CLIME CAPITAL LIMITED

ABN 99 106 282 777

An Investment Company

2004 Annual Report

TABLE OF CONTENTS

1. DIRECTORY

Directors

Roger Montgomery
Geoffrey Wilson
Anthony Hockey
Julian Gosse

Company Secretary

Anthony Hockey

Registered Office and Contact Details

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Facsimile: (02) 9555 9744
Email: info@clime.com.au

Share Registry

Registries Limited
Level 2,
28 Margaret Street
Sydney NSW 2000

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

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

Auditor

Moore Stephens WI
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14 Martin Place
Sydney NSW 2000

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Stock Exchange Codes:

Shares	CAM
Options expiring 15 Dec 2005	CAMO

FINANCIAL CALENDAR
anticipated dates only

Final Dividend
15 September 2004

Annual General Meeting
7 October 2004

Half Year End
31 December 2004

Half year results announcement
February 2005

Interim Dividend
March 2005

Year End
30 June 2005

Annual Report
September 2005

2. COMPANY OBJECTIVES

The three financial objectives of the Company are:

- To preserve and protect the capital of the Company
- To achieve long-term growth of capital and dividends, without taking excessive or unnecessary risks to achieve that growth
- To deliver shareholders a secure income stream in the form of fully franked dividends.

The Company will aim to achieve these objectives by continually searching for businesses in which to invest with understandable and enduring economics, excellent prospects and run by capable and shareholder-oriented management.

This focus alone however cannot guarantee success nor ensure out performance above any benchmark. Clime Capital must first wait for the market to present opportunities to buy shares in those businesses with a ‘margin of safety’; that is, at a significant discount to the calculated estimate of economic value of those businesses. Once acquired, the economic performance of the businesses must also validate our assessment, to provide returns over the long-term through dividend income and capital gains.

2.1 Investment Manager

The Company has engaged Clime Asset Management Pty Limited as its investment manager. Additional information about the manager, its track record, its philosophy and its process can be found on its website:

www.clime.com.au

Please note the manager (not the Company) employs a philanthropic policy that results in the donation of up to 10% of its profits to various charities that focus on the care and betterment of children.

2.2 Investment Philosophy

As a rational investor rather than a speculator, our goal is to acquire parts of wonderful businesses at such reasonable prices that a moderate improvement in, or even a continuation of, current business performance generates a meaningful return.

3. 2004 FIVE MONTH OVERVIEW

- Listed on Australian Stock Exchange on 3 February 2004 having raised $17.4 million

- Net tangible assets, before provision for tax on unrealised gains, of 101.6 cents per share at 30 June 2004 compared with 99 cents per share at listing

- Portfolio return of 2.6% before provision for tax on unrealised gains

- On 30 June 2004, 21% of the portfolio invested in ordinary shares and unit trusts, 79% in interest bearing securities and cash deposits

- Profit after tax of $229,686

- Unrealised revaluation gains of $216,352

- Earnings per share of 1 cent

- Dividend of 1.0 cent per share, fully franked

4. CHAIRMANS' LETTER

I am pleased to present this first report on your Company's development and performance for the period to 30 June 2004. Clime Capital listed on 3 February 2004 after a successful public offer raised $17.6 million in capital, before costs. Since listing, the Investment Manager – Clime Asset Management Pty Limited has made a number of equity investments and has also managed the cash balances of the Company.

It is pleasing to see positive performance in the initial months after commencement of investment activity and with only a fifth of the portfolio invested in equities. But shareholders should be mindful that short-term performance is not the objective of the Company.

In fact it is our firmly held view that short-term performance measurement leads to homogeneity and underperformance. Investment managers must be allowed the latitude to discover and invest in wonderful businesses and then given the time to allow the economic performance of those businesses to bear fruit. This takes years not quarters or months.

Indeed at this early stage it would be preferable for Clime Capital to see the share prices of the companies in which we own shares, fall significantly rather than rise. This thinking is entirely rational; such a fall would provide the opportunity to add to our existing holdings at even more attractive prices. Drivers on the road would queue for hours if they could get their petrol at a 50% discount yet those same people seem to do the opposite in the share market.

Clime Capital will adopt a focused portfolio approach. It will invest the majority of its portfolio in just a handful of companies. According to modern portfolio theorists, this will increase risk. Adherents to modern portfolio theory measure risk as the volatility of a portfolio's market value about a mean or another index. The more focused the portfolio, the greater the volatility and so the greater the risk. We don't measure risk this way. At present we believe that the portfolio – with a large proportion invested in cash and bank accepted bills – has enormous risk. Earning just 5.40% interest on almost 80% of the portfolio in cash is almost certain to result in reduced spending power at the end of the year than at the beginning. What could be riskier than being 100% certain to have less spending power at the end of a given period?

It is our objective to place the funds in businesses with management that are able to generate a much higher rate of return. For example if we can find a business that can reasonably be expected to generate a return on equity of 30% with a payout ratio of 10%, then, provided we can sell the shares in the future at the same earnings multiple as that at which we purchased the shares, our capital return will equal the rate of retained return on equity. In this example, 27 percent.

4.1 LIC Capital Gains

Allow me to digress, and discuss for a moment the accounting for Listed Investment Companies, which is somewhat unique. The three main points of differentiation to a "normal" set of accounts, say, for an industrial operating business are firstly the profit from ordinary activities are comprised of interest, fees earned - for example if Clime Capital were to underwrite a share offer or the dividend reinvestment plan of another listed Company – and dividend income offset by expenses and taxation. The profit figure ($229,686) however excludes revaluation's and capital gains from the sale of investments. The profit after tax is available for distribution to shareholders as dividends. Secondly, the portfolio is revalued daily and the revaluation's are credited directly to the asset revaluation reserve after deducting a provision for the capital gains tax that would arise if the investment was disposed of. The asset revaluation reserve ($151,446) is not intended to be utilised for the payment of dividends to shareholders. Finally, when investments are disposed of, the balance in the asset revaluation reserve relating to the disposed investment is transferred to the capital profits reserve. The capital profits reserve consists of realised profits, which are available for distribution to shareholders as dividends. The capital profits reserve in future may contain Listed Investment Company (LIC) capital gains and entitle certain shareholders to a capital gains tax discount of 50% on distribution. In assessing the performance of a LIC - it is important to include the effect of all three of the above returns, as together they reflect the performance of the Company.

4.2 Dividend Policy

In Australia it is common for the dividend policy of a Company to go unexplained by directors for many years. While the policy is often consistent as well as evident from a comparison of the earnings per share and the dividends per share, the directors rarely provide an adequate explanation of their logic and reasoning. A little later I will explain ours.

A Company for example may state that its policy is to pay out 50% of earnings as dividends but this pronouncement will not be accompanied by any justification that the policy adopted is best for shareholders.

Conversely investors may 'punish a Company' (and themselves) by selling the shares of a Company that significantly changes its policy, particularly if that change involves a reduction in the dividend payout ratio.

There are several issues for investors and we list them here before expanding further:

1. Not all earnings can be distributed
2. Not all companies should pay dividends
3. Some companies should pay all their earnings out as dividends
4. The rate of incremental earnings on incremental capital should determine the dividend policy.

4.2.1 Not all earnings are created equal.

Some investors think about a share investment opportunity by considering its fixed or tangible assets. They believe that if the Company is 'supported' by lots of assets that can be seen, touched and ultimately sold, there is something 'of value' supporting the price of the shares they purchase. Given the choice of buying a Company (A) at a share price of $2.00, with earnings per share of 10 cents and Net Tangible Assets of $2.00 per share or a Company (B) with the same share price and earnings but only 20 cents of Net Tangible Assets, these investors will choose the former.

Unfortunately a large part of the earnings of the former cannot be distributed to the shareholders. For companies with a high ratio of assets to profits, a large part of the earnings will be 'inhibited' or required to maintain those assets and preserve the Company's economic position.

For example suppose Company A intends to double earnings over the next ten years from ten cents to twenty cents while maintaining it's current rate of return on assets. Its assets will therefore also be required to double. Company A will generate total earnings over ten years of $1.49 per share but require $2.00 in assets over the same period. The total earnings generated over the period are therefore 'inhibited' earnings. They will be required or restricted to purchase assets, if earnings are to grow. The shortfall between the earnings generated and the assets required will need to be met by a capital injection - either equity or debt. And this simple example has not taken into account the fact that the old assets are valued on a historical cost basis and new assets will be purchased at higher prices due to inflation. The example also assumes that no dividends were paid out.

If Company A elected to pay dividends from its inhibited earnings to its shareholders, it would most certainly lose ground. The Company either would not be able to maintain its unit sales volumes or its competitive position and its financial position may weaken. By distributing inhibited earnings the Company is destined to collapse unless additional funds are injected.

Should Company B share the same intentions as Company A with regards to earnings growth over ten years, it would be required to add only an additional 20 cents per share of assets, while its business generated $1.49 per share in earnings. Therefore $1.29 of 'uninhibited' earnings per share (assuming no inflation) can be distributed to shareholders by way of dividends or share buybacks at appropriate times. Company B is producing uninhibited earnings that can be taken to the grocery store by the owners, while Company A is not – all of its earnings are needed.

There are many examples of capital-intensive businesses in Australia that demonstrate similar economics to Company A above. Perversely, these companies pay dividends! That's right. From inhibited earnings, they distribute dividends to shareholders. Such actions only serve to weaken the Company's financial strength and by implication that of it's owners - the shareholder's.

While inhibited earnings have some value for most companies, they generally cannot be distributed to the owners. Only uninhibited earnings should be distributed. While clearly silly and worthy of closer examination, the payment of inhibited earnings as dividends is not the topic of this note. This note is concerned with the equally illogical practice of some companies retaining uninhibited earnings.

We are concerned about the motives and intelligence of management that elects to retain a portion of uninhibited earnings at below attractive rates of return simply because it is the 'policy' of the Company. As one famous investor once quipped "traditional wisdom is often long on tradition and short on wisdom." It is this practice that is not in the best interest of the shareholders and the topic for discussion.

The Company that generates high incremental earnings on incremental capital (better than is available elsewhere) should retain its earnings. A Company that generates a low return on incremental earnings should pay all of those earnings out as a dividend or if the shares are below estimated intrinsic value, buy back shares.

Table 1 is a Company that generates a normalized rate of return on equity of 5% - a retailer for example and retains all its earnings, paying no dividends.

Table 1

INPUTS			Year 1	Year 2	Year 3	Year 4	Year 5
Equity per Share	$1.00	Beginning Equity	$1.00	$1.05	$1.10	$1.16	$1.22
Return on Equity	5.00%	Earnings	$0.05	$0.05	$0.06	$0.06	$0.06
Payout ratio	0.00%	Dividends	$0.00	$0.00	$0.00	$0.00	$0.00
P/E	10	Equity at End	$1.05	$1.10	$1.16	$1.22	$1.28
OUTPUT							
IRR	**5.00%**	P/E	10	10	10	10	10
		Price	$0.50	$0.53	$0.55	$0.58	$0.61
		IRR	-$0.50	$0.00	$0.00	$0.00	$0.61

As a result of retaining its earnings, the equity of the Company grows by the earnings retained and those retained earnings go on to earn another 5% - the rate of return on equity. By allowing management to continue this practice, the shareholders are forsaking a higher return elsewhere. Often the hope that higher returns are possible is used as justification for the retention of earnings at sub par rates. A simple glance at management's long-term track record however should be enough to dispel any romantic notions the shareholder harbors.

Assuming the shares are purchased and sold at the same price earnings ratio, the internal rate of return (IRR) to the shareholder will be equal to the Company's rate of return on equity. Given this rate of return on equity is lower than can be obtained elsewhere it appears rational that the Company should not retain its earnings but pay them out.

In Table 2 the Company now pays all its earnings out as a dividend – as it should. As a result there is no growth in the Company but (note that even though earnings have risen slightly, this is not how we measure growth) such a Company should not grow unless it can materially enhance its return on equity. Regardless of the fact that the Company has no growth, the shareholder now achieves a higher return (an IRR of 10%), buying and then selling five years later at the same price earnings ratio.

Table 2

INPUTS			Year 1	Year 2	Year 3	Year 4	Year 5
Equity per Share	$1.00	Beginning Equity	$1.00	$1.00	$1.00	$1.00	$1.00
Return on Equity	5.00%	Earnings	$0.05	$0.05	$0.05	$0.05	$0.05
Payout ratio	100.00%	Dividends	$0.05	$0.05	$0.05	$0.05	$0.05
P/E	10	Equity at End	$1.00	$1.00	$1.00	$1.00	$1.00
OUTPUT							
IRR	**10.00%**	P/E	10	10	10	10	10
		Price	$0.50	$0.50	$0.50	$0.50	$0.50
		IRR	-$0.50	$0.05	$0.05	$0.05	$0.55

You will notice that the investor's rate of return (IRR) is higher when a Company with a low ROE pays all its earnings out as a dividend. This is rational behavior on the part of management who 'think like owners'. They wouldn't invest their bonus payments and other incentives at 5%, so they shouldn't invest the funds of the owners at the same rate.

Uninhibited earnings should only be retained when there is a good possibility (use history as a guide) that capital retained will produce incremental earnings at a rate that is equal to or higher than returns produced by alternative investment options.

4.2.2 Capital Gains and Dividends Retained

While it is entirely possible and indeed frequent for management to have no rational explanation for their dividend policies, it is also extremely popular for investors to be romantically attached to their dividends at the expense of better financial returns.

Take the example highlighted in table 3 below of a Company that has two certainties, a sustainable return on its equity of 20% and a share price that is constantly 10 times higher than the Company's earnings. That is the P/E ratio is a constant 10.

In year one, assuming the Company had $10.00 of equity per share, its rate of return on equity would generate $2.00 of earnings and the shares would trade at $20 per share (p/e 10 X eps $2.00). Now suppose the shareholders henceforth demanded a dividend of 50% of the earnings or management adopted the same payout ratio as policy. The Company would therefore pay its shareholders a dividend of $1.00 and retain the remaining $1.00 - adding it to the beginning equity and resulting in $11.00 of ending equity for year one. The shareholders have gratefully received their $1.00 in dividends but they have lost a great deal more.

At the beginning of the second year the Company has $11.00 of equity per share on which it earns 20% or $2.20. The share price should therefore rise to $2.20 X 10 or $22.00 – a growth in the asset's price of $2.00.

Table 3

	Year 1	Year 2
Beginnning Equity Per Share	$10.00	$11.00
Return on Equity	20%	20%
Earnings Per Share	$2.00	$2.20
Payout Ratio	50%	
Dividend per Share	$1.00	
Retained Earnings Per Share	$1.00	
Ending Equity Per Share	$11.00	
Price Earnings Ratio	10	10
Price	$20.00	$22.00

Suppose however that Company management, confident that it will continue to generate 20% returns on equity, ignored the wishes of its shareholders in this regard and did not pay a dividend (Table 4). Instead of beginning the second year with $11.00 of equity per share, the Company begins the year with $12.00 on which it can generate 20% returns. In the second year the Company would earn $2.40 and with the shares trading at 20 times the earnings, the shares should trade at $24.00.

Table 4

	Year 1	Year 2
Beginnning Equity Per Share	$10.00	$12.00
Return on Equity	20%	20%
Earnings Per Share	$2.00	$2.40
Payout Ratio	0%	
Dividend per Share	$0.00	
Retained Earnings Per Share	$2.00	
Ending Equity Per Share	$12.00	
Price Earnings Ratio	10	10
Price	$20.00	$24.00

By foregoing the $1.00 in dividends the shareholders have gained an additional $2.00 in market value of the asset.

By paying a $1.00 dividend the shares may rise to $22.00 but by retaining the earnings the shares could rise to $24.00. There is some erosion of this benefit when dividends are franked and of course, there is some risk that the shares fall in price. But while this may be a concern in the short term (1-3 years), over long periods of time the market cannot but help recognise the true earnings power of such a business.

As an aside the Tables 3 and 4 also illustrate Warren Buffett's very well-worn but misunderstood quote:

"Within this gigantic auction arena, it is our job to select a business with economic characteristics allowing each dollar of retained earnings to be translated eventually into at least a dollar of market value."[1]

While entire chapters have been devoted to trying to measure what Buffet means, he is, in our opinion, simply referring to return on equity.

Revisiting table 3 above, you will see that the Company retained $1.00 of earnings and converted it into $2.00 of market value. Table 5 below reveals a Company with the same equity per share but an ability to only generate 5% returns on equity.

Table 5

	Year 1	**Year 2**
Beginnning Equity Per Share	$10.00	$10.25
Return on Equity	5%	5%
Earnings Per Share	$0.50	$0.5125
Payout Ratio	50%	
Dividend per Share	$0.25	
Retained Earnings Per Share	$0.25	
Ending Equity Per Share	$10.25	
Price Earnings Ratio	10	10
Price	$5.00	$5.1250

The business has generated returns of 5% on equity or 50 cents. If the Company elects to retain 25 cents of those earnings and the business maintains a 5% return on equity and a constant price earnings ratio of 10, the shares will rise to $5.125. **Most importantly, the assets have risen by half of the amount of the earnings retained. For shareholders, half their wealth has been destroyed by the management's decision to retain earnings. Indeed, for every dollar retained by the above Company, half will be lost.** As Buffet once quipped, "if earnings have been unwisely retained it is likely that managers, too, have been unwisely retained."

[1] Berkshire Hathaway letter to shareholders 1977-1983

No doubt many shareholders would have missed this very important event. Most will however notice that the shares have gone up and so have the earnings. What they have failed to realise is; that proportion of their earnings that they didn't receive has been destroyed to the tune of 50%. That is why we are interested in businesses that generate high rates of return on equity using uninhibited earnings.

As we are fond of comparing shares to bonds, a bond example will further help cement our point. Suppose you own an Australian Government bond (risk free) that generates a return of 7.5% forever, with a feature that allows you to choose between taking the coupon as cash or reinvesting the cash at the same rate of 7.5% forever by buying another bond with exactly the same features. If the interest rate at the date of receipt of the coupon were 4.75%, it would be irrational to take the payment as cash. The investor can reinvest at 7.5% and would be able to buy a bond for $100 that would be trading at ($100 x 7.5% / 4.75%) $157.89. If the investor needed the cash, they could simply buy the bond at $100 and resell it at 57% premium and realise more cash than simply taking the coupon as a cash payment. But if interest rates were higher than 7.5% - say 10%, it would be best to take the payment in cash directly. Reinvesting would mean buying a bond at $100 that is trading at $75.00. It would be best to take the cash and buy the bonds at $75.00 in the market, producing a higher 10% return.

Deciding whether a Company should retain or pay out its uninhibited earnings is not as clear as the above example. The decision is complicated at least by the uncertainty over future rates of return on equity for long-term investors and for those with shorter-term cash needs, by changing price earnings ratios.

For management teams however the goal is a simple one. First establish a reasonable estimate for long-term future returns. Second, reinvest earnings if the expected return is high or pay the earnings out, if returns are expected to be low.

Unfortunately, some management teams, driven by ego seek to preside over a vast empire and in order to 'grow' the business they retain uninhibited earnings at low rates of return. In the examples above, no amount of growth can change the fortunes for the shareholder. Only an improvement in the rate of return on equity and/or a cheaper purchase price can boost the returns.

At Clime Capital we seek to avoid companies whose prospective returns on equity are relatively low while seeking to also avoid companies whose management act irrationally with the funds entrusted to them by their shareholders. In *The New Republic*, a July 2001 article by **Greg Easterbrook** entitled "*Greed Isn't Good*" http://www.tnr.com/doc.mhtml?i=express&s=easterbrook070102 stated: *"University of San Francisco business professor Richard Puntillo has noted that under US securities law, in theory, publicly traded corporations have shareholders as their kings, boards of directors as the sword-wielding knights who protect the shareholders and managers as the vassals who carry out orders. In practice, in the past decade, managers have become kings who lavish gold upon themselves, boards of directors have become fawning courtiers who take coin in return for an uncritical yes-man function* ***and shareholders have become peasants whose property may be seized at management's whim."*** *Emphasis added*

4.2.3 Clime Capital Dividend Policy

The maiden dividend recognises that even with only 21% of funds invested in equities to date, Clime Capital's investment approach and valuation methods are delivering as expected. At Clime Capital, the dividend policy is a simple one. We wish to pay growing dividends over time. While shareholders however may be pleased with a steady 8% growth we would prefer a higher return even if that return is lumpy and so, it is reasonable to expect some variation in the quantum of the dividend from time to time. When the market is cheap and we can find lots of 'value', we expect to be more successful employers of capital than most investors and so would prefer to retain much of the profits and reinvest them. If the strategy is successfully executed, even higher dividends will be forthcoming in the future. Specifically, we do not anticipate that investments will be sold with the sole purpose of providing capital profits for dividends. When we believe the market is generally expensive and little value is being presented we would prefer to distribute most of the profits through dividends. Ideally we will always pay some dividend and while we will work to ensure it grows over time, its quantum will change based on our view of the opportunities being presented from a capital allocation perspective.

4.3 Communication with Shareholders

Transparency, integrity and honesty are characteristics we value in the management of the entities we invest in and characteristics by which we wish to be known. We strive to communicate with shareholders on a regular basis, but must keep costs to an absolute minimum. Our website at www.clime.com.au is regularly updated with research and will soon include monthly NTA statements which are also submitted to the ASX and available at www.asx.com.au. Our NTA announcements are also emailed to shareholders monthly.

As the Chairman of Clime Capital and the Managing Director of the Investment Manager it will be my pleasure to answer questions from shareholders at the Annual General Meeting.

Sincerely
Roger J Montgomery
Chairman

5. KEY PERSONNEL

Roger Montgomery, Chairman

Roger Montgomery is the founder and Managing Director of Clime Asset Management Pty Limited, an investment management Company, dealer and financial adviser and has more than 10 years experience in the Australian securities and derivatives industry. Prior to founding Clime Asset Management Pty Limited, he founded and remains the Managing Director of Investors Advantage Pty Limited (IA) an investment education Company whose clients have included the ASX, the Sydney Futures Exchange, the Securities Institute of Australia, a number of financial institutions and private investors. Roger Montgomery holds a Bachelor of Commerce from the University of Melbourne and is an Associate of the Securities Institute of Australia.

Geoffrey Wilson, Director

Geoffrey Wilson is the Chairman of Wilson Asset Management (International) Pty Limited (WAMI); an investment management Company, and has had 23 years experience in the Australian and International securities industry. Prior to founding WAMI he was an Executive Director responsible for Global Institutional Stockbroking for Prudential Bache Securities (Australia) Limited. Geoffrey Wilson has held senior positions with Potter Partners in London and with McIntosh Hamson Hoare Govett in New York.

He is the Chairman of WAM Capital Limited, Wilson Investment Fund Limited, Wilson Leaders Limited and the Australian Stockbrokers Foundation Limited and a Director of the Sporting Chance Cancer Foundation Limited, North Shore Heart Research Foundation and JAM Development Capital Limited. He holds a Bachelor of Science Degree and a Graduate Management Qualification. He is also a Fellow of the Institute of Company Directors and a Fellow of the Securities Institute of Australia.

Anthony Hockey, Director and Secretary

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

Julian Gosse, Director

Julian Gosse has extensive experience in banking and broking both in Australia and overseas having worked in London for Rowe and Pitman, in the United States for Janney Montgomery and Scott and in Canada for Wood Gundy. He has been involved in the establishment, operation and ownership of several small businesses, and is currently working as an executive director of Advanced Management Planning Pty Limited. He is a director and Company secretary of JAM Development Capital Limited, Wilson Investment Fund Limited, ITL Limited and Wilson Leaders Limited.

6. INVESTMENTS AT MARKET VALUE

Investments at Market Value

Code	Name	Shares	Market Value as at 31 August 2004	% of Portfolio
Ordinary Shares:				
ADG	Adtrans Group Limited	23,010	83,986.50	1.30%
AEN	Australian Energy Limited	30,254	28,741.30	0.44%
ARP	ARB Corporation Limited	46,800	171,288.00	2.65%
ASX	Australian Stock Exchange	12,566	195,778.28	3.03%
DUE	Duet Limited	100,300	239,717.00	3.71%
FWD	Fleetwood Corporation Limited	228,069	1,984,200.30	30.72%
HLD	Homeleisure Limited	361,800	184,518.00	2.86%
HWT	Harvey World Travel Limited	58,334	96,834.44	1.50%
LIP	LIPA Pharmaceuticals Limited	122,400	263,160.00	4.07%
NCK	Nick Scali Limited	226,710	358,201.80	5.55%
NLX	Nylex Limited	280,000	82,600.00	1.28%
OMP	Oamps Limited	302,203	1,081,886.74	16.75%
SDI	Southern Dental Industries	5,160	42,312.00	0.66%
SFE	SFE Corporation Limited	60,978	413,430.84	6.40%
SUN	Suncorp-Metway Limited	25,261	376,388.90	5.83%
TRS	The Reject Shop Limited	102,685	247,470.85	3.83%
TOTAL		1,986,530	5,850,514.95	90.58%
Property Trusts:				
IIF	ING Industrial Fund	312,045	608,487.75	9.42%
TOTAL		312,045	608,487.75	9.42%
TOTAL EQUITIES		**2,298,575**	**6,459,002.70**	**100.00%**

7. CORPORATE GOVERNANCE

7.1 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.

7.2 Board of Directors and Its Committees

Role of the Board
The Board's primary role is the protection and enhancement of long-term shareholder value. To fulfill this role the Board seeks to address:
(a) the prudential control of the Company's operations;
(b) the resourcing, review and monitoring of executive management;
(c) the timeliness and accuracy of reporting to shareholders; and
(d) the determination of the Company's broad objectives.

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

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

The Board is creating a written set of annual objectives for itself and its Committees. The first annual review of the performance of the Board will take place during the financial year ending 30 June 2005.

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

The Board is comprised of three non-executive Directors. Mr J Gosse is the sole independent director. The Board does not have a majority of independent directors. The Board has considered its composition and believes that as the principal management function, being the management of the investments, resides with Clime Asset Management Pty Limited, the participation of one independent director is appropriate for the Company.

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

Directors have a usual term of two years, and a maximum term of 3 years.

Performance Evaluation of Directors
Given that the Company has not been listed for a full twelve months, a directors' performance evaluation has not been conducted for the current period. The Company will commence annual reviews of director's performance once the Company has been listed for a full year.

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 a 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 meets annually unless otherwise required. The Nomination Committee did not meet during the 2004 financial period, however, will meet early in the corresponding financial year.

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 annually by the Chairman. Directors whose performance is unsatisfactory are asked to retire.

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

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

Remuneration Committee
The Remuneration Committee reviews and makes recommendations to the Board on remuneration of the directors themselves. The Remuneration Committee meets once a year. The Remuneration Committee did not meet during the 2004 financial period, however, will meet early in the corresponding financial year.

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

The members of the Remuneration Committee during the period were:
- J Gosse (Chairman)
- A Hockey

Audit Committee
The Audit Committee has a documented Charter, approved by the Board. All members must be non-executive directors. The Chairman is not the Chairman of the Board. The Committee is responsible for considering the effectiveness of the systems of internal control and financial reporting. The Audit Committee will meet at least three times per year. The Audit Committee did not meet during the 2004 financial period, however, will meet early in the corresponding financial year.

The members of the Audit Committee during the year were:
- J Gosse (Chairman)
- A Hockey

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

The Audit Committee:

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

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

Executive Management
The companies operations are conducted through Clime Asset Management Pty Limited (Investment Manager) and White Funds Management Pty Ltd (Administration Manager). These entities incorporate the specialist wholesale investment and administration personnel who undertaken the Company's executive operations.

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

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

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

- All information lodged with the ASX is expected to be available on the Company's website before June 2005 at **www.clime.com.au**
- An Annual Report will be mailed to shareholders at the close of the financial year;
- Net asset backing per share is released to the ASX by the 14^{th} day following each month-end and is sent via email to shareholders who register their interest;
- Any information of a material nature affecting the Company is disclosed to the market through release to the ASX as soon as the Company becomes aware of such information, in accordance with the ASX Continuous Disclosure requirement.

8. DIRECTORS' REPORT

The Directors present their report together with the financial report of Clime Capital Limited ("the Company") for the period 11 September 2003 to 30 June 2004 and the auditor's report thereon.

Principal Activity
The principal activity of the Company is the investment in the publicly listed equities of Australian companies. No changes to this activity are anticipated in the future.

Review of Operations and Results
The Company was incorporated on the 11 September 2003 and listed on the Australian Stock Exchange on the 2 February 2004, raising $17,640,341 under the IPO. Net profit after tax for the nine months since incorporation amounted to $229,686.

Dividends
Dividends paid or recommended for payment out of the profits since the beginning of the financial period are:

Final dividend recommended by the Directors, not provided,
payable 15th September 2004
1 cent per ordinary share, fully franked,
0% attributable to discount capital gains $191,703

No other dividends have either been paid or proposed.

State of Affairs
Significant changes in the state of affairs of the Company during the financial period were as follows:

Share Issue
Fully paid, ordinary share capital was issued during the period as follows:

	2004 **$**
- 13 January 2004 – Initial public offer of 17,640,340 shares at $1 per share less transaction costs of $164,975. Each share included one free option for the purchase of one additional share at a price of $1.	17,475,365
- 5 February 2004 – Exercise of 10,000 options at $1.00 per share	10,000
- 27 February 2004 – Exercise of 10,000 options at $1.00 per share	10,000
- 25 June 2004 – Placement of 160,000 shares at $1.00 per share	160,000
Increase in fully paid share capital	17,655,365

Options
At the date of this report, the unissued shares of the Company under option are 17,780,340. The options are exercisable at $1 on or before 15 December 2005.

Appointments
The Company entered into an agreement appointing Clime Asset Management Pty Limited “Manager” (solely owned by director Roger Montgomery) as manager of the Company’s investments. The Company allocated 25% of all management and performance fees payable to the Manager to Boutique Asset Management Pty Limited (“BAM”) an entity associated with director Geoffrey Wilson.

Additionally, the Company appointed Invia Custodian Pty Limited as Custodian to the Company’s investments and White Funds Management Pty Limited as Administrators to the Company.

Events Subsequent to the Balance Sheet Date

Dividends
The final dividend as recommended by the directors will be paid subsequent to balance date and is not provided for in the Statement of Financial Performance.

Issued Capital
Since the end of the financial period, 1,585,595 shares have been issued by way of placements to the market raising additional issued capital of $1,585,595.

Prospectus Issue
The Company will, in the week after the signing of these accounts, be issuing a Prospectus offering 20,000,000 Shares and 20,000,000 Options in the Company to, initially, the Manager’s retail clients and then to existing shareholders and members of the public. Proceeds will be used for further investment consistant with the Company’s existing investment objectives.

Other than the matters discussed above, there has not arisen in the interval between the end of the financial period and the date of this report any item, transaction or event of material and unusual nature likely, in the opinion of the directors of the Company, to significantly affect the operations of the entity, the results of those operations, or the state of affairs of the entity, in future financial years.

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

Directors
The following persons were Directors of the Company during the financial period and up to the date of this report:

- Mr Roger J Montgomery (Chairman, Executive Director, CEO)
- Mr Anthony Hockey (Director, Company Secretary)
- Mr Geoffrey J Wilson (Director)
- Mr Julian J Gosse (Director)

No other Directors held office during the financial year or to the date of this report.

Directors' Shareholdings

Details of Directors' holdings in issued shares and options of the Company during the period and as at 30 June 2004 were as follows:

Director	Ord Shares Acquired/ (Disposed) During Period	Ord Shares Held at 30/6/04	Options Acquired / (Disposed) During Period	Options Held at 30/6/04
Roger Montgomery	96,001	96,001	96,000	96,000
Geoffrey Wilson	250,000	250,000	250,000	250,000
Anthony Hockey	50,000	50,000	50,000	50,000
Julian Gosse	-	-	-	-

The qualifications, experience and special responsibilities are shown on page 13 and 14 of this Annual Financial Report.

Directors' Meetings

During the year the Company held two Directors Meetings. All the directors of the Company attended these.

Indemnification and Insurance of Officers

The Company has agreed to indemnify, to the extent permitted by the Corporations Act, each officer in respect of certain liabilities that the officer may incur as a result of, or by reason of (whether solely or in part), being or acting as an officer of the Company. The Company has also agreed to use its best endeavors to ensure that it maintains a directors' and officers' policy of insurance for each Director at all times whilst a Director, and for a period of seven years after each Director ceases to hold office in the Company.

Directors' Benefits

The directors receive salaries as set out in the IPO prospectus as follows:

	Salary Per annum $
Mr Roger J Montgomery	Nil
Mr Anthony Hockey	20,000
Mr Geoffrey J Wilson	10,000
Mr Julian J Gosse	20,000

Roger Montgomery is sole shareholder of the Manager, to whom management fees totaling $57,225 were paid during the period. Geoffrey Wilson is associated with BAM, to whom management fees of $19,075 were paid during the period. No performance fees were paid during the period. The formulae for the calculation of both management and performance fees can be found on page 29 of the Company Prospectus.

No director has received or become entitled to receive a benefit, (other than emoluments shown above), by reason of a contract made by the Company or a related Company with the Director or with a firm of which a Director is a member or with a Company in which he has substantial financial interest.

Signed in accordance with a resolution of the Directors.

R. MONTGOMERY,
Director

8th September 2004

CLIME CAPITAL LIMITED
ABN 99 106 282 777
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE PERIOD 11 SEPTEMBER 2003 TO 30 JUNE 2004

	Notes	Period ended 2004 $
Investment revenue from ordinary activities	2	483,182
Revenue from the sale of investments	1(b), 2	6,813,185
Cost of sales of investments	1(b), 2	(6,813,185)
Other investment losses		(16,208)
Administrative expenses	4	(120,839)
Other general expenses from ordinary activities		(35,062)
Net Profit from ordinary activities before related income tax expense		311,073
Income tax expense relating to ordinary activities	5	(81,387)
Net Profit after related income tax expense attributable to shareholders		**229,686**
Non-shareholder transaction changes in equity		
Increase in Asset Revaluation Reserve	14	151,446
Total changes in equity excluding transactions with shareholders as shareholders		**381,132**
Basic earnings per share	8	0.01
Diluted earnings per share	8	0.01

The Statement of Financial Performance should be read in conjunction with the accompanying Notes to the Financial Statements.

CLIME CAPITAL LIMITED
ABN 99 106 282 777
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2004

	Notes	2004 $
ASSETS		
Cash Assets		3,572,461
Receivables	9	317,677
Bills Receivable	10	10,596,420
Investments	11	3,944,932
Tax Assets	5(d)	66,894
TOTAL ASSETS		18,498,384
LIABILITIES		
Payables	12	319,403
Current Tax Liabilities	5(b)	68,057
Deferred Tax Liabilities	5(c)	74,427
TOTAL LIABILITIES		461,887
NET ASSETS		**18,036,497**
EQUITY		
Contributed Equity	13	17,655,365
Reserves	14	151,446
Retained Profits	15	229,686
TOTAL EQUITY		**18,036,497**

The Statement of Financial Position should be read in conjunction with the accompanying Notes to the Financial Statements.

CLIME CAPITAL LIMITED
ABN 99 106 282 777
STATEMENT OF CASH FLOWS
FOR THE PERIOD 11 SEPTEMBER 2003 TO 30 JUNE 2004

	Period ended 2004 $
Cash Flows from Operating Activities	
Dividends Received	48,435
Interest Received	403,011
Payments for Administrative and General Expenses	(81,172)
Net Operating Cash Flows	370,274
Cash Flows from Investing Activities	
Proceeds from Sale of Discounted Bills of Exchange	3,484,392
Proceeds from Sale of Investments	3,301,511
Payments for Purchase of Discounted Bills of Exchange	(14,080,812)
Payments for Purchase of Investments	(7,097,975)
Net Investing Cash Flows	(14,392,884)
Cash Flows from Financing Activities	
Proceeds from issue of shares	17,640,342
Proceeds from exercise of options	20,000
Proceeds from share placements	160,000
Transaction costs from the issue of shares	(225,271)
Net Financing Cash Flows	17,595,071
Net Increase In Cash Held	**3,572,461**

NOTES TO STATEMENT OF CASH FLOWS

(i) Reconciliation of cash -

For the purpose of the statement of cash flows, cash includes cash at bank and held by custodian. Cash at the end of the year shown in the statement of cashflows is reconciled to the statement of financial position as follows:-

Cash (interest bearing)	**3,572,461**

(ii) Reconciliation of profit from ordinary activities after income tax to net cash provided by operating activities.

Operating Profit from ordinary activities after Income Tax	229,686
Loss on sale of investments	16,208
Add/(less) non-cash items:	
Increase in Income Taxes Payable	81,387
Changes in Assets and Liabilities:	
Increase in Creditors	81,852
(Increase) in Receivables	(38,859)
Net Cash Provided by Operating Activities	370,274

The Statement of Cash Flows should be read in conjunction with the accompanying Notes to the Financial Statements.

1. Statement Of Significant Accounting Policies

The significant policies which have been adopted in the preparation of this financial report are:

(a) Basis of accounting

This financial report is a general purpose financial report that has been prepared in accordance with applicable Accounting Standards and other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) and the Corporations Act 2001.

The accounts are prepared on an accruals basis. In order to reflect changing market values the Directors have adopted a policy to revalue all investments on a daily basis. Apart from this policy, the Financial Statements have been prepared on the basis of historical costs.

(b) Investments

Australian Stock Exchange (ASX) listed shares and securities are valued at market value as quoted on the ASX less an allowance for realisation costs. Non-listed ASX shares and securities are valued at their estimated market value less an allowance for realisation costs. Investments including shares and securities are valued continuously. Accordingly, cost of sales equals sales revenue when investments are sold. Revaluations are credited directly to the Asset Revaluation Reserve after deducting a provision for potential deferred capital gains tax. When investments are disposed of, the balance in the Asset Revaluation Reserve relating to the disposed investment is transferred to the Capital Profits Reserve.

(c) Assets held for resale

Shares held for resale are valued at market value as quoted on the ASX less an allowance for realisation costs. Revaluations are taken directly to the Statement of Financial Performance.

(d) Bills of exchange

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

(e) Cash assets

Cash Assets includes cash on hand, at bank and short-term deposits at call.

(f) Revenue recognition

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

(g) Income Tax

The Company adopts the liability method of tax effect accounting whereby the income tax expense is based on the profit from ordinary activities adjusted for any permanent differences.

Timing differences which arise due to the different accounting periods in which items of revenue and expense are included in the determination of accounting profit and taxable income are brought to account as either a provision for deferred income tax or as a future income tax benefit at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

1. Statement Of Significant Accounting Policies (Continued)

(g) Income Tax (Continued)

Future income tax benefits are not brought to account unless the realisation of the asset is assured beyond reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is a virtual certainty of realisation of the benefit.

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 the law.

(h) 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 Statement of Financial Position are shown inclusive of GST.

(i) Operating Segments

The Company operated in Australia only and the principal activity is investment.

(j) 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.

(k) Adoption of Australian Equivalent to IFRS

Australia is currently preparing for the introduction of International Financial Reporting Standards (IFRS) effective for financial years commencing 1 January 2005. This requires the production of accounting data for future comparative purposes at the beginning of the next financial year.

The Company's directors, along with its auditors, are assessing the significance of these changes and preparing for their implementation. The Company's directors will oversee and manage the Company's transition to IFRS and will seek to keep stakeholders informed as to the impact of these new standards as they are finalised.

The directors are of the opinion that the key differences in the Company's accounting policies that will arise from the adoption of IFRS are:

- Income tax

Currently, the Company adopts the liability method of tax-effect accounting whereby the income tax expense is based on the accounting profit adjusted for any permanent differences. Timing differences are currently brought to account as either a provision for deferred income tax or future income tax benefit. Under the Australian equivalent of IAS 12, the Company will be required to adopt a balance sheet approach under which temporary differences are identified for each asset and liability rather than the effects of the timing and permanent differences between taxable income and accounting profit.

- Non-current investments

Under the pending AASB 139: Financial Instruments: Recognition and Measurement, financial instruments that are classified as available for sale must be carried at fair value.
Unrealised gains and losses may be recognised either in income or directly to equity. Current accounting policy is to revalue non-current investments on a daily basis.

2. Revenue from Ordinary Activities

	2004 $
Dividends received from other companies	48,435
Interest received or receivable from other companies	434,747
Total revenue from ordinary activities	483,182
Proceeds from the sale of investments consisted of the following:	
Equities and unit trusts	3,328,793
Discounted Bills of Exchange	3,484,392
	6,813,185

3. Auditors' Remuneration

Audit and review of the financial reports	8,800
Other Services included in costs of capital raising	8,800
Other services provided by related practice or entity of the auditor	18,250
	35,850

4. Administrative Expenses

Management Fees	76,300
ASX Fees	7,225
Accountancy Fees	25,436
Audit Fees	8,800
Others	3,078
	120,839

5. Taxation

(a) Income Tax Expense

The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax as follows:	
Prima facie tax payable on profit from ordinary activities before income tax at 30%	93,322
Less tax effect of:	
Imputation credits	(11,935)
Income tax expense attributable to profit from ordinary activities	81,387

5. Taxation (Continued)

	Note	2004 $
(b) Current Tax Liabilities		
Movements during the year were as follows:-		
Balance at the beginning of the financial period		-
Current income tax expense	5(a)	81,387
Timing Differences		(13,330)
Balance at the end of the financial period		68,057
(c) Deferred Tax Liabilities		
Provision for deferred income tax comprises the estimated expense at current income tax rates of 30% on the following items:		
Provision for capital gains tax on unrealised investments		64,906
Timing Differences		9,521
		74,427
(d) Current Tax Assets		
Current tax assets comprises the estimated expense at current income tax rates on the following items:		
Expense provisions not currently deductible		66,894

The potential future income tax benefit will only be obtained if:-

(i) the Company derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised;
(ii) the Company continues to comply with the conditions for deductibility imposed by the law, and
(iii) no changes in tax legislation adversely affect the Company in realising the benefit.

6. Dividends Paid Or Provided

Subsequent Events

Since the end of the financial year, the directors have recommended the following dividends:

			$
Ordinary Shares			
Final	1 cent per share	Fully Franked (30% Class C)	191,703

The financial effect of these dividends have not been brought to account in the financial statements for the period ended 30 June 2004 and will be recognised in subsequent financial reports.

	2004
	$

7. Dividend Franking Information

Class C 30% franking credits available to shareholders for subsequent financial periods	85,107

Balance of franking account adjusted to reflect a tax paid basis for:
(a) franking credits which will arise from the payment of income tax provided for in the financial statements;
(b) franking credits that will arise from the receipt of dividends recognised as receivables at year-end; and
(c) franking credits that the entity may be prevented from distributing in subsequent years.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends. The franking credit balance does not include allowance for the final dividend.

8. Earnings per share

Basic earnings used in calculations	229,686
Basic earnings per issued share have been calculated using the weighted average number of ordinary shares of the Company outstanding during the period to 30 June 2004.	0.01
Diluted earnings per issued share have been calculated using the weighted average number of ordinary shares and options of the Company outstanding during the period to 30 June 2004.	0.01
Weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share:	17,663,741

The diluted earnings per share figure is the same as the basic earnings per share figure. This is due to the options on issue having an exercise price in excess of the year-end market price.

9. Receivables

Interest Income Receivable	31,736
Unsettled Trades	278,818
Other Debtors	7,123
	317,677

Terms and conditions

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

Other debtors consists of GST receivable that can be recovered from the ATO.

10. Bills Receivable

	2004 $
Discounted Bills of Exchange	10,596,420

Discount and conditions

Bills of exchange all have an average maturity date of 16 July 2004 and an average interest rate of 5.44% p.a.

11. Non-Current Assets - Investments

Quoted investments at market values	3,944,932

Material Investments in listed equities:

Listed Entity	Sections	Holding	Market Value
Adtrans Group Limited	Retail	23,010	85,137
Australian Energy Limited	Utilities	30,254	28,136
Fleetwood Corporation	Consumer Durable & Apparel	228,069	1,744,728
Great Southern Plantations Limited	Materials	215,866	621,694
Homeleisure Limited	Retail	120,800	65,232
Harvey World Travel Limited	Hotel & Leisure	58,334	84,000
Miller Retail Limited	Retail	10,435	14,087
Nick Scali Limited	Retail	126,710	174,860
OAMPS Limited	Insurance	208,194	628,746
SFE Corporation Limited	Diversified Financials	40,978	263,079
Timbercorp Limited	Materials	146,752	227,466
Units in Unit Trusts			
ING Industrial Fund	Listed Property Trust	4,315	7,767
		1,213,717	**3,944,932**

12. Payables

Accrued Expenses	54,748
Amounts payable to related parties	37,514
Unsettled trades	227,141
	319,403

Terms and conditions

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

Accrued expenses are settled within the terms of payment offered, which is usually within 30 days.

Amounts payable to related parties includes the directors' fees and management fees payable to Clime Asset Management Pty Limited.

13. Contributed Equity	$	**2004** $
Share Capital		
17,820,341 Ordinary Shares, fully paid		17,820,341
(less) Costs of issue of capital	235,680	(164,976)
Tax credit on issue costs	(70,704)	
Total Share Capital		17,655,365

(a) Movements in Ordinary Share Capital

All shares issued in the period at an issue price of $1 each.

Date	Detail	No' of Shares	Issue Value $
13-Jan-04	Initial offer	17,640,341	17,640,341
05-Feb-04	Option exercise	10,000	10,000
27-Feb-04	Option exercise	10,000	10,000
25-Jun-04	Placement issue	160,000	160,000
30-Jun-04	Balance	17,820,341	17,820,341

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.

On issue, each share included one free option for the purchase of one additional share at a price of $1. These options expire on 15 December 2005.

(b) Movements in Options

Date	Detail	No' of Options
13-Jan-04	Initial offer	17,640,340
05-Feb-04	Option exercise	(10,000)
27-Feb-04	Option exercise	(10,000)
25-Jun-04	Placement issue	160,000
30-Jun-04	Balance	17,780,340

			2004
		$	$

14. Reserves

Asset Revaluation Reserve	14(a)		151,446

(a) Asset Revaluation Reserve

Balance at beginning of financial period	-
Revaluation of Investments in period (net of tax)	151,446
Balance at end of financial period	151,446

(b) Nature and Purpose of Reserve

For a description of the nature and purpose of the Asset Revaluation Reserve refer to note 1(b).

15. Retained Profits

Balance at beginning of financial period	-
Profit attributable to ordinary activities after income tax in period	229,686
Balance at end of financial period	229,686

16. Directors' and Executives' Remuneration

(a) Names and positions held by directors and specified executives in office at any time during the financial period are:

Directors	
Mr Roger J Montgomery	Chairman
Mr Anthony Hockey	Director, Company Secretary
Mr Geoffrey J Wilson	Director
Mr Julian J Gosse	Director

The Company is managed by Clime Asset Management Pty Ltd. The Company has no Specified Executives.

(b) Directors' Remuneration:

	Salaries & Fees $	Total $
Directors		
Mr Roger J Montgomery	-	-
Mr Anthony Hockey	8,333	8,333
Mr Geoffrey J Wilson	4,167	4,167
Mr Julian J Gosse	8,333	8,333
	20,833	20,833

All remuneration remains outstanding, within payables, at 30 June 2004. Management fees and performance fees paid to companies related to directors are detailed in Note 17(a).

(c) Directors' Shareholdings:

	Obtained in Period*	Options Exercised	Balance at 30.06.04
Directors			
Mr Roger J Montgomery	96,001	-	96,001
Mr Anthony Hockey	50,000	-	50,000
Mr Geoffrey J Wilson	250,000	-	250,000
Mr Julian J Gosse	-	-	-
	396,001	-	396,001

(d) Directors' Options and Rights Holdings:

	Obtained in Period*	Balance at 30.06.04	Exercisable at 30.06.04
Directors			
Mr Roger J Montgomery	96,000	96,000	96,000
Mr Anthony Hockey	50,000	50,000	50,000
Mr Geoffrey J Wilson	250,000	250,000	250,000
Mr Julian J Gosse	-	-	-
	396,000	396,000	396,000

* All shares were purchased in the IPO that floated the Company in February 2004 apart from one share of Roger Montgomery's which was obtained at incorporation. Each share obtained at the IPO came with an attaching option.

(e) Directors' Remuneration Practices:

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

The maximum total remuneration of the directors of the Company has been set at $50,000 per annum, to be divided amongst them as they agree. The scope of the Company's operations and frequency of board meetings are a principal determinant of fee level.

17. Related Party Disclosure

(a) Management fees and Performance fees paid to companies related to the directors were as follows:

		$
Clime Asset Management Pty Ltd	Mr Roger J Montgomery	57,225
Boutique Asset Management Pty Ltd	Mr Geoffrey J Wilson	19,075
		76,300

At the 30 June 2004, $16,681 of the period's management fees remain unpaid and within payables.

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

(c) Aggregate number of ordinary shares acquired or sold/disposed of by the Directors and Director related entities during the year

- acquired	396,001
- sold/disposed	-
- no longer deemed to be Director related	-

All acquisitions and disposals of shares by directors and their director related entities occurred at arms length.

(d) Aggregate number of ordinary shares held at the reporting date by Directors and Director related entities — 396,001

(e) Details of remuneration and fees received by Directors and Executives are shown in note 16.

18. Additional Financial Instruments Disclosure

(a) Terms, Conditions and Accounting Policies

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

(b) Credit Risk Exposures

Credit 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 the statement of financial position, is the carrying amount. The Company is not materially exposed to any individual credit risk.

(c) Net Fair Values

The carrying amounts of financial instruments in the statement of financial position approximate their net fair values.

(d) Interest Rate Risk Exposure

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

19. Events Subsequent to Balance Date

The final dividend as recommended by the directors will be paid subsequent to balance date and is not provided for in the Statement of Financial Position.

Since the end of the financial period, 1,585,595 shares have been issued by way of placements to the market, raising additional issued capital of $1,585,595.

Other than the matters discussed above there has not arisen in the interval between the end of the financial period and the date of this report any item, transaction or event of material and unusual nature likely, in the opinion of the directors of the Company to significantly affect the operations of the entity, the results of those operations, or the state of affairs of the entity, in future financial years.

20. Segment Reporting

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.

13. DIRECTORS' DECLARATION

In the opinion of the directors of Clime Capital Limited:

1. The financial statements and notes set out on pages 24 to 38, are in accordance with the Corporations Act 2001, including:

   (a) giving a true and fair view of the financial position of the Company as at the 30th June 2004 as represented by the results of operations and cash flows, for the period ended on that date; and

   (b) complying with Accounting Standards in Australia and the Corporations Regulations 2001.

2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

Signed in accordance with a resolution of the directors:

R. MONTGOMERY,
Director

8th September 2004

14. AUDITORS' REPORT

INDEPENDENT AUDIT REPORT TO MEMBERS OF CLIME CAPITAL LIMITED

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Clime Capital Limited ("the Company") for the period ended 30 June 2004.

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

Audit approach

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

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

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

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

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

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MOORE STEPHENS WI
CHARTERED ACCOUNTANTS

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

Audit opinion

In our opinion, the financial report of Clime Capital Limited is in accordance with:

a. the *Corporations Act 2001*, including:
   i. giving a true and fair view of Clime Capital Limited's financial position as at 30 June 2004 and of its performance for the period ended on that date; and
   ii. complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

b. other mandatory financial reporting requirements in Australia.

S M Whiddett

Moore Stephens WI

S. M. WHIDDETT
Partner

MOORE STEPHENS WI
Sydney

8 September 2004

15. DETAILS OF SHAREHOLDERS

15.1 Statement of Shareholdings

At 31st August 2004, 1,316 members held 19,170,255 ordinary shares in the Company. The twenty largest ordinary shareholdings were equivalent to 18.58% of the 19,170,255 ordinary shares issued and the 20 largest option holdings were equivalent to 19.86% of the 19,003,254 options outstanding. The distribution of shares was as follows: -

No. of Ordinary Shares or Options Held	No. of Option Holders	No. of Ordinary Shareholders
1 - 1,000	1	20
1,001 - 5,000	560	581
5,001 - 10,000	318	356
10,001 - 100,000	321	340
100,001 and over	23	19

There were 5 holders of less than a marketable parcel of shares.

15.2 Substantial Shareholders

There are no substantial shareholders.

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

15.3 Voting Rights

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

15.3 Top Twenty Shareholders

Name	Balance	%Issue
Mr Victor John Plummer	400,000	2.09
John Stephen Michael Heathers	300,000	1.57
Geoff G Brown Pty Limited	250,000	1.30
Mr Geoffrey James Wilson	250,000	1.30
Mr Wilfrid George Galbraith & Mrs Adrienne Penelope Galbraith	200,000	1.04
Mrs Monika Lilian Menzies	175,000	0.91
Ms Sheryl Gates	175,000	0.91
DB Management Pty Limited	168,000	0.88
Mr Don Holden & Mrs Sue Holden	162,420	0.85
Mr Graham Peter Verbunt	160,000	0.84
Harvels Pty Ltd	150,000	0.78
M & M Lai Pty Ltd <M & M Lai Super Fund A/C>	150,000	0.78
Manthia Nominees Pty Ltd <Super Fund A/C>	150,000	0.78
Mr Derek Cantle <DJ & AJ Cantle Family A/C>	150,000	0.78
Ms Christine Elizabeth Johnson	140,000	0.73
Mr Gregory & Mrs Linda Leseberg	138,500	0.72
Rhama Holdings Pty Limited <Koster Super Fund A/C>	120,200	0.63
Mr Peter Fabian	118,000	0.62
Mr Donald Swain	101,400	0.53
Mr Michael & Mrs Robin Beech <M R Beech Super Fund A/C>	100,000	0.52

	3,558,520	**18.58**

15.4 Top Twenty Option Holders

Name	**Balance**	**%Issue**
Mr Michael Burlace	500,000	2.63
John Stephen Michael Heathers	300,000	1.58
Geoff G Brown Pty Limited	250,000	1.32
Mr Geoffrey James Wilson	250,000	1.32
Ms Therese Nicols	200,000	1.05
Mr Wilfrid George Galbraith & Mrs Adrienne Penelope Galbraith	200,000	1.05
Ms Sheryl Gates	175,000	0.92
Mr Don & Mrs Sue Holden	162,420	0.86
Mr Graham Peter Verbunt	160,000	0.84
Mr Charles Robert Walton	150,500	0.79
Waltons Hire Boats Pty Ltd <Staff Retirement Fund A/C>	150,000	0.79
Harvels Pty Ltd	150,000	0.79
Mr Neil Glick	150,000	0.79
M & M Lai Pty Ltd <M & M Lai Super Fund A/C>	150,000	0.79
Manthia Nominees Pty Ltd <Super Fund A/C>	150,000	0.79
Mr Derek Cantle <DJ & AI Cantle Family A/C>	150,000	0.79
Ms Christine Elizabeth Johnson	140,000	0.74
Mr Gregory & Mrs Linda Leseberg	138,500	0.73
Mrs Monika Lilian Menzies	125,000	0.66
Rhama Holdings Pty Ltd <Koster Super Fund A/C>	120,200	0.63
	3,771,620	**19.86**