# Aberdeen Leaders Limited

ABN 25 003 236 173

Annual Report and Accounts

30 June 2014

2014

Aberdeen

# Contents

# Corporate Summary

**The Company**
Aberdeen Leaders Limited (ABN 25 003 236 173) is a listed investment company and its shares are listed on the Australian Securities Exchange (ASX: ALR).

**Objective**
The Company invests primarily in Australian companies within the S&P/ASX200 Index with the objective of delivering regular income and long term capital growth.

**Benchmark**
The Company compares its performance with the S&P/ASX200 Accumulation Index.

**Investment Manager**
The Company has outsourced its investment management function to Aberdeen Asset Management Limited which holds an Australian Financial Services Licence No. 240263.

**Capital Structure**
The Company's capital structure comprises Ordinary Shares only. The Company also has bank borrowings of $30 million under a cash advance facility which rank for repayment ahead of any capital return to shareholders.

**Total Assets and Net Tangible Assets**
The Company had total assets of $98.2 million and an NTA per share of $1.16 cents, $1.11 cents net of deferred tax on unrealised gains as at 30 June 2014.

**Duration**
The Company does not have a maximum fixed life.

**Risk**
The Company generally invests in shares listed on the ASX. The value of shares and the income derived may fall or rise depending on a range of factors.

The Company currently utilises gearing through bank borrowings as noted above and as detailed in Note 16 on page 42. Gearing has the effect of exacerbating market falls and market gains.

**Management Agreement**
The Company has an agreement with Aberdeen Asset Management Limited for the provision of management services, details of which are contained in the Directors' Report on page 18.

The Directors review the terms of the investment management agreement on an annual basis.

Website: www.aberdeenasset.com.au

Aberdeen Customer Services
Toll free: 1800 636 888 or +61 2 9950 2888
Email: client.service.aust@aberdeen-asset.com.au

# Your Board

**Brian Michael Sherman,** AM, BComm, SA Fin
**Chairman**
Brian Sherman has been a Director of the Company since inception in 1987. He was appointed Chairman on 20 February 2004 and brings to the position his considerable experience gained in both funds management and stockbroking, as well as general commercial fields of endeavour.

He was chairman and joint managing director of the funds management company EquitiLink, a director of SOCOG and chair of its finance committee and a director of Channel 10 for some 16 years.

Mr Sherman was appointed as a member of the Order of Australia 2004 for his service to the community as a philanthropist and benefactor to arts, education and sporting organisations, and to business and commerce. Mr Sherman was the winner of the Ernst & Young Eastern Region Champion of Entrepreneurship 2006 and in 2009 was awarded an Honorary Doctor of Letters (HonLittD) from the University of Technology Sydney (UTS) for his significant philanthropic support for the community.
Director since 1987.

**Neville John Miles,** BComm (Hons), CA
Neville Miles has over twenty years of international investment banking experience. He was formerly Head of Corporate Treasury at Westpac Banking Corporation and subsequently has been Managing Director of Ord Minnett Securities Limited and Director of EL&C Baillieu Limited, Sydney. Mr Miles is a director of a number of other listed and unlisted companies. Mr Miles chairs the Risk and Compliance Committee and the Audit Committee.
Director since 1996.

**David Lindsay Elsum,** AM, BEE (Hons), BComm, MSc, FCPA
David Elsum was the founding Managing Director of Capel Court Merchant Bank. He was subsequently Managing Director of Renison Goldfields Consolidated Limited and MLC Limited. Mr Elsum is a member of the Risk and Compliance Committee and the Audit Committee.
Director since 1991

**Barry Sechos,** BComm LLB
Barry Sechos has over 25 years' experience as a director, business executive and corporate lawyer. Barry is a Director of the Sherman Group Limited, a privately owned investment company located in Sydney, Australia. Barry is also a director of See-Saw Films, an Australian and UK based film production and finance group and winner of the 2011 Academy Award for Best Picture for The King's Speech; Transmission Films, an Australian film distribution company; Regeneus Limited, an Australian based regenerative medicine company listed on the Australian Securities Exchange which focuses on using the regenerative capacities of stem cells to develop innovative cell therapies for humans and animals and DirectCash Payments Inc, an ATM payments processing company listed on the Toronto Stock Exchange.
Director since 2013

**Augustine Mark Daniels,** BscEcon
Mark Daniels is an Investment Director within the Australian equities team. Mark has spent over 25 years with Aberdeen, much of that as a UK equity manager, in particular of closed ended funds. Since moving to Sydney in 2005, Mark has helped embed the Group's highly regarded, bottom-up investment process. Previously, Mark worked for Cork Gully where he was a supervisor responsible for receiverships and liquidations. Prior to that, Mark worked as an articled clerk at Coopers & Lybrand. Mark graduated with a BscEcon in Economics from University College, Cardiff in the UK. Mr Daniels is a member of the Audit Committee.
Director since 2008.

**Gil Orski,** BCom, LLB
Company Secretary
Gil Orski is COO for Aberdeen Asset Management Limited most recently having been Legal Counsel. Prior to joining Aberdeen he had several roles in the Australian financial services industry including at the Australian Securities and Investments Commission.
Company Secretary since 2007.

# Information about the Manager

Aberdeen Asset Management Limited, Australia, is the Manager of the Company. It is a subsidiary of Aberdeen Asset Management PLC ("Aberdeen") whose group of companies as at 30 June 2014 managed a combined A$584.2 billion for institutions, unit trusts, listed investment companies, offshore funds and private clients.

Aberdeen has its headquarters in Aberdeen, Scotland, and operates 32 offices in 25 countries around the world. Clients access Aberdeen's investment expertise across the three asset classes of equities, fixed income and property as well as tailored solutions. Aberdeen follows a predominantly long-only approach, based on fundamentally sound investments. Aberdeen's investment teams are based in the markets or regions in which they invest.

**Global reach, local understanding**

We know global markets from the local level upwards. We believe our focus, size and approach enable us to provide effective asset management and superior client service.

Our teams champion original thinking and knowledge, so investment decisions are based only on our own research.

As a group, we have the scale to provide global coverage of financial markets, yet we are small enough to focus on each and every portfolio decision.

Close-knit teams, clear investment processes and flat structures are important to us. We seek to grow our clients' assets in a way that is manageable and sustainable over the longer term.

**Aberdeen in Australia**

Aberdeen commenced its Australian operations in December 2000, and as at 30 June 2014 had A$17 billion in assets under management and advice. In addition to managing the investments of a number of Australian registered funds, Aberdeen in Australia also manages the Aberdeen Group's Australian and New Zealand assets for a range of global and domestic clients.

# Financial Record

### Net Tangible Assets

| | At 30 June 2014 |
|---|---|
| NTA per share (pre-tax) | 1.16 |
| NTA per share (post-tax) | 1.11 |
| Share Price | 1.23 |
| Discount to NTA (pre-tax) | 6.03% |
| Discount to NTA (post-tax) | 10.81% |
| Annualised dividend yield* (100% franked) | 5.69%** |

* Using the share price at the end of the period
** 8.13% gross of franking credits

### Performance Summary

| | | | | At 30 June 2014 |
|---|---|---|---|---|
| | 3 Months % | 12 Months % | 3 Years % pa | 5 Years % pa |
| Total portfolio* | 0.33 | 11.52 | 6.60 | 7.94 |
| Benchmark** | 0.93 | 17.43 | 10.38 | 11.20 |
| Net Assets (pre-tax) | 0.37 | 13.63 | 5.69 | 6.70 |
| Net Assets (post-tax) | 0.94 | 9.81 | 4.74 | 5.79 |
| Share Price | -2.37 | 6.43 | 8.99 | 8.40 |

All returns assume reinvestment of dividends.
* Performance is calculated based on the change in the value of the total portfolio (excluding the loan and tax liabilities) before deduction of all other fees. Past performance is not a guide to future performance.
** Benchmark: S&P/ASX 200 Accumulation Index.

### Portfolio Composition

| | At 30 June 2014 |
|---|---|
| Equities | 93.4 |
| Cash | 6.6 |
| Total | 100% |

Asset allocation is on gross assets and excludes the loan facility liability.

### Dividend

| | | | | At 30 June 2014 |
|---|---|---|---|---|
| | Year ended 30 June 2014 | Year ended 30 June 2013 | Year ended 30 June 2012 | Year ended 30 June 2011 |
| Dividend – cpu | 7.0 | 9.5 | 9.5 | 9.5 |
| Share price ($)* | 1.16 | 1.22 | 0.995 | 1.195 |
| Dividend yield % ** | 5.69 (8.13) | 7.79 (11.12) | 9.55 (13.64) | 7.95 (11.4) |

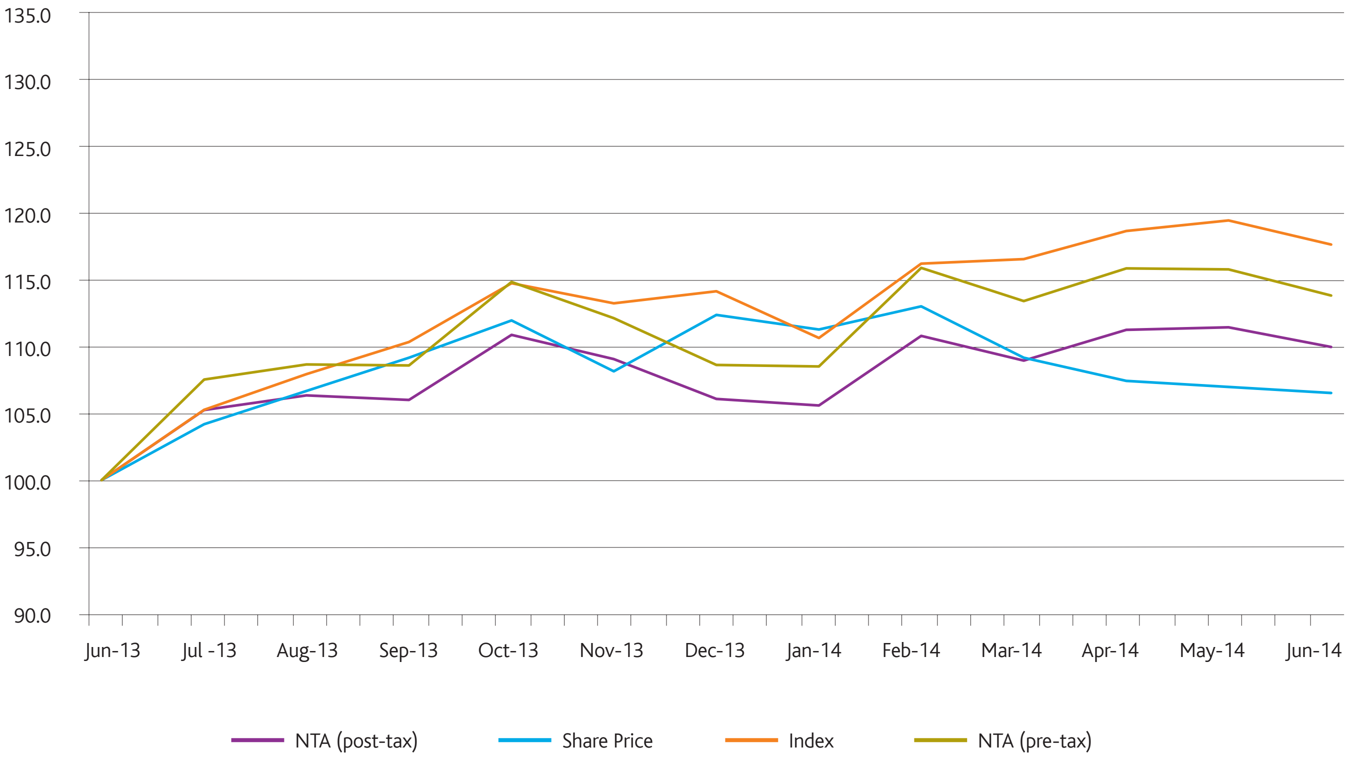
* Share price at the period end
** figure in brackets is the yield gross of franking credits

A fully franked dividend of 2.00 cents per share payable for the June quarter was declared on 20th June 2014, payable on 31st July 2014. Given the uncertain market conditions the Board will continue to review future dividends and will be closely monitoring the financial position of the Company, corporate results, asset values and dividend statements in the months ahead.

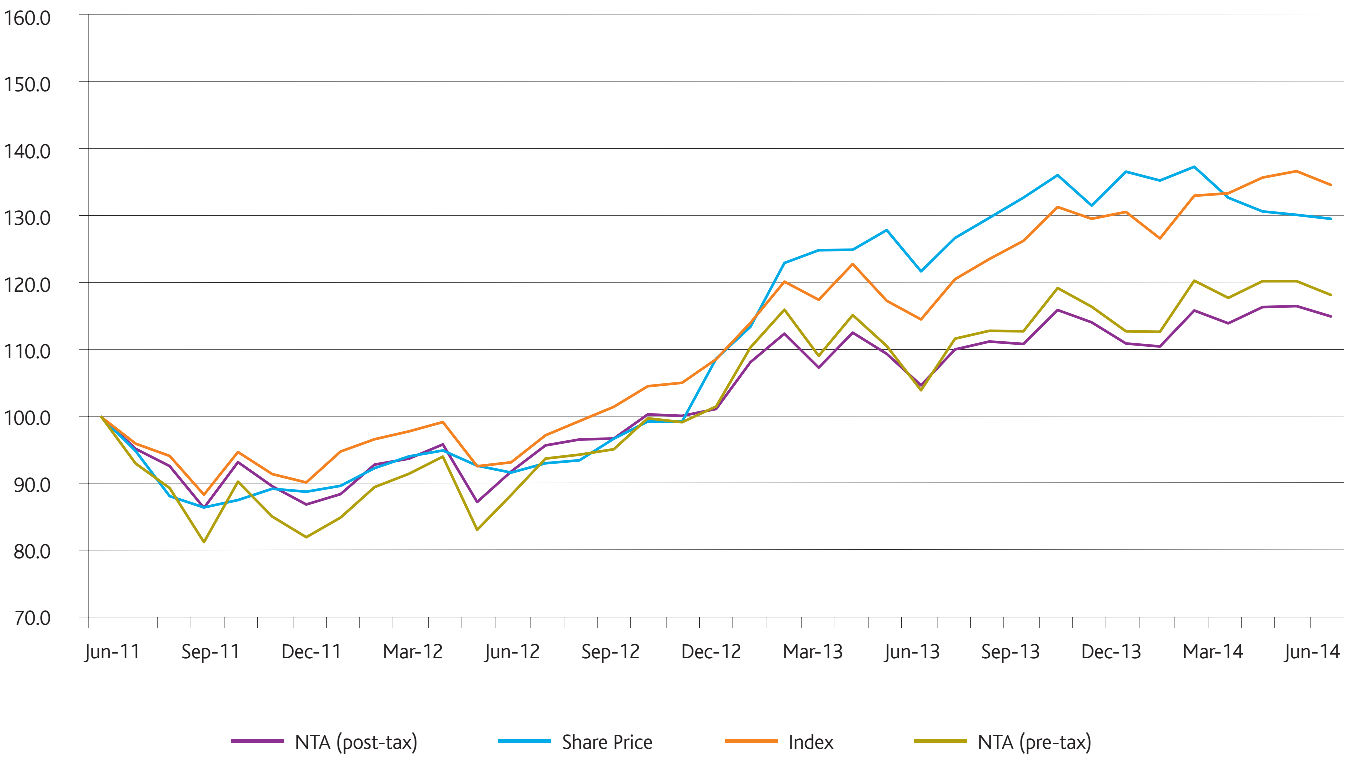
**Franking Credits**
As at 30 June the Company franking account had a franking credits balance of $9.7m

# Financial Record

One Year Performance Chart - value rebased to 100 at 30 June 2013.



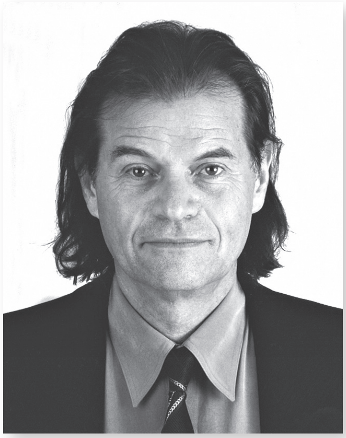

Three Year Performance Chart - value rebased to 100 at 30 June 2011.



# Financial Record

**Three Year Share Price (Discount) / Premium to the NTA.**

# Chairman's Statement



Dear Shareholder

I'm pleased to say that for the year to 30 June 2014 the Australian share market showed a positive return for the second consecutive year, with the S&P/ASX200 Accumulation Index (our benchmark) returning 17.43 per cent. Similarly to last year the returns were characterised by two halves. The first half of the year was strong, with the benchmark up 13.97 per cent, followed by a more muted second half up, 3.04 per cent.

Interest rates started the financial year at 2.75%, but were reduced in August 2013 by the Reserve Bank of Australia (RBA) to the current level of 2.50%. The start of the financial year also saw the Australian dollar sitting at 91.40c against the US dollar and, although the Governor of the RBA has continued to comment that the Australian dollar is too high, it finished at a relatively similar level of 93.95c at 30 June 2014. Most economists are not predicting any rise in the Australian cash rate in the near future and the relative strength of our dollar continues to have a detrimental impact on some industries. Another factor affecting certain sectors is the relatively high cost of doing business in Australia, especially as a result of high wages and red tape. Company results announced during the year were characterised as benefitting from reduced interest expense, either from lower borrowing levels or cost of service, and cost cutting by companies. Although the Materials sector was affected by lower realised commodity prices, the ramp up in production (especially iron ore) resulted in the sector as a whole performing broadly in line with the stock market. Capital expenditure by companies in general remains muted. Cash deposits remain the major source of funding for the big four Australian banks and deposit growth continues to outstrip loan growth.

September's federal election saw a change in Government. The incoming Coalition flagged significant changes to policy, although some of these are yet to be passed, with the lack of a clear majority in the Senate inhibiting policy changes. In its first budget in May the Government introduced strong measures to reduce spending and increase taxes, which have negatively impacted consumer confidence.

Our Company's returns were positive this year, with gross assets up 11.52 per cent, although there was underperformance relative to the index which occurred in the first half of the financial year.

Profit after tax for the current year was $1.84 million, a slight rise over last year.

As at 30 June 2014, the NTA per share stood at $1.16, up $0.08 on the same time last year ($1.08). Net of deferred tax on unrealised gains, the NTA stood at $1.11 per share. The share price closed at $1.23, representing an annual return of 6.43% when factoring dividends paid during the year.

As at 30 June 2014 the share price stood at a significant premium to both pre- and post-tax NTA.

**Final Dividend**

A final dividend of 2 cents per share was paid on 31 July 2014, resulting in an aggregate dividend of 7 cents per share for the year (fully franked) – a reduced dividend on the prior year, partly as a result of lower realised gains from the portfolio and utilisation of retained earnings from earlier years.

Based on the dividends paid over the previous 12 months this equates to a yield of 5.69 per cent (8.13 per cent gross of franking credits) on the closing share price at 30 June 2014. The Board will continue to review the level of future dividends payable in light of market conditions, the level of dividends received from the investment portfolio, and realised gains on investments.

**Dividend Reinvestment Plan**

I would like to remind investors of the Company's Dividend Reinvestment Plan (DRP) which allows eligible shareholders to have their dividends automatically reinvested in the Company. If you would like to participate in the DRP, or would like more information, please phone 02 9290 9600 and we will mail you a DRP booklet containing the relevant information.

**Outlook**

The new financial year has started positively, with the share market posting strong gains in July, ahead of reporting season. After a somewhat contractionary budget, we remain cautiously optimistic despite recent weaker retail sales and signs of weaker consumer sentiment. There are early signs of recovery in certain non-resource sectors (such as housing), buoyed by the strength of the highly profitable and adequately capitalised Australian banking sector (compared to both Europe and the US). We will be watching the upcoming results season for any signs of top-line growth rather than cost cuts. We remain firm in our belief that Australian investors will benefit in the long term by sticking to well-managed companies which are underpinned by the strength of their balance sheets and cash flows.

**Brian Sherman AM**
Chairman

August 2014

# Manager's Review

The Portfolio had another positive year, returning 11.52%, although this was lower than the benchmark (S&P/ASX200 Accumulation Index) return of 17.43%. Most of the relative underperformance occurred in the first half of the financial year and, as mentioned in the December 2013 half-yearly review, was largely due to stock specific issues and the underweight to utilities. In the second half of the year the Portfolio's performance broadly matched the benchmark.

During the year we sold out of our small holdings in David Jones and Newcrest Mining. We increased our weightings to Australian Stock Exchange, Woolworths, Woodside Petroleum, Cochlear, CSL, and SingTel, and reduced our weightings, in varying degrees, to WorleyParsons and Rio Tinto. Towards the end of June the demerger of Westfield Group into its component parts resulted in the creation of two separate holdings, namely Scentre Group and Westfield Corp.

The table below identifies the major positive and negative contributions to performance relative to the benchmark over the twelve months to 30 June 2014:

| Top 5 Contributors Stock | Relative weight* (%) | 12 Months Contribution (%) |
|---|---|---|
| AMP | 3.29% | 0.39% |
| Wesfarmers | -3.59% | 0.21% |
| Computershare | 2.58% | 0.19% |
| SP AusNet | 3.71% | 0.19% |
| Woodside Petroleum | 1.81% | 0.13% |

| Top 5 Detractors Stock | Relative weight* (%) | 12 Months Contribution (%) |
|---|---|---|
| QBE Insurance | 2.91% | -1.84% |
| Coca-Cola Amatil | 3.37% | -1.39% |
| WorleyParsons | 0.26% | -0.58% |
| Westfield Group | 3.37% | -0.48% |
| Macquarie Group | -1.44% | -0.40% |

* Relative weights are at 30 June only and may differ during the period

AMP Limited was our biggest contributor during the year and not holding Wesfarmers also contributed positively, closely followed by our holding in Computershare, for the second year running. QBE Insurance was the biggest detractor from performance for the year following a profit warning in December. Coca-Cola Amatil also detracted from performance after it issued a profit warning on the back of weak sales in Australia. This was due to the impact of PepsiCo seeking market share and currency effects impacting Coca-Cola's Indonesian operations.

The best performing sectors over the financial year were Financials, Information Technology and Energy. We were underweight the banking sector, primarily from a valuation perspective but also because we expected to see an uptick in loan provisions which has not yet eventuated. Relative underperformance came from Consumer Staples, where our largest exposure Woolworths, and Coca-Cola Amatil, underperformed the benchmark. Healthcare also underperformed as did the Utilities sector, although our holding in SP AusNet stood us in good stead.

The first month of the new financial year has begun positively for the Australian share market. In the run up to reporting season we have not heard many "confessions" from companies. The exception has been the retail sector where weak consumer sentiment following the federal budget has impacted sales. The relatively strong Australian dollar is still hurting businesses with significant overseas earnings, despite the RBA trying to talk its value down, and we feel it is unlikely that the RBA will increase the cash rate any time soon. We will be monitoring the up-coming results announcements for any signs of revenue growth and still expect to see continued cost cuts in the results. We do not feel that the market is particularly expensive at current levels, but would like to see some growth in the bottom line of some companies to justify valuations.

We continue to believe that identifying good quality companies at reasonable valuations and holding them for the long term will provide good returns in the long run.

**Aberdeen Asset Management Limited** **August 2014**

# Portfolio

The full portfolio of the Company at market value at 30 June 2014 is shown below:

| Sector | Company | Quantity | Market value $ | % |
|---|---|---|---|---|
| Consumer Discretionary | Tattersall's Limited | 514,300 | 1,671,475.00 | 1.70 |
| | | | **1,671,475.00** | **1.70** |
| Consumer Staples | Coca-Cola Amatil | 389,800 | 3,683,610.00 | 3.75 |
| | Woolworths Limited | 156,300 | 5,504,886.00 | 5.61 |
| | | | **9,188,496.00** | **9.36** |
| Energy | Caltex Australia | 66,300 | 1,415,505.00 | 1.44 |
| | Worley Group | 31,000 | 528,550.00 | 0.54 |
| | Woodside Petroleum | 95,500 | 3,920,275.00 | 3.99 |
| | | | **5,864,330.00** | **5.97** |
| Healthcare | Cochlear Limited | 33,400 | 2,054,100.00 | 2.09 |
| | CSL Limited | 62,900 | 4,183,479.00 | 4.26 |
| | | | **6,237,579.00** | **6.35** |
| Information Technology | Computershare | 241,100 | 2,987,229.00 | 3.04 |
| | | | **2,987,229.00** | **3.04** |
| Materials | BHP Billiton Limited | 310,500 | 11,143,845.00 | 11.35 |
| | Incitec Pivot Limited | 528,900 | 1,528,521.00 | 1.56 |
| | Orica Limited | 85,900 | 1,665,601.00 | 1.70 |
| | Rio Tinto | 110,200 | 6,529,350.00 | 6.65 |
| | | | **20,867,317.00** | **21.25** |
| Property Trusts | Westfield Corp Npv Stapled Units | 532,500 | 3,807,375.00 | 3.88 |
| | Scentre Grp Npv | 663,495 | 2,116,549.05 | 2.16 |
| | | | **5,923,924.05** | **6.03** |
| Telecommunication Services | Singapore Telecommunications Limited | 1,489,900 | 4,871,973.00 | 4.96 |
| | | | **4,871,973.00** | **4.96** |
| Utilities | AGL Energy Limited | 252,500 | 3,901,125.00 | 3.97 |
| | SP Ausnet | 2,873,800 | 3,807,785.00 | 3.88 |
| | | | **7,708,910.00** | **7.85** |
| Financials Ex Property Trusts | ANZ Banking Group | 191,000 | 6,366,030.00 | 6.48 |
| | ASX Limited | 130,300 | 4,633,468.00 | 4.72 |
| | AMP Limited | 828,100 | 4,388,930.00 | 4.47 |
| | Commonwealth Bank | 80,700 | 6,527,016.00 | 6.65 |
| | QBE Insurance Group | 356,000 | 3,866,160.00 | 3.94 |
| | Westpac Banking Corp | 114,800 | 3,888,276.00 | 3.96 |
| | | | **29,669,880.00** | **30.21** |
| **Equity Total** | | | **94,991,113.05** | **96.73** |
| **Net Liquidity including dtl** | | | **3,210,791.48** | **3.27** |
| **Total Assets excluding Debt** | | | **98,201,904.53** | **100.00** |
| **Loan Facility** | | | **30,000,000.00** | **30.55** |
| **Total Equity** | | | **68,201,904.53** | **69.45** |

# The Investment Process and Team

**Philosophy and Style**
The Manager believes markets are not always efficient and superior investment returns are therefore attainable by buying good companies cheaply, defined in terms of fundamentals that in our opinion drive share prices over the long term. We undertake substantial due diligence before initiating any investment, including company visits, in order to assure ourselves of the quality of the prospective investment. We are then careful not to pay too high a price when making the investment. Subsequent to that investment we keep in close touch with the company, meeting management at least twice a year. Given our long-term fundamental investment philosophy, one would not expect much change in the companies in which we invest. We do, however, take opportunities offered to us by what we see as anomalous price movements within stock markets to either top up on price weakness or top slice on share price strength positions, which typically account for the bulk of the activity within the portfolio during the year under review.

**Asset Allocation and Stock Selection**
Robert Penaloza heads up the eight-strong Sydney equity team. Our portfolio managers act as generalists, cross-covering the investment universe. Stock selection decisions are team based. Hugh Young, the Group's Singapore-based regional managing director and Group head of equities, oversees the operation.

**Risk Controls**
We seek to minimise risk through our in-depth research. We do not view divergence from a benchmark as risk, rather we view investment in poorly run, expensive companies that we do not understand as risk. In fact, where risk parameters are expressed in benchmark relative terms, asset – including sector – allocation constitutes a significant constraint on stock selection. Hence diversification provides our main control.

Aberdeen's performance and risk unit independently monitors portfolio positions, and reports monthly. As well as attributing performance it also produces statistical analysis, which is used by the Manager primarily to check the portfolio is behaving as expected, and not as a predictive tool.

**The Investment Team**

**Robert Penaloza**
**Director and Head of Australian Equities**
Robert Penaloza is a Head of Australian Equities. Robert joined Aberdeen in 1997 as an Assistant Investment Manager on the Asia ex Japan Equity Team in Singapore where he gained the company's distinctive 'bottom-up' investment style and regional portfolio management experience. Robert was also CEO and Head of Investments for Aberdeen Thailand where he established the company's successful investment management business. Robert graduated with a BA in Business Management (banking and finance) from the Charles Darwin University, Australia and has successfully completed the General Management Program from Harvard Business School. Robert is a graduate member of the Australian Institute of Company Directors (GAICD) and a Fellow of the Thai Institute of Company Directors.

**Mark Daniels**
**Investment Director**
Mark Daniels is an Investment Director within the Australian equities team. Mark has spent over 25 years with Aberdeen, much of that as a UK equity manager, in particular of closed ended funds. Since moving to Sydney in 2005, Mark has helped embed the Group's highly regarded, bottom-up investment process. Previously, Mark worked for Cork Gully where he was a supervisor responsible for receiverships and liquidations. Prior to that, Mark worked as an articled clerk at Coopers & Lybrand. Mark graduated with a Bsc Econ in Economics from University College, Cardiff in the UK.

**Andrew Preston**
**Senior Investment Manager**
Andrew joined Aberdeen in 1985 from the Australian Department of Foreign Affairs. Andrew has managed equity portfolios in the UK, US and Japanese markets and global and SRI portfolios for UK and North American clients. In August 2007 Andrew returned to Australia and joined the Australian Equity Team.

**Michelle Lopez, CFA***
**Senior Investment Manager**
Michelle joined Aberdeen in 2004 and is a Senior Investment Manager on the Australian equities team. Previously, Michelle worked for KPMG – Corporate Finance as an intern, and Watson Wyatt as a quant analyst. Michelle graduated with a BA in Applied Finance and Commerce (Marketing) from Macquarie University, Sydney. Michelle is a CFA Charterholder.

**Natalie Tam, CFA***
**Senior Investment Manager**
Natalie is a Senior Investment Manager on the Australian equity desk in Sydney. Natalie joined Aberdeen in 2005 from Deutsche Bank, where she worked as an equity research analyst. She was earlier an intern at Coca Cola Amatil (business development), Rothschild (corporate finance) and Promina Group (management accounting). Natalie holds a Bachelor of Commerce from the University of New South Wales where was awarded a UNSW co-op program scholarship in accounting & finance. Natalie is a CFA Charterholder.

**Camille Simeon**
**Investment Analyst**
Camille joined Aberdeen in April 2008 as an Investment Analyst on the Australian equity desk. Camille has over 15 years' industry experience, most recently at Citi Australia, where she was Vice President, Institutional Equity Research Sales. Camille graduated with a Bachelor of Business, University of Technology, Sydney. Camille is currently a level 3 CFA* program candidate.

**Marco Lo Blanco**
**Investment Analyst**
Marco Lo Blanco is an Investment Analyst on the Australian Equities desk. Marco joined Aberdeen in 2012 from KPMG where he worked in Financial & Business Group Modelling. Prior to that he worked in KPMG's Corporate Audit division, specialising in Consumer and Industrial markets. Marco graduated from the University of Sydney with a Bachelor of Commerce, and is a member of the Institute of Chartered Accountants of Australia. Marco is currently a level 3 CFA* program candidate.

**Jason Kururangi**
**Investment Analyst**
Jason Kururangi is an Investment Analyst on the Australian Equities desk. Jason joined Aberdeen in 2011 as an intern with the Pan-European equity team, before being offered a position in the UK graduate programme in October 2012 and spending time working in Marketing (Edinburgh), Operations (Aberdeen), Private Equity (London) and Pan-European Equity (Edinburgh/London). Previously, Jason worked as a Civil Engineer in New Zealand.

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# Aberdeen Leaders Limited

Corporate Governance Statement, Directors' Report and Financial Statements for the Year Ended 30 June 2014

The Company's Corporate Governance Statement is consistent in all material aspects with the Australian Securities Exchange Corporate Governance Council's "Corporate Governance Principles and Recommendations" (as revised in 2010 for the second edition), save for those matters expressly discussed below. Some references are already made below to changes introduced in the third edition of the "Corporate Governance Principles and Recommendations" during 2014 effective for the financial year ending 30 June 2015. The Company is committed to measuring its governance practices against the new recommendations for the financial year beginning 1 July 2014. With the Company's long time commitment to transparency and oversight, many of the updated recommendations continue to reflect the existing governance practices.

Set out below are the key features of the Company's current corporate governance policies and practices. The Board and the Company Secretary keep these under review to ensure that the Board operates effectively and in the best interests of shareholders.

The Board of Aberdeen Leaders Limited ("ALR" or the "Company") operates in accordance with its Charter. In carrying out its responsibilities, the Board will at all times recognise its overriding responsibility to act honestly, fairly, diligently and in accordance with the duties and obligations imposed upon it by the Company's constitution and the law. The investment of the Company's funds is carried out by Aberdeen Asset Management Limited ("Aberdeen") under the terms of an Investment Management Agreement ("IMA") which is reviewed on an annual basis. ALR utilises the resources of Aberdeen under the IMA and therefore has no employees.

The Board has specific responsibility to:
- oversee and monitor the performance of Aberdeen's compliance with the IMA and to ensure that Aberdeen is monitoring the performance of other external service providers;
- oversee and monitor the internal controls and legal compliance of ALR;
- monitor financial performance including approval of statutory financial reports and liaison with the auditors;
- set the ethical tone and standards of ALR;
- identify, control and monitor the significant risks faced by ALR; and
- oversee communications and reporting to shareholders

**Composition of the Board**
The Board currently has four (5) members. Under the Company's constitution, the number of Directors shall be not less than 3 and no more than 11.

The Board has been structured to ensure that it has the necessary skills and expertise for a company such as ALR and can effectively represent stakeholder interests.

The Chairman, Mr Brian Sherman, is responsible for leading the Board, ensuring that the Board's activities are efficiently organised and conducted. Mr Sherman does have a substantial shareholding and is not considered by the Board to be "independent" having regard to the definition of independence set out below based on that recommended by the ASX Corporate Governance Council. Mr Barry Sechos is also a director of the Company and an alternate director for Mr Sherman. Mr Sechos is a director of an entity related to Mr Sherman and is also not considered by the Board to be "independent".

However, while not independent, their interest in seeing the Company prosper is undeniably aligned with all shareholders. Mr Sherman or Mr Sechos do not participate in the day to day management of the portfolio and are not involved in related party transactions. The appointment of Mr Sechos as an alternate and the terms of that appointment were approved by the Board.

The Director representing Aberdeen, Mr Mark Daniels, is considered to be in a position equivalent to that of an executive director since ALR is an investment company which has outsourced its investment management function. The Executive Director is responsible for ensuring that Aberdeen provides a level of service consistent with the IMA. When the Board reviews and considers the appointment of Aberdeen under the IMA, no Aberdeen representatives are present.

The other two Directors, Mr Neville Miles and Mr David Elsum, are considered by the Board to be independent.

The Company Secretary is accountable to the Board, through the Chairman, on relevant matters to do with the proper functioning of the Board.

Biographical information in respect of each Director is set out on page 03.

The Board as presently constituted does not have a majority of independent non-executive directors. Importantly, however, the roles of Chairman and Executive Director are undertaken by separate persons and there is a majority of non-executive directors.

**Director Independence**
A Director is only to be regarded as independent if:
- the Director is a non-executive Director; is not a substantial (5% or more) shareholder of ALR; an officer of, or otherwise associated directly with, a substantial shareholder of ALR;
- within the last three years the Director has not been employed in an executive capacity by ALR or an employee materially associated with a service provider;
- within the last three years the Director has not been a principal of a material professional adviser or material consultant to ALR;
- the Director is not a material supplier or customer of ALR, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- the Director has no material contractual relationship with ALR other than as a director of ALR.

Material in respect of independence above is to be judged by the Board on both a quantitative and qualitative basis. An amount of over 5% of ALR's total shareholders' equity is considered material for these purposes. The Board regularly assesses the independence of directors. In addition, a transaction of any amount or relationship is deemed material if knowledge of it impacts the shareholders' understanding of Director's performance.

All Directors are to disclose to the Company, as soon as it is to hand, any information that may affect their independence.

### Nomination of Directors
The Chairman is responsible for reviewing the membership of the Board, the nomination of Directors to the Board and the re-election of Directors to the Board. Any review / recommendation is considered by the full Board. Appropriate expertise and experience are essential attributes for any nominee.

Having regard to ALR's size, nature as an investment company and Board responsibilities, a formal nominations committee is not considered necessary. Any new directors are subject to appropriate investigation and checks prior to appointment.

### Term of Office
Each year one-third of all executive and non-executive Directors (rounded down and based on who has been longest in office) are required to retire by rotation and may offer themselves for re-election by members at the Annual General Meeting. As further required by the Constitution (and ASX Listing Rules), each director is required to stand for re-election every 3 years.

Any Director appointed during the year is required to stand for re-election at the next Annual General Meeting of the Company.

### Meetings
The Board will meet as and when necessary to efficiently discharge its duties. The Board has determined that given the current nature of the business, quarterly Board meetings are appropriate, supplemented with monthly information updates. Additional meetings can be called by any Director to deal with items of special business and the Board will pass resolutions in circulation as required.

The quorum necessary for Directors to conduct business is two Directors.

### Remuneration
The Directors shall be paid out of the funds of the Company by way of remuneration for their services up to such sum as may from time to time be determined by the shareholders of the Company in a general meeting and allocated between Directors as the Board deems appropriate.  No employees of Aberdeen or the Director representing Aberdeen receive any remuneration from the Company. Remuneration is currently paid only to the non-executive Directors in the form of fees and/or superannuation.

No Director receives equity remuneration from the Company. Information concerning the remuneration for each Director is set out on page 20.

Having regard to ALR's size and board responsibilities in respect of remuneration, a formal remuneration committee is not considered necessary.  As required under Section 300A (1) of the Corporations Act however, a Remuneration Report is contained within the Directors' Report and the adoption of the Remuneration Report is proposed by means of an advisory only, non-binding vote at the Annual General Meeting. However, under the Corporations Act 2001, if 25% or more of the votes that casted for this resolution voted against the adoption of the Remuneration Report at two consecutive AGMs, shareholders will be required to vote at the second of those AGMs on a resolution (a "spill resolution") that another meeting be held within 90 days at which certain directors of the Company must go up for re-election. In addition, as required by the company constitution, Shareholders approve the maximum aggregate amount payable to directors. The company has no employees and therefore pays no remuneration benefits to individuals beyond what is paid to directors.

### Independent Professional Advice
All Directors are entitled to seek independent professional advice at the expense of ALR. Prior to seeking such professional advice, the relevant matter of concern to the Director should be raised for discussion with the full Board. If this is impractical, the matter(s) should be raised with the Chairman.

The full resources of the legal, compliance, company secretarial, finance and operations departments of Aberdeen are available at all times to the Directors of ALR to assist them in resolving any query or concern they may have. If, after such discussions, the relevant Director's query or concern is not satisfied, independent professional advice may be sought at the Company's expense.

### Board Committees
The Board may establish committees to assist it in carrying out its responsibilities, consisting of such members as it thinks fit. The Board shall adopt charters setting out matters relevant to the composition, responsibilities and administration of such committees, and other matters the Board may consider appropriate.

An Audit Committee has been established since 1990 and a Risk and Compliance Committee was established in 2004.

### Audit Committee
The Audit Committee is comprised of the two independent non-executive Directors (Messrs Miles and Elsum) and the Executive Director (Mr Daniels) and is chaired by Mr Neville Miles.  While ALR is not a company that is required to comply with the audit committee composition requirements set out in the ASX Corporate Governance Council's Recommendations, the Committee actively manages any potential conflicts that might arise as a result of the presence of the Executive Director. Relevant measures include the provisions relating to material personal interest under the law.  However, it is considered that the Company and its shareholders benefit from the knowledge and skills that the Executive Director brings to the Committee.

A Charter setting out matters relevant to the composition, responsibilities, and administration of the Audit Committee has been adopted.  It provides that the Audit Committee has the following duties and responsibilities:

- the nomination, appointment, rotation and remuneration of external auditors. This includes ensuring the adequacy of existing external audit arrangements, with particular emphasis on the independence, scope and quality of the audit. To ensure that the external auditor has full access to information and that no unacceptable management or other restrictions are placed on them. To action and respond to any "management letters" sent by the external auditor to the Company;

- to review the draft half-yearly and year end financial statement with both representatives of Aberdeen and the external auditor prior to recommending their adoption and lodgement by the Board. This will include the review of any statement from the Executive Director representing Aberdeen to the Board on whether the Company's financial reports present a true and fair view in accordance with relevant accounting standards;
- responsibility for all areas of significant financial risk and the arrangements in place to contain those risks to acceptable levels. This includes responsibility for the effectiveness of management information and other systems of internal controls relating to financial arrangements and monitoring the adequacy of management information, internal financial control systems, asset valuations and expenditure controls; and
- to review any reports relating to questionable accounting or auditing matters and to ensure that any query from shareholders relating to such matters are dealt with expeditiously.

**Risk and Compliance Committee**

The Risk and Compliance Committee, comprised of two independent non-executive Directors (Messrs Miles and Elsum), is chaired by Mr Neville Miles. The Committee receives regular reports on compliance by the Company and the risks faced by ALR and whether those risks are being managed effectively.

A Charter setting out matters relevant to the composition, responsibilities, and administration of the Risk and Compliance Committee has been adopted. It provides that the Committee has the following duties and responsibilities:

- to review the risk management statement formally on a yearly basis and also to review all risk issues on a quarterly basis. Risks include market risk, credit risk, interest rate risk and liquidity risk. This includes, where the facts warrant, to bring the matter to the attention of the Board and to recommend the implementation of additional controls;
- as a key body of the Company's compliance framework, the Committee is responsible for maintaining the compliance programme. This encompasses responsibility to:
- monitor compliance by the manager of their AFSL conditions
  - Corporations Act; and
  - various company procedures;
- responsibility for monitoring the performance of external services providers e.g. Custodian, Administrator and Registrar. As well as to ensure that Aberdeen, the investment manager continues to maintain an adequate system for detecting, resolving and reporting breaches; and
- to review compliance with the terms of any banking covenants in relation to any facility the Company may have negotiated and drawn down from time to time.

The Committee has access to and benefits from the work done by the various departments within the risk division of Aberdeen including compliance, legal, business risk and internal audit. The internal audit function at Aberdeen is responsible for providing an independent assessment of the Group's entire control environment and reports directly to the Aberdeen Group's Audit Committee.

**Internal Controls**

The Board is ultimately responsible for the Company's system of internal control and for reviewing its effectiveness. The Board confirms that there is an ongoing process of identifying, evaluating and managing the significant risks faced by the Company.

The key components designed to provide effective internal control are outlined below:

- the Risk and Compliance Committee meets on a quarterly basis since it was constituted to review the internal controls;
- the Risk and Compliance Committee has a documented compliance programme;
- risks and internal controls and the risk management framework have been documented in the Risk Management Statement;
- the Audit Committee has responsibility for all areas of significant financial risk and arrangements are in place to contain those risks to an acceptable level;
- written agreements are in place which specifically define the roles and responsibilities of Aberdeen and other third party service providers;
- Aberdeen has clearly defined investment criteria and specified levels of authority. Reports on these matters, including performance statistics and investment valuations are submitted regularly to the Board; and
- as a matter of course Aberdeen's compliance and internal audit departments regularly review the investment manager's operations.

Aberdeen holds an Australian Financial Services Licence (No. 240263) and is also licensed as an investment adviser by the Securities and Exchange Commission of the United States under the United States Investment Advisors Act of 1940.

**Representation on Accounts**

Under the Company's corporate governance practices, the Executive Director (being the person equivalent to a CEO and CFO) shall provide to the Board with the half-yearly and yearly accounts with the following representations:

- the Company's financial reports present a true and fair view in accordance with the relevant accounting standards;
- the Company's financial reports are based on a sound system of risk management and internal control consistent with the policies adopted by the Board; and
- the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

This procedure was first adopted for the 30 June 2004 accounts.

**Performance Evaluation of the Board, its Committees and Individual Directors**

The Board of Directors Charter provides that the Chairman shall undertake an annual review of the Board and consider the appropriate mix of skills required to ensure its continuing effectiveness. The review shall be conducted in such manner as the Chairman deems fit. In turn, the Board shall undertake an annual review of the performance of the Chairman to ensure that the Board's activities continue to be efficiently organised and conducted.

### Review of IMA

The Board reviews the performance of Aberdeen on an annual basis. This review shall be conducted in such manner as the Board deems fit but includes a review of the following:

- appointment, duties and fees charged;
- performance/returns of the portfolio;
- administration duties and support functions;
- management fee comparison; and
- risk controls.

The Board considers these matters in the absence of the Executive Director and any other Aberdeen staff.

### Diversity

Given the current nature of the business and the fact that it does not have any employees, ALR does not believe it is appropriate to have in place a formal diversity policy. The Chairman is responsible for the oversight of the composition of the Board to ensure the company has access to the appropriate expertise and experience.

### Continuous Disclosure and Shareholder Communication

ALR is committed to:

- the promotion of investor confidence by ensuring that trading in its securities takes place in an efficient, competitive and informed market;
- encouraging shareholder participation at the annual general meeting in person or by proxy;
- complying with its disclosure obligations under the ASX Listing Rules and the Corporations Act 2001; and
- ensuring that ALR stakeholders have the opportunity to access externally available information issued by ALR.

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

Shareholders, prospective shareholders, stakeholders and other interested parties can access detailed and up to date information on the Company via the Aberdeen web site www.aberdeenasset.com.au by following the links to "Aberdeen Leaders Limited" or by accessing the Company's ASX announcements platform available at www.asx.com.au.

The Aberdeen website includes access to the Company's:

- Board of Directors Charter
- Director's Code of Conduct
- Continuous Disclosure Policy
- Communications Plan
- Audit Committee Charter
- Risk and Compliance Committee Charter

ALR like many listed companies continues to embrace technology in making information and participation easier and more accessible. This includes using the technology developed by our registrar to facilitate email communication as well as online voting for general meetings of the Company. The Company is also committed to the auditor being present at the AGM and available to answer any questions from shareholders.

### Dealings by Directors in Company Securities

Directors must not trade in the shares of the Company during periods when they are in possession of information that is price sensitive and would have a material impact on a decision to buy or sell shares in ALR. Under its Communications Policy, the Company publishes its weekly net asset value and portfolio composition to the ASX. In the ordinary course of business therefore, Directors will be free to trade in the Company's shares unless there is material price sensitive information in the possession of the Directors that has not been disclosed in accordance with the permitted exceptions to the continuous disclosure rule and would have a material effect on the portfolio or net asset value of ALR. Further to the above, in accordance with ASX Listing Rule 12.9 ALR is required to have a trading policy in place with the content of the policy prescribed by ASX Listing rule 12.12. This trading policy is in relation to dealings in the securities of ALR by its Directors and Company Secretary. This trading policy sits alongside obligations under the Corporations Act 2001 and the ASX Listing Rules. The trading policy of ALR imposes "closed periods". These closed periods are times when Directors and the Company Secretary of ALR may not trade in securities of ALR or derivative products created over ALR securities subject to certain exclusions and exceptional circumstances. The closed periods for ALR are from the close of business on the last business day of the half and full financial year of ALR up till and including the day the half and full year financial results are released to the market. The Directors and Company Secretary may trade in securities of ALR on the first business day after the day the financial results are released. ALR may impose further closed periods associated with inside information.

The operation of any share buy back by the Company is as directed by the Board in accordance with the Corporations Act 2001 and the Listing Rules. The operation of the buy back, including the daily purchases, are continuously announced to the ASX. As noted above, the Company also publishes its weekly net asset value (in the usual course) and provided that there is no material price sensitive information that is not generally available, Directors can accept a buy-back offer for their shares.

### Codes of Conduct

In addition to a policy on share trading, the Director's Code of Conduct, together with the Company's other corporate governance policies, is designed to ensure that the Directors and the Company act ethically and responsibly, bearing in mind the Directors' duties under the Corporations Act and the interest of the Company's shareholders and stakeholders.

# Directors' Report

The Directors present their report on Aberdeen Leaders Limited ('the Company') for the year ended 30 June 2014.

**Directors**
The following persons held office as Directors of Aberdeen Leaders Limited during the financial year:
Brian Michael Sherman (AM, B Comm, CTA SIA (Aff))
Neville John Miles (B Comm (Hons), CA)
David Lindsay Elsum (AM, BEE (Hons), B Comm, MSc, FCPA)
Augustine Mark Daniels (BSc Econ)
Barry Sechos (Appointed 4 December 2013 and Alternate Director for Brian Michael Sherman)

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

Further details regarding Director and Company Secretary qualifications and experience are set out on page 3 of the Annual Report. None of the Directors or the Company Secretary was a partner in an audit firm, or a director of an audit company, that is an auditor of the Company.

**Principal activities**
During the year, the principal activities of the Company included investments in securities listed on the Australian Securities Exchange.

The Company may enter into derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest in accordance with the Company's financial risk management policies.

**Dividends**
Dividends paid to members since the end of the previous financial year were as follows:

| | **2014 $'000** | 2013 $'000 |
|---|---|---|
| Final ordinary dividend | **1,227** | 2,276 |
| Interim ordinary dividends | **3,054** | 3,476 |
| Total ordinary dividends | **4,281** | 5,752 |

**Review of operations**
The Company continued to invest in those stocks generally comprising the S&P / ASX 200 Accumulation Index.

As at 30 June 2014, the net assets of the Company was $68.201 million or $1.11 per share after providing for deferred tax on unrealised gains. The Company is a long term investor and does not intend on disposing of its total portfolio. Before provision for deferred tax the NTA was $1.16 per share.

| | |
|---|---|
| Net Assets at fair value before loan facility | 98,201,000 |
| Less: Loan Facility | 30,000,000 |
| | 68,201,000 |

| | |
|---|---|
| NTA per Ordinary Share (after inclusion of deferred tax asset on unrealised gains/losses) | $1.11 |
| NTA per Ordinary Share (before inclusion of deferred tax asset on unrealised gains/losses) | $1.16 |

The fair value of financial assets traded in an active market is based on their quoted market price at the balance date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices.

For the year ended 30 June 2014 the Company paid and provided for total dividends of 7 cents per share fully franked, consisting of one quarterly dividend of 1.5 cents per share, two quarterly dividends of 1.75 cents per share and a final dividend of 2 cents per share.

The profit from ordinary activities after income tax amounted to $1,844,000 (2013: profit $1,794,000).

The net tangible asset backing for each ordinary share as at 30 June 2014 amounted to $1.11 per share (2013: $1.07 per share).

**Earnings per share**

| | **2014** | 2013 |
|---|---|---|
| Basic and diluted earnings per share | 3.02 cents | 2.97 cents |

### Significant changes in the state of affairs

On 28 May 2014, the Company amended the terms and conditions of the Dividend Reinvestment Plan (DRP) to reflect changes to the ASX Listing Rules which came into effect 14 April 2014.

On 7 February 2014, the Company announced buy-back of a maximum 6,055,299 shares for 12 months from 27 February 2014.

There have been no other significant changes in the state of affairs of the Company during the year.

### Matters subsequent to the end of the financial year

No matter or circumstance has occurred subsequent to year end that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations or the state of affairs of the Company in subsequent financial years.

### Interests in Shares of Aberdeen Leaders Limited

As at the date of this report, the relevant interests of the Directors in the shares of the Company and related bodies corporate were:

| | | **Relevant Interests** |
|---|---|---|
| | | Ordinary Shares |
| BM Sherman | Held by entities controlled by BM Sherman | 12,316,623 |
| NJ Miles | Held by entities controlled by NJ Miles | 15,892 |
| DL Elsum | Held by entities controlled by DL Elsum | 81,643 |
| | Held directly by DL Elsum | 425,559 |
| AM Daniels | | - |
| B Sechos | | 12,263,623 |

Barry Sechos is a director of an entity related to Mr Sherman, which holds 12,263,623 ordinary shares as at the date of this report.

### Other Directorships

Barry Sechos is currently a director of Regeneus Ltd and was a director of iCash Payments Systems Limited from 10 August 2010 to 26 June 2012.

Pursuant to section 300(11)(e) of the Corporations Act 2001, there were no other directorships held by the Directors in Australian listed companies at any time in the 3 years immediately before the end of this financial year.

### Company secretary

The Company secretary is Mr Gil Orski (BCom, LLB). Mr Orski was appointed to the position of Company secretary in 2007.

### Business strategies and prospects for future financial years

The Company will continue to invest primarily in stocks in the S&P / ASX 200 Accumulation Index which meet the quality and price criteria as determined by our investment manager, Aberdeen Asset Management Limited ("Aberdeen").

It is also the Company's present intention to continue as a geared structure and maintain its $30 million cash advance facility subject to satisfactory terms at renewal, drawn to $30 million at balance date. We are committed to providing a meaningful dividend yield to shareholders consistent with our objective of delivering regular income and long term capital growth, subject to market conditions, the availability of distributable profits and the financial health of the Company.

The buy-back announced by the Company was for capital management purposes.

In addition, the Company will continue to monitor the performance of the investment manager, Aberdeen, under the investment management agreement. The investment management fee is 0.90 per cent per annum which was effective from 1 April 2004 plus an administration fee of 0.15 per cent per annum. The Manager is also entitled (where applicable) to an annual performance fee of 20 per cent of:

(a) where the level of the S&P/ASX 200 Accumulation Index has increased over the period, the amount by which the value of the investments, less the investment management fee and the administration fee (in total 1.05%), exceeds that increase; or
(b) where the level of the S&P/ASX 200 Accumulation Index has decreased over the period, the amount of the increase in the value of the investments less the investment management fee and the administration fee.

No performance fee will be payable in the period where the value of investments has decreased.

### Meetings of directors

The numbers of meetings of the Company's board of Directors and of each board committee held during the year ended 30 June 2014, and the numbers of meetings attended by each Director were:

| | Full Meetings of Directors | | Meetings of Audit Committee | | Meetings of Risk and Compliance Committee | |
|---|---|---|---|---|---|---|
| | A | B | A | B | A | B |
| BM Sherman | 3 | 6 | - | - | - | - |
| DL Elsum (1) | 6 | 6 | 2 | 2 | 4 | 4 |
| NJ Miles (2) | 6 | 6 | 2 | 2 | 4 | 4 |
| AM Daniels | 4 | 6 | 1 | 2 | - | - |
| Barry Sechos (3) | 4 | 4 | - | - | - | - |

A = Number of meetings attended
B = Number of meetings held during the time the Director held office or was a member of the committee during the year
(1) Member of the Audit and the Risk and Compliance Committees.
(2) Member of the Audit and the Risk and Compliance Committees.
(3) Appointed 4 December 2013 as a Director and an Alternate Director for Brian Michael Sherman.

### Remuneration report

This report details the nature and amount of remuneration for each Director and Key Management Person of Aberdeen Leaders Limited in accordance with the Corporations Act 2001.

***Directors and key management personnel disclosed in this report***

| Name | Position |
|---|---|
| *Non-executive and executive Directors - see page 2 above* | |
| *Other key management personnel* | |
| None | |

***(a) Executive remuneration policy and framework***

Given the size of the Company, the size of the board and that there are no employees, the Directors considered that a formal remuneration committee is not required.

(i) Setting of aggregate remuneration

Pursuant to the Constitution, the Directors' aggregate remuneration is determined by the Company in its annual general meeting. The aggregate remuneration level proposed for approval at the Company's annual general meeting is determined by the Directors, having taken into account what would be appropriate and in line with the external market, given the size of the Company in comparison with other companies in the same industry.

The Company's first general meeting in 1988 set the Directors' remuneration in the aggregate of $100,000 per annum and that sum remained unchanged until 2004. At the 2003/2004 annual general meeting, the Company's shareholders approved to increase the Directors' aggregate remuneration from $100,000 to $150,000 and at the 2008/2009 annual general meeting this was further increased to $250,000, taking into account the burgeoning regulatory and compliance environment the Company operates under and to ensure that the remuneration is commensurate with levels for other listed investment companies. The headroom will also be necessary should the Company wish to increase the number of directors in the future as it did this year. The $250,000 maximum aggregate amount remains unchanged to date.

(ii) Division of aggregate remuneration

The aggregate remuneration is divided between the Directors as they may determine, taking into account the concentration of responsibility of each Director.

The Directors have determined that no remuneration is to be paid to any Director, secretary or officer who represents the Company's investment manager, Aberdeen Asset Management Limited. As such, Mr Daniels and Mr Orski during their tenure do not receive remuneration for their services to the Company.

The Directors have also determined that the Board's present intention is not to have an element of an individual Director's remuneration consist of the issue of securities in the Company.

*(b) Relationship between remuneration and Aberdeen Leaders Limited performance*

The remuneration policy has been specifically designed to ensure that the Company's shareholders can determine whether the aggregate remuneration of Directors should or should not be increased. As such, the Directors' aggregate and individual remuneration levels are not directly dependent upon the Company's performance or a performance condition. However, practically, whether shareholders vote for or against an increase in the aggregate remuneration will depend upon, amongst other things, how the Company has performed over the number of years.

For the purposes of section 300A (1AB) of the Corporations Act ar, the Company paid total dividends of 7.0 cents.

For the purposes of sections 300A(1)(b), 300A(1AA) and (1AB) of the Corporations Act 2001, the table and graph below provides a comparison of the Directors aggregate remuneration and the Company's profit after related income tax expense/benefit, dividend payments and share price performance for the previous 5 financial years from 1 July 2009 to 30 June 2014.

| | **30 June 2014** | 30 June 2013 | 30 June 2012 | 30 June 2011 | 30 June 2010 |
|---|---|---|---|---|---|
| Profit/(loss) for the year attributable to owners of ($'000) | **1,844** | 1,794 | 1,802 | 1,959 | 6,101 |
| Dividends payments (cents) | **7.0** | 9.5 | 9.5 | 9.5 | 9.5 |
| Aggregate paid remuneration | **$189,050** | $163,500 | $163,500 | $163,500 | $163,500 |
| Closing share price | **$1.23** | $1.22 | $0.995 | $1.19 | $1.27 |


**Details of remuneration**

The following tables show details of the remuneration received by the Directors and the key management personnel of the Company for the current and previous financial year.

| 2014 | Short-term Employee benefit<br>Cash Salary & Fees<br>$ | Post-Employment benefits<br>Superannuation<br>$ | Total<br>$ |
|---|---|---|---|
| Brian Michael Sherman | 74,856 | 1,619 | 76,475 |
| Neville John Miles | 40,000 | 3,700 | 43,700 |
| David Lindsay Elsum | 43,700 | - | 43,700 |
| Barry Sechos | 25,175 | - | 25,175 |
| | 183,731 | 5,319 | 189,050 |

| 2013 | Short-term Employee benefit<br>Cash Salary & Fees<br>$ | Post-Employment benefits<br>Superannuation<br>$ | Total<br>$ |
|---|---|---|---|
| Brian Michael Sherman | 52,500 | 23,800 | 76,300 |
| Neville John Miles | 40,000 | 3,600 | 43,600 |
| David Lindsay Elsum | 27,000 | 16,600 | 43,600 |
| | 119,500 | 44,000 | 163,500 |

**(c)** ***Equity instrument disclosures relating to key management personnel***
Given the size of the Company, the size of the board and that there are no employees, the Directors considered that a formal remuneration committee is not required.

(i) Share holdings
The numbers of shares in the Company held during the financial year by each Director of Aberdeen Leaders Limited and other key management personnel of the Company, including their related parties, are set out below. There were no shares granted during the reporting period or previous reporting period as compensation.

| **2014**<br>Name<br>***Directors of Aberdeen Leaders Limited*** | Balance at the start of the year | Net movement | Other changes during the year | Balance at end of the year |
|---|---|---|---|---|
| **Ordinary Shares** | | | | |
| Brian Michael Sherman | 12,316,623 | - | - | 12,316,623 |
| Neville John Miles | 15,892 | - | - | 15,892 |
| David Lindsay Elsum | 465,328 | 33,780 | - | 499,108 |
| Barry Sechos(*) | - | - | - | - |
| | 12,797,843 | 33,780 | - | 12,831,623 |

| **2013**<br>Name<br>***Directors of Aberdeen Leaders Limited*** | | | | |
|---|---|---|---|---|
| **Ordinary Shares** | | | | |
| Brian Michael Sherman | 12,316,623 | - | - | 12,316,623 |
| Neville John Miles | 15,892 | - | - | 15,892 |
| David Lindsay Elsum | 395,177 | 82,537 | (12,386) | 465,328 |
| Barry Sechos(*) | - | - | - | - |
| | 12,727,692 | 82,537 | (12,386) | 12,797,843 |

*Barry Sechos is a director of an entity related to Mr Sherman, which held 12,263,623 ordinary shares as at the end of the reporting period.

Shares acquired by the Directors and their Director-related entities include shares acquired under the Dividend Reinvestment Plan on the same basis as similar transactions with other shareholders. Directors and Director-related entities received normal dividends on these shares.

**Insurance and indemnification of officers and auditors**
During the financial year or since the end of the financial year the Company has in place insurance policies for the following persons who are or have been officers of the Company:

NJ Miles, BM Sherman, DL Elsum, AM Daniels, B Sechos and G Orski and other officers of the Company.

In broad terms, the insurance indemnifies the above individuals against a liability as permitted by law for claims arising out of actions taken in connection with the Company's business.

In accordance with commercial practice, the insurance policy prohibits disclosure of the terms of the policy including the nature of the liability insured and the amount of the premium.

**Indemnity of auditors**
The Company has not, during the financial year or since the end of the financial year, in respect of any person who is or has been an officer or auditor of the Company or a related body corporate indemnified or made any relevant agreement for indemnifying against a liability incurred as such an officer or auditor.

**Proceedings on behalf of the company**
No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.
No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the Corporations Act 2001.

**Non-audit services**
For the purposes of section 300(11B) the Directors review the provision of non-audit services by the auditor in any year and satisfy themselves that it is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001 on the basis set out in the Audit Committee report on page [TBA]. None of the non-audit services provided undermines the general principles relating to auditor independence including the fact that there is no sharing of economic risk, no management or decision making role by the auditor and they do not act as an advocate of the Company. It is the Directors' view that the auditor's impartiality and objectivity have not been impacted by the provision of any non-audit services.

**Auditor's independence declaration**
A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 18.

**Rounding of amounts**
The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Directors' Report. Amounts in the Directors' Report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

This report is made in accordance with a resolution of Directors.

**Augustine Mark Daniels**
Director

Sydney 18 August 2014

# Auditor's Independence Declaration

Deloitte.

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The Board of Directors
Aberdeen Leaders Limited
Level 6, 201 Kent Street
SYDNEY NSW 2000

18 August 2014

Dear Board Members

**Aberdeen Leaders Limited**

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

As lead audit partner for the audit of the financial statements of Aberdeen Leaders Limited for the financial year ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Alfred Nehama
Partner
Chartered Accountants

# Statement of Comprehensive Income

| | Notes | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| **Investment income from continuing operations** | 7 | **4,259** | 4,277 |
| **Expenses** | | | |
| Management fees | 24 | **(1,071)** | (1,057) |
| Share registry fees | | **(83)** | (90) |
| Custody fees | | **(106)** | (97) |
| Tax fees | 22 | **(8)** | (5) |
| Directors' liability insurance fees | | **(42)** | (45) |
| Legal fees | | **-** | (1) |
| Directors' fees | 21 | **(189)** | (164) |
| ASX fees | | **(55)** | (44) |
| Audit fees | 22 | **(65)** | (65) |
| Other expenses | | **(35)** | (40) |
| Finance costs | | **(1,292)** | (1,422) |
| | | **(2,946)** | (3,030) |
| **Profit before income tax** | | **1,313** | 1,247 |
| Income tax benefit | 8(a) | **531** | 547 |
| **Net Profit for the year** | | **1,844** | 1,794 |
| **Other comprehensive income** | | | |
| *Items that may be reclassified to profit or loss* | | | |
| Changes in the fair value of cash flow hedges | 19(a) | **(265)** | - |
| Income tax relating to changes in fair value of cash flow hedges | 8(c) | **79** | - |
| *Items that will not be reclassified to profit or loss* | | | |
| Net unrealised gains on investments taken to equity | 19(a) | **8,972** | 7,162 |
| Income tax relating to unrealised gains on investments taken to equity | 8(c) | **(2,692)** | (2,148) |
| Net realised (losses)/gains on investments taken to equity | 19(a) | **(2,350)** | 2,549 |
| Income tax benefit/(expense) relating to realised gains on investments taken to equity | 8(c) | **705** | (765) |
| **Other comprehensive income for the year, net of tax** | | **4,449** | 6,798 |
| **Total comprehensive income for the year** | | **6,293** | 8,592 |
| **Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Company (excluding all net gains/(losses) on investments):** | | **Cents** | Cents |
| Basic earnings per share | 28 | **3.02** | 2.97 |
| Diluted earnings per share | 28 | **3.02** | 2.97 |

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

# Statement of Financial Position

| | Notes | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 9 | **3,096** | 1,083 |
| Trade and other receivables | 10 | **1,425** | 1,211 |
| Other current assets | 11 | **34** | 35 |
| **Total current assets** | | **4,555** | 2,329 |
| **Non-current assets** | | | |
| Financial assets at fair value through other comprehensive income | 4, 13 | **94,991** | 93,704 |
| Deferred tax assets | 14 | **3,763** | 2,462 |
| **Total non-current assets** | | **98,754** | 96,166 |
| **Total assets** | | **103,309** | 98,495 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 15 | **386** | 276 |
| Dividends payable | | **1,227** | 2,276 |
| **Total current liabilities** | | **1,613** | 2,552 |
| **Non-current liabilities** | | | |
| Borrowings | 16 | **30,000** | 30,000 |
| Derivative financial instruments | 4, 12 | **265** | - |
| Deferred tax liabilities | 17 | **3,230** | 554 |
| **Total non-current liabilities** | | **33,495** | 30,554 |
| **Total liabilities** | | **35,108** | 33,106 |
| **Net assets** | | **68,201** | 65,389 |
| **Equity** | | | |
| Issued capital | 18 | **58,809** | 58,009 |
| Reserves | 19(a) | **7,152** | 1,058 |
| Retained earnings | 19(b) | **2,240** | 6,322 |
| **Total equity** | | **68,201** | 65,389 |

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

# Statement of Changes in Equity

| | Notes | Issued capital $'000 | Reserves $'000 | Retained earnings $'000 | Total equity $'000 |
|---|---|---|---|---|---|
| **Balance at 1 July 2012** | | 57,661 | (3,956) | 8,496 | 62,201 |
| Net profit for the year | | - | - | 1,794 | 1,794 |
| **Other comprehensive income for the year** | | | | | |
| Net unrealised gains on investments taken to equity | | - | 7,162 | - | 7,162 |
| Net realised gains/losses on investments taken to equity | | - | 2,549 | - | 2,549 |
| Net Income tax relating to these items | | - | (2,913) | - | (2,913) |
| **Total other comprehensive income for the year, net of tax** | | - | 6,798 | - | 6,798 |
| **Total comprehensive income for the year** | | **-** | **6,798** | **1,794** | **8,592** |
| **Transactions with owners in their capacity as owners:** | | | | | |
| Net realised gains/losses transferred to retained earnings (net of income tax) | | - | (1,784) | 1,784 | - |
| Contributions of equity | 18 | 349 | - | - | 349 |
| Buy-back of ordinary shares, net of tax | 18 | (1) | - | - | (1) |
| Dividends provided for or paid | 20 | - | - | (5,752) | (5,752) |
| | | 348 | (1,784) | (3,968) | (5,404) |
| Balance at 30 June 2013 | | **58,009** | **1,058** | **6,322** | **65,389** |
| **Balance at 1 July 2013** | | 58,009 | 1,058 | 6,322 | 65,389 |
| Net profit for the year | | | | 1,844 | 1,844 |
| **Other comprehensive income for the year** | | | | | |
| Changes in fair value of cash flow hedges | | - | (265) | - | (265) |
| Net unrealised gains/losses on investments taken to equity | | - | 8,972 | - | 8,972 |
| Net realised gains/losses on investments taken to equity | | - | (2,350) | - | (2,350) |
| Net income tax relating to these items | | - | (1,908) | - | (1,908) |
| **Total other comprehensive income for the year, net of tax** | | - | 4,449 | - | 4,449 |
| **Total comprehensive income for the year** | | **-** | **4,449** | **1,844** | **6,293** |
| **Transactions with owners in their capacity as owners:** | | | | | |
| Net realised gains and losses transferred to retained earnings (net of income tax) | | - | 1,645 | (1,645) | - |
| Contributions of equity | 18 | 800 | - | - | 800 |
| Dividends provided for or paid | 20 | - | - | (4,281) | (4,281) |
| | | 800 | 1,645 | (5,926) | (3,481) |
| **Balance at 30 June 2014** | | **58,809** | **7,152** | **2,240** | **68,201** |

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

# Statement of Cash Flows

| | Notes | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Dividends and trust distributions received | | **4,099** | 4,191 |
| Interest received | | **64** | 91 |
| Management fees paid | | **(970)** | (1,145) |
| Finance costs paid | | **(1,319)** | (2,023) |
| Payments for other expenses | | **(557)** | (532) |
| **Net cash inflow from operating activities** | 26 | **1,317** | 582 |
| **Cash flows from investing activities** | | | |
| Payments for purchase of investments | | **(11,440)** | (15,535) |
| Proceeds from sale of investments | | **16,666** | 17,972 |
| **Net cash inflow from investing activities** | | **5,226** | 2,437 |
| **Cash flows from financing activities** | | | |
| Share issue and buy-back transaction costs | | **-** | (1) |
| Dividends paid | | **(4,530)** | (5,393) |
| **Net cash outflow from financing activities** | | **(4,530)** | (5,394) |
| **Net increase/(decrease) in cash and cash equivalents** | | **2,013** | (2,375) |
| Cash and cash equivalents at the beginning of the year | | **1,083** | 3,458 |
| **Cash and cash equivalents at the end of the year** | 9 | **3,096** | 1,083 |

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

# Notes to the Financial Statements

1 **General information**

Aberdeen Leaders Limited (the "Company") is a listed public company domiciled in Australia. The address of Aberdeen Leaders Limited's registered office is Level 6, 201 Kent Street, Sydney NSW, 2000. The financial statements of Aberdeen Leaders Limited are for the year ended 30 June 2014. The Company is primarily involved in making investments, and deriving revenue and investment income from listed securities and unit trusts in Australia.

2 **Summary of significant accounting policies**

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the entity Aberdeen Leaders Limited.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board and the Corporations Act 2001. Aberdeen Leaders Limited is a for-profit entity for the purpose of preparing the financial statements.

The Financial Statements were authorised for issue by the directors on 18 August 2014.

(i) Compliance with IFRS

The financial statements of the Aberdeen Leaders Limited also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(ii) New and amended standards adopted by the Company

The Company has applied the following standards and amendments for the first time in their annual reporting period commencing 1 July 2013:

- AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13
- AASB 2012-2 Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities

Change in accounting policy: fair value measurement

AASB 13 Fair Value Measurement aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across Australian Accounting Standards.

The standard does not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted by other Australian Accounting Standards.

The Company has adopted AASB 13 Fair Value Measurement with effect from 1 July 2013. As a result, the Company has adopted a new definition of fair value, as set out below. The change had no material impact on the measurement of the Company's assets and liabilities. However the Company has included new disclosures in the financial statements which are required under AASB 13.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

When applicable, the Company measures the fair value of an instrument using the quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received. If the Company determines that the fair value at initial recognition differs from the transaction price and the fair value of neither a quoted price in an active market for identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instruments are initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

AASB 13 removes the requirement to use bid/ask prices for actively quoted financial instruments. Rather the most representative price within the bid/ask spread is used. Management has elected to continue using bid price consistent with its securities pricing policy and prior years.

Offsetting financial instruments
The Company has applied the amendments to AASB 7 Disclosures - Offsetting Financial Assets and Financial Liabilities for the first time in the current year. The amendments to AASB 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

(iii) Historical cost convention
These financial statements have been prepared under the accruals basis and are based on historical cost convention, as modified by the revaluation of financial assets at fair value through other comprehensive income.

(iv) Critical accounting estimates
The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

(b) Revenue recognition
Revenue is measured at the fair value of the consideration received or receivable.

*(i) Investment income*
Profits and losses realised from the sale of investments and unrealised gains and losses on securities held at fair value are included in the Statement of Comprehensive Income in the year they are incurred in accordance with the policies described in Note 2(g).

(ii) Dividends and trust distributions
Dividends and trust distributions are recognised as revenue when the right to receive payment is established.

(iii) Interest income
Interest income is recognised using the effective interest method.

(c) Income tax
The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss in the Statement of Comprehensive Income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(d) Impairment of assets

Assets excluding investments are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

The amount of the impairment loss is recognised in the Statement of Comprehensive Income within other expenses.

(e) Cash and cash equivalents

For the purpose of presentation in the Statement of Cash Flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the Statement of Financial Position.

(f) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade and other receivables are generally due for settlement within 30 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date. Collectability of trade and other receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly.

(g) Investments and other financial assets

Classification

(i) Financial assets at fair value through other comprehensive income

The Company has designated long-term investments as "fair value through other comprehensive income". All gains and losses on long-term investments and tax thereon are presented in other comprehensive income as part of the Statement of Comprehensive Income.

Recognition and derecognition

Purchases and sales of financial assets are recognised on trade-date - the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

Measurement

At initial recognition, the Company measures its financial assets and liabilities at fair value.

Transaction costs of financial assets carried at fair value through other comprehensive income are directly attributable to the acquisition of the financial asset.

Subsequent changes in fair value are recognised through the investment portfolio revaluation reserve after deducting a provision for the potential deferred capital gains tax liability as these investments are long-term holding of equity investments.

When an investment is disposed, the cumulative gain or loss, net of tax thereon, is transferred from the investment portfolio revaluation reserve to retained earnings.

Determination of Fair Value

AASB 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

The Company's accounting policy on fair value measurements is discussed in Note 2(a)(ii).

Under AASB 13, if an investment has a bid price and an ask price, the price within the bid-ask spread that is more representative of fair value in the circumstances shall be used to measure fair value. Accordingly, the Company uses the last bid price as a basis of measuring fair value.

The fair value of financial assets and liabilities traded in active markets is subsequently based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs. The quoted market price used for financial assets held by the Company is the current bid price and the quoted market price for financial liabilities is the current asking price.

The fair value of financial assets and liabilities that are not traded in an active market are determined using valuation techniques. Accordingly, there may be a difference between the fair value at initial recognition and amounts determined using a valuation technique. If such a difference exists, the Company recognises the difference in profit or loss to reflect a change in factors, including time that market participants would consider in setting a price.

Further details on how the fair value of financial instruments are determined are discussed in Note 4.

(h) Derivatives and hedging activities
Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company designates derivatives as:

- hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

The Company documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in Note 12. Movements in the hedging reserve in shareholder's equity are shown in Note 19.

(i) Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within other income or other expenses.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in profit or loss within 'finance costs'.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

(i) Offsetting financial instruments
Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position where the Company currently has 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.

(j) Trade and other payables
These amounts represent liabilities for goods and services provided to the Company prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(k) Borrowings
Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss in the Statement of Comprehensive Income over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(l) Finance costs
Finance costs are recognised as expenses in the year in which they are incurred using the effective interest rate method.

(m) Issued capital
Ordinary shares are classified as equity.

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

(n) Dividends
Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

(o) Earnings per share
(i) Basic earnings per share
Basic earnings per share is calculated by dividing:
- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:
- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(p) Goods and Services Tax (GST)
Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the Statement of Financial Position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(q) Rounding of amounts
The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

(r) Functional and presentation currency
The functional and presentation currency of the Company is Australian dollars.

(s) Comparatives
Where necessary, comparative information has been reclassified to be consistent with current reporting period.

(t) New accounting standards and interpretations
Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2014 reporting periods and have not yet been applied in the financial statements. The Company's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 2012-3 Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities (effective for annual reporting periods beginning on or after 1 January 2014)

AASB 2012-3 clarifies the offsetting criteria in AASB 132 Financial Instruments: Presentation and address inconsistencies in their application. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement arrangements may be considered equivalent to net settlement. The standard is effective for annual reporting periods beginning on or after 1 January 2014. The Directors do not expect this to have a significant impact on the Company's financial statements.

There are no standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

## 3 Financial risk management

The Company's activities expose it to a variety of financial risks: market risk (including interest rate risk and price risk), credit risk and liquidity risk. The Board of the Company has implemented a risk management framework to mitigate these risks. The Company uses derivative financial instruments such as interest rate swaps to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments.

The Board has delegated the risk management statement and the quarterly review of all risk issues to the Risk and Compliance Committee which comprises two independent non-executive Directors who have the appropriate technical expertise and experience to carry out the Committee's responsibilities. The committee generally meets quarterly.

(a) Market risk
The standard defines this as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

The standard defines this as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

(i) Foreign exchange risk
The Company is not directly exposed to currency risk as all its investments are quoted in Australian dollars.

(ii) Price risk
The Company is exposed to equity securities price risk. This arises from investments held by the Company and classified in the Statement of Financial Position as financial assets at fair value through other comprehensive income.

The Company seeks to manage and constrain market risk by diversification of the investment portfolio across multiple stocks and industry sectors. The portfolio is maintained by the Investment Manager within a range of parameters governing the levels of acceptable exposure to stocks and industry sectors. The relative weightings of the individual securities and relevant market sectors are reviewed normally weekly and risk can be managed by reducing exposure where necessary.

The Company's investment sectors as at 30 June 2014 and 30 June 2013 are as below:

| Sector | 2014 (%) | 2013 (%) |
|---|---|---|
| Information technology | **3.15** | 3.24 |
| Financials | **31.04** | 33.03 |
| Energy | **6.19** | 7.13 |
| Healthcare and biotechnology | **6.59** | 6.16 |
| Consumer staples | **9.70** | 9.09 |
| Industrials | **0.00** | 1.61 |
| Consumer discretionary | **1.77** | 2.98 |
| Utilities | **8.14** | 3.69 |
| Materials | **22.03** | 23.45 |
| Telecommunications services | **5.14** | 3.68 |
| Property | **6.25** | 5.94 |
| **Total** | **100.00** | 100.00 |

The following table illustrates the effect on the Company's equity from possible changes in other market risk that were reasonably possible based on the risk the Company was exposed to at reporting date, assuming a flat tax rate of 30 per cent:

| | Impact on other components of equity | |
|---|---|---|
| **Index** | **2014 $'000** | 2013 $'000 |
| Change in variable by +10%/-10% (2013: +10%/-10%) | **6,649** | 6,559 |
| Change in variable by +15%/-15% (2013: +15%/-15%) | **9,974** | 9,839 |

Other components of equity would increase/decrease as a result of gains/losses on equity securities classified as financial assets at fair value through other comprehensive income.

(iii) Cash flow and fair value interest rate risk
The Company'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.

Cash deposits and loan receivables that are subject to floating interest rates are exposed to changes in the market interest rates. Changes in interest rates will change the fair value of any interest rate hedges.

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

| 30 June 2014 | Floating interest rate $'000 | Fixed interest rate $'000 | Non-interesting bearing $'000 | Total $'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and cash equivalents (i) | 3,096 | - | - | 3,096 |
| Trade and other receivables | - | - | 1,425 | 1,425 |
| Financial assets held at fair value through other comprehensive income | - | - | 94,991 | 94,991 |
| | 3,096 | - | 96,416 | 99,512 |

| 30 June 2014 | Floating interest rate $'000 | Fixed interest rate $'000 | Non-interesting bearing $'000 | Total $'000 |
|---|---|---|---|---|
| **Financial liabilities** | | | | |
| Trade and other payables | - | - | (386) | (386) |
| Borrowings (ii) | (30,000) | - | - | (30,000) |
| Dividends payable | - | - | (1,227) | (1,227) |
| Derivative financial instruments (iii) | (265) | - | - | (265) |
| | (30,265) | - | (1,613) | (31,878) |
| Net exposure | (27,169) | - | 94,803 | 67,634 |

| 30 June 2013 | | | | |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and cash equivalents (i) | 1,083 | - | - | 1,083 |
| Trade and other receivables | - | - | 1,211 | 1,211 |
| Financial assets held at fair value through other comprehensive income | - | - | 93,704 | 93,704 |
| | 1,083 | - | 94,915 | 95,998 |
| **Financial liabilities** | | | | |
| Trade and other payables | - | - | (276) | (276) |
| Borrowings (ii) | (30,000) | - | - | (30,000) |
| Dividends payable | - | - | (2,276) | (2,276) |
| | (30,000) | - | (2,552) | (32,552) |
| Net exposure | (28,917) | - | 92,363 | 63,446 |

(i) The weighted average interest rate of the Company's cash and cash equivalents at 30 June 2014 is 2.91% pa (2013: 3.16% pa).
(ii) The borrowings incur an interest rate of 3.905%, inclusive of the margin of 1.20% (2013: 4.17%, inclusive of the margin of 1.30%).
(iii) Swaps currently in place cover the interest payable on the loan outstanding and are timed to expire as each interest payment falls due. The fixed interest rate is 3.215% effective 11 April 2014 for 3 years and the variable rates are between 0% and 2.705% above the 90 day bank bill swap bid rate which at the end of the reporting period is 2.705%.

Sensitivity
At 30 June 2014, if interest rates had increased by 75 basis points or decreased by 75 basis points from the year end rates with all other variables held constant, other components of equity would have been $143,000 lower/$143,000 higher (2013 changes of 75 basis points/75 basis points: $152,000 lower/$152,000 higher), mainly as a result of higher/lower interest expense from borrowings.

(b) Credit risk
The standard defines this as the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the Statement of Financial Position and Notes to the Financial Statements.

There are no material amounts of collateral held as security at 30 June 2014.

Credit risk is managed as noted in Note 9 with respect to cash and cash equivalents, Note 10 for trade and other receivables and Note 12 for derivative financial instruments. None of these assets are over-due or considered to be impaired.

(c) Liquidity risk

The standard defines this as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Investment Manager monitors its cash-flow requirements daily in relation to the investing account taking into account upcoming dividends, tax payments and investing activity.

The Company's inward cash flows depend upon the level of dividend and distribution revenue received. Should these decrease by a material amount, the Company would amend its outward cash flows accordingly. As the Company's major cash outflows are the purchase of securities and dividends paid to shareholders, the level of both of these is managed by the Board and Investment Manager.

The assets of the Company are largely in the form of readily tradable securities which can be sold on-market if necessary.

As disclosed in Note 16, the Company's debt facility expires on 10 April 2017.

The table below analyses the Company's financial liabilities in 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 undiscounted cash flows.

| **Contractual maturities of financial liabilities** **At 30 June 2014** | **Less than 1 month $'000** | **Between 1 and 2 years $'000** | **Between 2 and 5 years $'000** | **Total contractual undiscounted cash flows $'000** |
|---|---|---|---|---|
| **Non-derivatives** | | | | |
| Trade and other payables (excluding interest payable) | 310 | - | - | 310 |
| Interest payable | 76 | 2,267 | 912 | 3,255 |
| Borrowings | - | - | 30,000 | 30,000 |
| Total | 386 | 2,267 | 30,912 | 33,565 |
| **Derivatives** | | | | |
| Net settled (interest rate swaps) | - | - | 265 | 265 |
| Total | - | - | 265 | 265 |
| At 30 June 2013 | | | | |
| **Non-derivatives** | | | | |
| Trade and other payables (excluding interest payable) | 173 | - | - | 173 |
| Interest payable | 103 | 1,354 | - | 1,457 |
| Borrowings | - | 30,000 | - | 30,000 |
| Total | 276 | 31,354 | - | 31,630 |

## 4 Fair value measurements

The Company measures and recognises the following assets and liabilities at fair value on a recurring basis:

- Derivative financial instruments
- Financial assets at fair value through other comprehensive income (FVTOCI)

The Company has no assets or liabilities measured at fair value on a non-recurring basis in the current reporting period.

(a) Fair value hierarchy
AASB 13 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy (consistent with the hierarchy applied to financial assets and financial liabilities):
(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
(b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2), and
(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

(i) Recognised fair value measurements
The following table presents the Company's assets and liabilities measured and recognised at fair value at 30 June 2014 and 30June 2013.

| **At 30 June 2014** | **Level 1 $'000** | **Level 2 $'000** | **Level 3 $'000** | **Total $'000** |
|---|---|---|---|---|
| **Recurring fair value measurements** | | | | |
| **Financial assets** | | | | |
| Financial assets at FVTOCI | | | | |
| Equity securities | 94,991 | - | - | 94,991 |
| **Total financial assets** | 94,991 | - | - | 94,991 |
| **Financial liabilities** | | | | |
| Derivatives used for hedging | - | (265) | - | (265) |
| **Total financial liabilities** | - | (265) | - | (265) |
| At 30 June 2013 | | | | |
| **Recurring fair value measurements** | | | | |
| **Financial assets** | | | | |
| Financial assets at FVTOCI | | | | |
| Equity securities | 93,704 | - | - | 93,704 |
| **Total financial assets** | 93,704 | - | - | 93,704 |
| **Financial liabilities** | | | | |
| Derivatives used for hedging | - | - | - | - |
| Total financial liabilities | - | - | - | - |

There were no transfers between levels for recurring fair value measurements during the year.

The Company's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

(ii) Disclosed fair values
For all financial instruments other than those measured at fair value their carrying value approximates fair value.

The carrying amounts of trade and other receivables and payables are assumed to approximate their fair values due to their short-term nature.

The fair value of borrowings approximates the carrying amount, as the impact of discounting is not significant.

(b) Valuation techniques used to derive level 2 and level 3 fair values

(i) Recurring fair value measurements
The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

Specific valuation techniques used to value financial instruments include:

- The use of quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.

## 5 Critical accounting estimates and judgements

In the process of applying the Company's accounting policies, management has made the following judgements which would have the most effect on the amounts reported in the financial statements:

Designation of Investments as 'fair value through other comprehensive income'
Management has designated all investments as 'fair value through other comprehensive income', which results in the fair value adjustments for the year being recognised directly in equity in the asset revaluation reserve net of tax. Once an investment is sold, any revaluation gain or loss recognised attributable to that investment is transferred to retained earnings.

Income taxes
Based on the Company's history of realised gains, the Directors believe that the Company will realise taxable gains in the future against which the prior period realised losses can be utilised.

## 6 Segment information

The Company has only one reportable segment. The Company operates predominantly in Australia and in one industry being the securities industry, deriving revenue from dividend and distribution income, interest income and from the sale of its investment portfolio.

## 7 Investment income

| From continuing operations | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Dividends on long term investments held at the end of the year | 3,533 | 3,677 |
| Dividends on long term investments sold during the year | 294 | 58 |
| Distributions on long term investments held at year end | 140 | 458 |
| Distributions on long term investments sold during the year | 225 | - |
| Interest | 67 | 84 |
| | 4,259 | 4,277 |

## 8 Income tax benefit

(a) Income tax benefit through profit or loss

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Deferred tax benefit | (531) | (547) |
| Income tax benefit is attributable to: | | |
| Origination and reversal of temporary differences | 688 | (835) |
| Current year tax losses to be utilised in future periods | (1,219) | - |
| Prior year tax losses utilised in the current period | - | 288 |
| | (531) | (547) |

(b) Numerical reconciliation of income tax expense/(benefit) to prima facie tax payable

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Profit from continuing operations before income tax benefit | 1,313 | 1,247 |
| Tax at the Australian tax rate of 30.0% (2013 - 30.0%) | 394 | 374 |
| Tax effect of : | | |
| Franking credits on dividends received | (1,341) | (1,316) |
| Imputation gross up on dividends income | 416 | 395 |
| Income tax benefit | (531) | (547) |
| The applicable weighted average effective tax rates are as follows: | -40% | -44% |

(c) Tax expense (income) relating to items of other comprehensive income

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Changes in fair value of cash flow hedges | (79) | - |
| Net unrealised gains/(losses) on investments taken to equity | 2,692 | 2,148 |
| Net realised gains/(losses) on investments taken to equity | (705) | 765 |
| | 1,908 | 2,913 |

## 9 Current assets - Cash and cash equivalents

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Operating bank account | 200 | 200 |
| Deposits at call | 2,896 | 883 |
| | 3,096 | 1,083 |

(a) Reconciliation to cash at the end of the year
The above figures are reconciled to cash at the end of the financial year as shown in the Statement of Cash Flows as follows:

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Cash and cash equivalents | 3,096 | 1,083 |

(b) Risk exposure
The Company's exposure to interest rate risk is discussed in Note 3. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of cash and cash equivalents mentioned above.

Cash investments are made with BNP Paribas which is rated A+ by Standard & Poor's.

## 10 Current assets - Trade and other receivables

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Dividends and distributions receivable | 455 | 362 |
| Interest receivable | 6 | 3 |
| GST receivable | 43 | 33 |
| Unsettled sales | 921 | 813 |
| | 1,425 | 1,211 |

Receivables are non-interest bearing and unsecured. Outstanding settlements are on the terms operating in the securities industry, which usually require settlement within three days of the date of a transaction. None of the receivables is past due or impaired at the end of the reporting period.

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

## 11 Current assets - Other current assets

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Prepayments | **34** | 35 |

## 12 Derivative financial instruments

In the normal course of business, the Company enters into transactions in derivative financial instruments with certain risks. A derivative is a financial instrument or other contract whose value depends on, or is derived from, underlying assets, liabilities or indices. Derivative transactions include a wide assortment of instruments, such as forwards, futures, options and swaps.

Derivative financial instruments require no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

The Company holds the following derivative instruments:

| **Non-current liabilities** | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Interest rate swap contracts - cash flow hedges | 265 | - |
| Total non-current derivative financial instrument liabilities | 265 | - |

(a) Instruments used by the Company
The Company is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest rates in accordance with the Company financial risk management policies (refer to Note 3).

(i) Interest rate swap contracts
Bank loans of Aberdeen Leaders Limited currently bear an average variable interest rate of 3.9050%. It is policy to protect part of the loans from exposure to fluctuations in interest rates. Accordingly, Aberdeen Leaders Limited has entered into interest rate swap contracts under which it is obliged to receive interest at variable rates and to pay interest at fixed rates.

Swaps currently in place cover the interest payable on the loan outstanding and are timed to expire as each interest payment falls due. The fixed interest rate is 3.215% effective 11 April 2014 for 3 years and the variable rates are between 0% and 2.705% above the 90 day bank bill swap bid rate which at the end of the reporting period is 2.705%.

The contracts require settlement of net interest receivable or payable each 30 days. The settlement dates coincide with the dates on which interest is payable on the underlying debt. The contracts are settled on a net basis.

The Company's interest rate swap contract is with Westpac Banking Corporation which is rated AA- by Standard & Poor's.

(b) Risk exposures and fair value measurements
Information about the Company's exposure to credit risk and interest rate risk and about the methods and assumptions used in determining fair values is provided in Note 3.

## 13 Non-current assets - Financial assets at fair value through other comprehensive income

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Listed securities | | |
| Investment in shares and property trusts | **94,991** | 93,704 |

The list showing investments treated as equity instruments and revalued through Other Comprehensive Income can be found on page 10 of this report.

Certain securities within the investment portfolio were disposed during the financial year during the normal course of the Company's business as a listed Investment Company. The fair value of the investments sold during the period was $16.774 million (2013: $18.519 million). The cumulative loss on these disposals was $2.35 million for the year before tax (2013: Gain $2.549 million), which has been transferred from the investment portfolio revaluation reserve to retained earnings.

(a) Risk exposure and fair value measurements
Information about the Company's exposure to price risk and about the methods and assumptions used in determining fair value is provided in Note 3.

## 14 Non-current assets - Deferred tax assets

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **The balance comprises temporary differences attributable to:** | | |
| Prior period taxable losses to be utilised in future periods | **3,665** | 2,446 |
| Changes in the fair value of cash flow hedges | **79** | - |
| Other temporary differences | **19** | 16 |
| | **3,763** | 2,462 |

## 15 Current liabilities - Trade and other payables

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Management fees payable | **192** | 92 |
| Interest payable | **76** | 103 |
| Other payables | **118** | 81 |
| | **386** | 276 |

The carrying amounts of trade and other payables are assumed to be the same as their fair values, due to their short-term nature. Payables are non-interest bearing, unsecured and are usually paid within 30 days of recognition. Outstanding settlements are on the terms operating in the securities industry, which usually require settlement within three days of the date of a transaction.

## 16 Non-current liabilities - Borrowings

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **Secured** | | |
| Bank loans | **30,000** | 30,000 |

The Directors have entered into a $30 million revolving cash advance facility with Westpac Banking Corporation. In 2014, the term of the debt facility was extended to 10 April 2017.

The facility is secured by a fixed and floating charge over the Company's assets. The carrying amount of assets pledged as security is $99,546,000 (2013: $96,033,000). The facility is drawn to the extent of $30 million on 30 June 2014 (2013: $30 million). At the date of this report the facility incurs an interest rate of 3.905%, inclusive of the margin of 1.20% (2013: 4.17%, inclusive of the margin of 1.30%).

## 17 Non-current liabilities - Deferred tax liabilities

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Net unrealised gains on investments | **3,221** | 545 |
| Other temporary differences | **9** | 9 |
| | **3,230** | 554 |

## 18 Issued capital

(a) Shared Capital

| | 30 June 2014 Shares | 30 June 2013 Shares | 2014 $'000 | 2013 $'000 |
|---|---|---|---|---|
| Ordinary shares - fully paid | 61,339,314 | 60,691,871 | 58,809 | 58,009 |

(b) Movements in ordinary share capital

| Date | Detail | Note | Number of shares | Issue price $ | $'000 |
|---|---|---|---|---|---|
| 1 July 2012 | Opening balance | | 60,401,603 | | 57,661 |
| | Dividend reinvestment plan issues | (d) | 290,970 | | 349 |
| | On market buybacks | (e) | (702) | 1.04 | (1) |
| 30 June 2013 | Balance | | 60,691,871 | | 58,009 |
| | Dividend reinvestment plan issues | (d) | 647,443 | | 800 |
| 30 June 2014 | Balance | | 61,339,314 | | 58,809 |

(c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(d) Dividend reinvestment plan

The Company has established a dividend reinvestment plan under which holders of ordinary shares may elect to have all or part of their dividend entitlements satisfied by the issue of new ordinary shares rather than by being paid in cash. During the year the Company issued 647,443 shares under the DRP (2013: 290,970 shares).

On 28 May 2014, the Company amended the terms and conditions of the Dividend Reinvestment Plan (DRP) to reflect changes to the ASX Listing Rules which came into effect 14 April 2014.

(e) Share buy-back

The Company announced an on-market share buy-back program in February 2012. The buy-back period ended on 27 February 2013, however, was extended until 27 February 2014. The Company renewed the share buy-back program for 12 months from 27 February 2014 but has not bought any shares (2013: 702 shares at an average price of $1.04).

(f) Capital risk management

The capital structure of the Company consists of debt, which includes the borrowings disclosed in Note 16, cash and cash equivalents and equity attributable to equity holders, comprising issued capital, reserves and retained earnings as disclosed in Notes 18, 19(a) and 19(b) respectively.

The Board's policy is to maintain a strong capital base so as to maintain investor and market confidence. The overall strategy remains unchanged from 2013.

To achieve this, the Board of Directors monitor the monthly NTA results, investment performance, the Company's Indirect Cost Ratio (formerly known as 'Management Expense Ratio') and share price movements.

## 19 Reserves and retained earnings

(a) Reserves

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Reserves | 7,152 | 1,058 |

| Movements: | Notes | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| Investment portfolio revaluation reserve | | | |
| Opening balance | | 1,058 | (3,956) |
| Net unrealised gains on investments | | 8,972 | 7,162 |
| Income tax on net unrealised gains on investments | 8(c) | (2,692) | (2,148) |
| Net realised gains/(losses) on investments | | (2,350) | 2,549 |
| Income tax on net realised gains/(losses) on investments | 8(c) | 705 | (765) |
| Transfer of net realised gains/(losses) from investment portfolio revaluation reserve to retained earnings | 19(b) | 1,645 | (1,784) |
| Balance 30 June | | 7,338 | 1,058 |
| Cash flow hedging reserve | | | |
| Changes in fair value of cash flow hedges | | (265) | - |
| Income tax on changes in fair value of cash flow hedges | 8(c) | 79 | - |
| Balance 30 June | | (186) | - |
| **Total reserves** | | 7,152 | 1,058 |

(b) Retained earnings

| Movements in retained earnings were as follows: | Notes | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| Balance 1 July | | 6,322 | 8,496 |
| Net profit for the year | | 1,844 | 1,794 |
| Dividends | 20 | (4,281) | (5,752) |
| Transfer of net realised gains/(losses) from investment portfolio revaluation reserve to retained earnings | 19(a) | (1,645) | 1,784 |
| Balance 30 June | | 2,240 | 6,322 |

(c) Nature and purpose of reserves
For a description of the nature and purpose of the reserves, refer to Note 2(g) and Note 2(h)(i).

## 20 Dividends

a) Ordinary Shares

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Final dividend | 1,227 | 2,276 |
| Interim dividends | 3,054 | 3,476 |
| | 4,281 | 5,752 |

b) Dividend franking account

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **Opening balance of franking account** | **10,658** | 11,803 |
| Franking credits on dividends receivable | **1,341** | 1,315 |
| Franking credits on ordinary dividends payable | **(2,285)** | (2,460) |
| **Closing balance of franking account** | **9,714** | 10,658 |
| Franking credits available for subsequent reporting periods based on a tax rate of 30.0% (2013 - 30.0%) | **(402)** | (832) |
| **Adjusted franking account balance** | **9,312** | 9,826 |

(c) Dividend rate
Dividends paid fully franked at 30% tax rate

| | Dividend Rate | Total Amount $'000 | Date of Payment | % Franked |
|---|---|---|---|---|
| **2014** | | | | |
| Ordinary shares - final | 2.00cps | $1,227 | 31/07/2014 | 100% |
| Ordinary shares - interim | 1.50cps | $918 | 01/05/2014 | 100% |
| Ordinary shares - interim | 1.75cps | $1,069 | 31/01/2014 | 100% |
| Ordinary shares - interim | 1.75cps | $1,067 | 01/11/2013 | 100% |
| 2013 | | | | |
| Ordinary shares - final | 3.75cps | $2,276 | 31/07/2013 | 100% |
| Ordinary shares - interim | 2.00cps | $1,211 | 02/05/2013 | 100% |
| Ordinary shares - interim | 2.00cps | $1,208 | 31/01/2013 | 100% |
| Ordinary shares - interim | 1.75cps | $1,057 | 02/11/2012 | 100% |

## 21 Key management personnel disclosures

(a) Key management personnel compensation

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Short-term employee benefits | **183,731** | 119,500 |
| Post-employment benefits | **5,319** | 44,000 |
| | **189,050** | 163,500 |

Detailed remuneration disclosures are provided in the remuneration report on pages 13 to 16.

## 22 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the Company, its related practices and non-related audit firms:

(a) Deloitte Touche Tohmatsu

| | **30 June 2014** $ | 30 June 2013 $ |
|---|---|---|
| Audit and other assurance services | | |
| Audit and review of financial statements | 64,853 | 64,854 |
| Total remuneration for audit and other assurance services | 64,853 | 64,854 |
| Taxation services | | |
| Tax compliance services | | |
| Total remuneration for taxation services | 7,700 | 4,840 |
| Total remuneration of Auditors | 7,700 | 4,840 |
| | 72,553 | 69,694 |

## 23 Contingencies

The Investment Management Agreement entered into by the Company with Aberdeen Asset Management Limited may be terminated by either party giving to the other no less than one-year written notice of its intention to do so.

The Company had no other contingent liabilities at 30 June 2014 (2013: nil).

## 24 Related party transactions

(a) Key management personnel
Disclosures relating to key management personnel are set out in Note 21.

(b) Transactions with other related parties

| | **2014** $ | 2013 $ |
|---|---|---|
| Management fees paid or payable | **1,070,920** | 1,057,482 |

The Company has entered into a Management Agreement with Aberdeen Asset Management Limited ("Investment Manager") such that it will manage investments of the Company, ensure regulatory compliance with all the relevant laws and regulations, and provide administrative and other services for a fee.

No performance fees were paid or payable to Aberdeen Asset Management Limited for the year ended 30 June 2014 (2013: nil).

## 25 Events occurring after the reporting period

No matter or circumstance has occurred subsequent to year end that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations or the state of affairs of the Company in subsequent financial years.

## 26 Reconciliation of profit after income tax to net cash inflow from operating activities

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Profit for the year | 1,844 | 1,794 |
| Change in operating assets and liabilities: | | |
| (Increase)/decrease in trade and other receivables | (105) | 12 |
| Decrease in other current assets | 1 | 3 |
| Increase in deferred tax assets | (1,222) | - |
| Increase/(decrease) in trade and other payables | 110 | (680) |
| Decrease in deferred tax liabilities | 689 | (547) |
| Net cash inflow from operating activities | 1,317 | 582 |

## 27 Non-cash investing and financing activities

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Dividends reinvested | 800 | - |

## 28 Earnings per share

(a) Basic earnings per share

| | 2014 Cents | 2013 Cents |
|---|---|---|
| From continuing operations attributable to the ordinary equity holders of the Company | 3.02 | 2.97 |
| Total basic earnings per share attributable to the ordinary equity holders of the Company | 3.02 | 2.97 |

(b) Diluted earnings per share

| | 2014 Cents | 2013 Cents |
|---|---|---|
| From continuing operations attributable to the ordinary equity holders of the Company | 3.02 | 2.97 |
| Total diluted earnings per share attributable to the ordinary equity holders of the Company | 3.02 | 2.97 |

Diluted earnings per share is the same as basic earnings per share. The Company has no securities outstanding which have the potential to convert to ordinary shares and dilute the basic earnings per share.

(c) Weighted average number of shares used as denominator

| | 2014 Number | 2013 Number |
|---|---|---|
| Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share | 61,109,632 | 60,495,113 |
| Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share | 61,109,632 | 60,495,113 |

# Directors' Declaration

In the Directors' opinion:

(a) the financial statements and notes set out on pages 25 to 48 are in accordance with the Corporations Act 2001, including:
- (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements, and
- (ii) giving a true and fair view of the entity's financial position as at 30 June 2014 and of its performance for the year ended on that date, and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Note 2(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of Directors.

Augustine Mark Daniels
Director

Sydney
18 August 2014

Deloitte.

Deloitte Touche Tohmatsu
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# Independent Auditor’s Report to the Members of Aberdeen Leaders Limited

We have audited the accompanying financial report of Aberdeen Leaders Limited, which comprises the statement of financial position as at 30 June 2014, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors’ declaration as set out on pages 24 to 54.

*Directors' Responsibility for the Financial Report*

The directors of the company 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 2, 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 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 company’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.

Deloitte.

*Auditor's Independence Declaration*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Aberdeen Leaders Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

*Opinion*

In our opinion:

(a) the financial report of Aberdeen Leaders Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the company's financial position as at 30 June 2014 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 statements also comply with International Financial Reporting Standards as disclosed in Note 2.

**Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 19 to 21 of the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

*Opinion*

In our opinion the Remuneration Report of Aberdeen Leaders Limited for the year ended 30 June 2014, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Alfred Nehama
Partner
Chartered Accountants
Sydney, 18 August 2014

# Additional Information

The additional information set out below was applicable as at 31 August 2014.

### Largest shareholders

| Shareholders | Ordinary shares Held | % of issued shares |
|---|---|---|
| HSBC Custody Nominees (Australia) Limited | 12,417,631 | 20.195 |
| Gasweld Pty Limited | 3,026,060 | 4.921 |
| Mr David Madden | 1,650,000 | 2.683 |
| Tampere Pty Ltd | 624,522 | 1.016 |
| Assington Hall Pty Ltd | 474,208 | 0.771 |
| Gager Sft Pty Ltd <Gager Superfund A/C> | 449,415 | 0.731 |
| Ling Nominees Pty Limited | 411,125 | 0.669 |
| Relgan & Co Pty Ltd | 400,000 | 0.651 |
| Orelect Pty Ltd | 364,758 | 0.593 |
| Mr Ian Gillespie-Jones <Pension Fund A/C> | 350,444 | 0.570 |
| Ubs Wealth Management Australia Nominees Pty Ltd | 343,503 | 0.559 |
| Mr David Edward Miller & Mrs Christina Sol Miller <D & C Miller Super Fund A/C> | 298,206 | 0.485 |
| Sentinel Holdings Pty Ltd <K H Gager Family A/C> | 284,619 | 0.463 |
| Rijean Pty Limited <Superannuation Fund A/C> | 251,782 | 0.409 |
| Griffith Management Pty Limited <W A Gay Super Fund A/C> | 250,393 | 0.407 |
| Mr David Lindsay Elsum <David L Elsum Super A/C> | 222,124 | 0.361 |
| J P Morgan Nominees Australia Limited | 218,242 | 0.355 |
| Restiff Pty Ltd | 210,121 | 0.342 |
| Meballa Pty Ltd <Ogg Family A/C> | 208,000 | 0.338 |
| Mr David Lindsay Elsum <David L Elsum Super A/C> | 203,435 | 0.331 |
| Mr Laurence R Tollemache & Mrs Wendy P Tollemache <The Ronwen A/C> | 201,358 | 0.327 |
| Mr John David Armstrong | 200,000 | 0.325 |
| Mr Donald Hunter Crane | 200,000 | 0.325 |
| J G Portsea Pty Ltd <Joan Gray Super Fund A/C> | 200,000 | 0.325 |
| Industrial Tool Centre Pty Ltd <Staff Retirement Fund A/C> | 196,351 | 0.319 |
| | 23,656,297 | 38.471 |

### Substantial Shareholders

The following shareholders have notified that they are substantial shareholders of Aberdeen Leaders Limited:

| Shareholders | Ordinary shares Held | % of issued shares |
|---|---|---|
| BM Sherman | 12,316,623 | 20.03% |
| Gasweld Pty Limited | 3,026,060 | 4.92% |

**Distribution of ordinary shares**
Analysis of ordinary shareholders by size of shareholders as at 31 August 2014:

| Holdings Ranges | Number of shareholders | Ordinary Shares held | % of issued shares |
|---|---|---|---|
| 1-1,000 | 467 | 281,067 | 0.457 |
| 1,001-5,000 | 854 | 2,615,322 | 4.253 |
| 5,001-10,000 | 537 | 4,184,142 | 6.805 |
| 10,001-100,000 | 927 | 24,966,162 | 40.602 |
| 100,001 and over | 68 | 29,442,907 | 47.883 |
| | 2,853 | 61,489,600 | 100.000 |

**Investment Transactions**
The total number of investment transactions during the financial year ended 30 June 2014 was 93. The total brokerage paid on these investment transactions was $28,574.

**Voting Rights**
All shareholders registered on the Company's share register as members of the Company carry one vote per share.

**Stock Exchange Listing**
Quotation has been granted for all Ordinary Shares of the Company on the Australian Securities Exchange Limited.

**Shareholder Information**
Our registry service provider BoardRoom Pty Limited delivers access and management of your Aberdeen Leaders holding online at www.investorserve.com.au. The InvestorServe web site will allow you to view: balances, transaction history, recent dividend payments, report elections. You can submit and update your: address details, banking instructions, tax file number, communication preferences. Further you can download various forms to assist in the management of your holding, lodge proxies online, retrieve documents relevant to your holding and manage other linked holdings. For security reasons, you will need to obtain a PIN to log on to InvestorServe. To apply for a PIN, simply log on to www.investorserve.com.au and follow the instructions.

# Corporate Information

**Directors**
BM Sherman, AM, BComm, SA Fin (Chairman)
NJ Miles, BComm (Hons), CA
DL Elsum, AM, BEE (Hons), BComm, MSc, FCPA
B Sechos, BComm LLB
AM Daniels, B Ec

**Company Secretary**
G Orski BCom, LLB

**Registered Office**
Level 6, 201 Kent Street
Sydney
NSW 2000

**Auditor**
Deloitte Touche Tohmatsu
Grosvenor Place
225 George Street Sydney
NSW 2000

**Bankers**
Westpac Institutional Bank
Level 3
275 Kent Street
Sydney
NSW 2000

**Custodian**
BNP Paribas Securities Services
Level 6, 60 Castlereagh Street
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NSW 2000

**Share Registrar**
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