliance with the Fund's Product Disclosure Statement is reported to the Board of the Responsible Entity on a quarterly basis.

The Fund's investment sector allocation as at 30 June is as below:

	<b>2011</b>	<b>2010</b>
	<b>%</b>	<b>%</b>
Consumer discretionary	21.80	31.52
Financials	18.10	22.29
Industrials	37.40	14.23
Healthcare	2.57	6.96
Information technology	13.58	25.00
Materials	6.55	-
	<u>100.00</u>	<u>100.00</u>

The table on page 17 summarises the impact of an increase/decrease of the Small Industrials Index on the Fund's net assets attributable to unitholders at 30 June 2011. The analysis is based on the assumptions that the Index increased/decreased by 15% (2010: 15%) with all other variables held constant and that the fair value of the Fund's portfolio of equity securities moved in correlation with the Index. The impact arises from the reasonably possible change in the fair value of listed equities.

*(ii) Foreign Exchange Risk*

The Fund is not directly exposed to currency risk as all its investments are quoted in Australian dollars.

**SMALLCO INVESTMENT FUND**  
**ARSN 103 148 107**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011**

**NOTE 12: FINANCIAL RISK MANAGEMENT (Continued)**

**(c) Credit Risk**

Credit risk arises from cash and cash equivalents and amounts due from brokers. None of these assets are impaired nor past due but not impaired.

The carrying amounts of financial assets best represent the maximum credit risk exposure at the reporting date.

There were no other significant concentrations of credit risk to counterparties at 30 June 2011 or 30 June 2010, as there were no debt investments in debt securities and derivative financial instruments.

**(d) Liquidity Risk**

The Fund is exposed to daily cash redemptions of redeemable units. It therefore primarily holds investments that are traded in an active market and can be readily disposed. Only a limited proportion of its assets are held in investments not actively traded on a stock exchange or in cash.

The risk management guidelines adopted are designed to minimise liquidity and cash flow risk through:

- ensuring that there is no significant exposure to illiquid or thinly traded financial instruments, and
- applying limits to ensure there is no concentration of liquidity risk to a particular counterparty or market.

The Responsible Entity monitors the Fund's cash flow requirements daily in relation to the trading account taking into account upcoming distributions and trading activity.

The Fund's listed securities are considered readily realisable as they are listed on the Australian Stock Exchange.

The table below analyses the Fund's non-derivative financial liabilities into relevant maturity groupings based on the remaining period to the earliest possible contractual maturity date at the year end date. The amounts in the table are contractual discounted cash flows. The Fund does not hold derivatives.

	<b>Less than 1 month \$</b>	<b>On call \$</b>
<b>At 30 June 2011</b>		
Financial liabilities at fair value through profit or loss		
Equity securities sold short	2,265,500	-
Distribution payable	974,298	-
Payables	175,848	-
Net assets attributable to unitholders	-	71,537,826
<b>Total Financial Liabilities</b>	<u>3,415,646</u>	<u>71,537,826</u>
<b>At 30 June 2010</b>		
Financial liabilities at fair value through profit or loss		
Equity securities sold short	8,581,918	
Distribution payable	2,497,659	-
Payables	157,663	-
Net assets attributable to unitholders	-	67,564,523
<b>Total Financial Liabilities</b>	<u>11,237,240</u>	<u>67,564,523</u>

**(e) Fair Value Estimation**

The carrying amounts of the Fund's assets and liabilities at the reporting date represent their fair values.

Details of how the fair value of financial instruments is determined are disclosed in Note 2 (d).

**SMALLCO INVESTMENT FUND**  
**ARSN 103 148 107**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011**

**NOTE 12: FINANCIAL RISK MANAGEMENT (Continued)**

**(f) Fair Value Hierarchy**

The Fund has adopted the amendments to AASB 7, effective 1 July 2009. This requires the Fund to classify fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement by the responsible entity. The responsible entity considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The table below sets out the Fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 30 June 2011 and 30 June 2010.

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>TOTAL</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>30 June 2011</b>				
<b>Financial Assets</b>				
Financial assets designated at fair value through profit or loss:				
Equity securities	65,148,263	-	-	-
<b>Total</b>	<u>65,148,263</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Financial Liabilities</b>				
Financial liabilities designated at fair value through profit or loss:				
Equity securities sold short	2,265,500	-	-	-
<b>Total</b>	<u>2,265,500</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>30 June 2010</b>				
<b>Financial Assets</b>				
Financial assets designated at fair value through profit or loss:				
Equity securities	68,096,661	-	-	-
<b>Total</b>	<u>68,096,661</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Financial Liabilities</b>				
Financial liabilities designated at fair value through profit or loss:				
Equity securities sold short	8,581,918	-	-	-
<b>Total</b>	<u>8,581,918</u>	<u>-</u>	<u>-</u>	<u>-</u>

Investments whose values are based on quoted market prices in active markets, and therefore classified within level 1, include active listed equities, certain unlisted unit trusts and exchange traded derivatives.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. The Fund has no investments that are classified within level 2.

Investments classified within level 3 have significant unobservable inputs, as they are infrequently traded. The Fund has no investments that are classified within level 3.

**SMALLCO INVESTMENT FUND**  
**ARSN 103 148 107**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011**

**NOTE 13: CONTINGENT LIABILITIES AND COMMITMENTS**

As at 30 June 2011 and 30 June 2010, the Fund has no contingent liabilities or commitments.

**NOTE 14: EVENTS OCCURRING AFTER THE REPORTING PERIOD**

Since 30 June 2011 there has not been any matter or circumstance not otherwise dealt with in the financial report that has significantly affected or may significantly affect the Fund.



**SMALLCO INVESTMENT FUND**  
**ARSN 103 148 107**

**DIRECTORS' DECLARATION OF THE RESPONSIBLE ENTITY**

In the opinion of the directors of Smallco Investment Manager Limited, the responsible entity of Smallco Investment Fund:

- (a) the financial statements and notes, set out on pages 5 to 23 are in accordance with the Corporations Act 2001, including:
- (i) giving a true and fair view of the Fund's financial position as at 30 June 2011 and of its performance for the financial year ended on that date;
  - (ii) complying with Australian Accounting Standards, the Corporations Legislations 2001 and other mandatory professional reporting requirements; and
  - (iii) note 2(b) confirms that the financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.
- (b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors of Smallco Investment Manager Limited.



**Bill Ryan**  
Director

Dated at Sydney  
22 September 2011



**Rob Hopkins**  
Director

Dated at Sydney  
22 September 2011

## INDEPENDENT AUDITOR'S REPORT To the Unitholders of Smallco Investment Fund

### Report on the Financial Report

We have audited the accompanying financial report of Smallco Investment Fund, which comprises the statement of financial position as at 30 June 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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

The directors of Smallco Investment Manager, as the Responsible Entity of the Fund, are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply 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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 of the financial report that gives a true and fair view 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.

#### *Independence*

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



In our opinion:

- a) the financial report of Smallco Investment Fund is in accordance with the *Corporations Act 2001*, including:
  - i. giving a true and fair view of the Fund's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
  - ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

*Crowe Horwath Sydney*

**CROWE HORWATH SYDNEY**

*Leah Russell*

**LEAH RUSSELL**  
Principal

Dated this 22<sup>nd</sup> day of September 2011