

**Fat Prophets Australia Fund Limited**  
**ABN 62 111 772 359**

TO: COMPANY ANNOUNCEMENTS OFFICE  
COMPANY: AUSTRALIAN STOCK EXCHANGE LIMITED  
FROM: FAT PROPHETS AUSTRALIA FUND LIMITED  
DATE: 24 FEBRUARY 2010

**NO. OF PAGES TRANSMITTED INCLUDING COVER: 5**

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RE: 2009 HALF-YEAR RESULTS

In accordance with Listing Rule 4.2A, please find following the Half-Year Appendix 4D and Interim Financial Report for the half-year ended 31 December 2009.

It is recommended that these half-year reports be read in conjunction with the Annual Report for the year ending 30 June 2009 and any public announcements made by the company during the half-year.

Yours sincerely,

**Richard Fabricius**  
Company Secretary

**Fat Prophets Australia Fund Limited**  
**ABN 62 111 772 359**

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## **APPENDIX 4D**

HALF-YEAR REPORT  
PERIOD ENDED 31 DECEMBER 2009  
(PREVIOUS CORRESPONDING PERIOD HALF-YEAR ENDED 31 DECEMBER 2008)

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**Fat Prophets Australia Fund Limited**  
**ABN 62 111 772 359**

**RESULTS FOR ANNOUNCEMENT TO THE MARKET**  
**HALF-YEAR ENDED 31 DECEMBER 2009**

	2009 Half-Year \$'000	2008 Half-Year \$'000	% Change Prior Period	Up/Down
Investment revenue from ordinary activities	779	739	5.41%	UP
Profit before tax for the period attributable to members (excluding realised capital gains/(losses))	411	439	(6.38%)	DOWN
Profit from ordinary activities after tax attributable to members	433	474	(8.65%)	DOWN
Profit after tax for the period attributable to members (including realised capital gains/(losses))	(1,383)	(472)	193.0%	DOWN
Net Tangible Assets per share - pre deferred capital gains tax	\$1.200	\$0.799	50.2%	UP
Net Tangible Assets per share - post deferred capital gains tax	\$1.149	\$0.880	30.6%	UP

**DIVIDENDS**

The following dividend was declared subsequent to the half-year end:

	<b>Dividend Rate</b>	<b>Total Amount \$'000</b>	<b>Date of Payment</b>	<b>Percentage Franked %</b>
Ordinary	3 cps	879	26/03/2010	100%

The record date for determining entitlement to the interim dividend is 12 March 2010.

Refer to the attached Directors commentary for explanation of the results. All the documents comprise the information required by ASX listing rule 4.2A.

This information should be read in tandem with the most recent financial report and monthly NTA releases lodged with ASX.

This Report is based on accounts which have been subject to independent review by the auditor, MNSA.

**Fat Prophets Australia Fund Limited**  
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**COMMENTARY ON THE RESULTS FOR THE PERIOD**

We are pleased to release our half yearly accounts. During the half year period, management of the Fat Prophets Australia Fund ("Fat Fund") was transitioned from being sub-contracted to Andrew Brown at Tidewater Investments to being managed directly by Fat Prophets Funds Management Australia. Angus Geddes now heads the management of the Fat Fund and is supported by Steve O'Hanna who continues in his role co-manager after leaving Tidewater. We are delighted that Andrew Brown is also continuing his involvement with the Fat Fund and is staying on as non-executive Chairman.

In the current half year, there are some significant accounting changes in the presentation of profit and loss, or "total comprehensive income" as it is now called. This arises from the fact that the Fat Fund holds all of its securities on "capital account". Fat Fund is one of very few companies who do this, which presents significant distortions in the comparison of "profit" between listed investment companies in the period under review, and will do so in the future.

By holding our securities on capital account, the profit for the period is solely comprised of dividends and interest less expenses plus realised capital gains or losses. No account is taken of the impact of marking our portfolio to prevailing share prices. If Fat Fund held its securities on trading account, this "mark-to-market impact" would come through as profit. In the case of Fat Fund, the "mark to market impact" comes through as "other comprehensive income" so that the total impact on equity is, of course, the same as if securities were held on trading account.

In the half year to 31 December 2009, these accounting changes result in the Fat Fund recording a loss, since shares sold were done so at a loss against their original value; this is logical given the fact markets remain well off their highs of two years prior. However, total comprehensive income shows a profit of over \$4.4million, equivalent to 14.7cents per share, for the half year, when the benefit of unrealised gains is taken into account which compares favourably to the loss of \$7,295,222 posted in the previous corresponding period.

Following the improved financial performance, we are pleased to announce that the Board has declared the payment of a fully franked interim dividend of 3 cents per share for the half year ending 31 December 2009.

The recovery that commenced in March 2009 continued very strongly in the 2nd half of the year, characterised by investors chasing cyclical banks, resources and industrial stocks. Following a strong run through to December, concerns began to mount that the recovery had run too far and valuations were overextended. The level of risk aversion abated much faster than many had anticipated back in July, but fortunately the Fat Fund was near to being fully invested. In terms of sectors, cyclical stocks led the charge with the banks clearly dominating whilst stocks in the more defensive healthcare, utilities and resources sectors underperformed in a relative sense.

As highlighted previously the Fat Fund took a big bet on the major banks in 2009 running a very large overweight position of some 9% versus the underlying benchmark, the ASX 300. This was responsible for delivering significant out-performance over the period. The ASX 300 Accumulation index rose by 25.73% over the period and the Fat Funds' NTA (calculated in accordance with Listing Rule:19.12) rose by 31.26% over the same period. As mentioned on many occasions we still see value in the major banks, however the Fat Funds' overweight has been reduced to a now more modest 3.7%.

Other changes to the portfolio during the period include a move to being overweight in the healthcare sector which we believe is not only relatively defensive, but cheap by historical standards. The sector has been de-rated by the market over concerns towards changes in regulation. Whilst certain regulatory risks remain with regards to Australian domiciled pathology businesses, we believe this is largely priced into current valuations. Debt refinancing was also a concern with these companies in 2009 (as with many highly geared businesses) however in our view this was disproportionate. The demographic shift associated with an aging population bodes

**Fat Prophets Australia Fund Limited**  
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well for both Sonic and Healthscope, which in the past has justified a historic premium to market. Our view is that this premium will return once again following more certainty around the governments' regulatory reform. CSL Limited remains a significant overweight within our healthcare exposure and one acquired at a material discount to the company's historic high valuation.

Another important theme we wish to highlight is the Fat Fund's increased exposure to precious metals. The sector has been up-weighted within the portfolio during the period and represents approximately 8% of the fund. Central to our thinking here is our view that there are significant bullish factors for precious metal prices and gold in particular. Demand/supply fundamentals continue to be supportive of high prices. The US dollar will face ongoing headwinds over the medium to longer term as national debt levels continue to rise at an alarming rate and as the trade deficit increases to an ever larger proportion of GDP. Central banks have become net buyers of gold from being net sellers as they seek to diversify foreign currency reserves.

Bonds which have performed for so long over the past few decades now face some challenging years as credit markets become saturated with new paper as Governments maintain spending programs. We believe the recent problems in Greece, Italy, Spain and Portugal are perhaps just the tip of the iceberg for credit markets, and that a period of volatility is likely to ensue.

There has also been a profound shift in the way investors view gold, which is increasingly regarded as a currency and not just as a commodity. This has been aided and abetted by fiscal and monetary policy settings remaining extremely loose, particularly in the US. Over the last 12 months the US has expanded its monetary base by 128% while deficits and government debts have risen to record levels. Whilst arguably necessary to stave off a collapse of the financial system in late 2008 the unprecedented injection of liquidity will have an inflationary impact some point in the future. Needless to say we believe gold will be a significant beneficiary in this environment.

We also invested within the property trust sector taking advantage of the fact that many were priced as if insolvency and liquidation were imminent. These fears were for a time well founded. Debt and property go hand in hand and the combination of an inability to refinance with falling valuations proving fatal for some. In early July we bought both Mirvac Group and Dexus Property Group. Mirvac was acquired primarily to gain exposure to the residential property recovery and Dexus to gain exposure to a high quality and well managed diversified portfolio. These both contributed to performance over the period.

Looking ahead much will now depend on the ability of the major world economies to manage the switch from full blown fiscal and monetary stimulus to a more balanced management of their respective domestic economies. Australia is leading the way. After having been fortunate enough to avoid recession, the lucky country has been one of the first to move toward normalisation of our interest rate settings. This shows the strength of the underlying economy.

Withdrawing liquidity will be more challenging for Northern hemisphere countries, many of which face a drawnout lethargic recovery. As highlighted above, the issues now emerging in credit markets will also likely weigh on regions such as Europe and therefore "normalisation of monetary and fiscal policy settings", may take considerable time. How all of the above plays out will have a significant impact on stock market returns in the years to come but are difficult to predict in the short term. We believe that our more defensive posture in the Fat Fund will continue to add value to your fund over the course of 2010.

Angus Geddes & Steve O'Hanna

For any queries please contact:  
Richard Fabricius  
Company Secretary  
Telephone: + 61 2 9252 7171

# **FAT PROPHETS AUSTRALIA FUND LIMITED**

ABN 62 111 772 359

## **Financial Report for the Half-Year ended**

**31 December 2009**

**FAT PROPHETS AUSTRALIA FUND LIMITED**  
**ABN 62 111 772 359**  
**CONTENTS**  
**FOR THE HALF-YEAR ENDED 31ST DECEMBER 2009**

	<b>Page</b>
Portfolio Shareholdings as at 31 January 2010	2
Directors' Report	3
Auditor's Independence Declaration	4
Statement of Comprehensive Income	5
Statement of Financial Position	6
Statement of Changes in Equity	7
Statement of Cash Flows	8
Notes to the Financial Statements	9-12
Directors' Declaration	13
Independent Review Report to the Members	14

# FAT PROPHETS AUSTRALIA FUND LIMITED

ABN 62 111 772 359

## PORTFOLIO SHAREHOLDING

AS AT 31ST JANUARY 2010

SECURITY	Gross Market Value \$	% of portfolio
<b>Consumer Discretionary</b>		
Seven Network Limited	448,230	1.42%
<b>Consumer Staples</b>		
Wesfarmers Limited	976,605	3.09%
Woolworths Limited	973,629	3.08%
<b>Energy</b>		
Santos Ltd	579,920	1.83%
Woodside Petroleum Ltd	584,154	1.85%
Woodside Petroleum Limited	48,680	0.15%
<b>Financials</b>		
Alternative Investment Trust	279,740	0.89%
ANZ Banking Group Limited	1,901,375	6.01%
BT Investment Management Limited	419,761	1.33%
Bravura Solutions Limited	266,273	0.84%
Commonwealth Bank Of Australia	2,847,805	9.00%
Dexus Property Group	415,000	1.31%
Galileo Japan Trust	26,316	0.08%
Magellan Financial Group	515,955	1.63%
Macquarie Office Trust	265,500	0.84%
Mirvac Group	466,037	1.47%
National Australia Bank Limited	1,967,202	6.22%
Oceania Capital Partners Limited	577,047	1.82%
Premier Investments Limited	571,998	1.81%
QBE Insurance Group Limited	1,340,820	4.24%
Westfield Group	505,600	1.60%
Westpac Banking Corporation	2,584,515	8.17%
Westpac Office Trust	373,371	1.18%
<b>Health Care</b>		
CSL Limited	857,450	2.71%
Healthscope Limited	350,911	1.11%
Sonic Healthcare Limited	475,365	1.50%
<b>Industrials</b>		
Coffey International Ltd	286,935	0.91%
Sedgman Limited	293,290	0.93%
<b>Information Technology</b>		
Altium Limited	145,830	0.46%
Integrated Research Limited	210,001	0.66%
<b>Materials</b>		
Atlas Iron Limited	219,785	0.70%
BHP Billiton Limited	4,409,530	13.94%
Catalpa Resources Limited	145,090	0.46%
Kingsgate Consolidated Limited	434,479	1.37%
Lihir Gold Limited	711,890	2.25%
Newcrest Mining Limited	520,245	1.65%
NKWE Platinum Limited	303,999	0.96%
Platinum Australia Limited	162,400	0.51%
Rio Tinto Limited	1,149,268	3.63%
Ramelius Resources Limited	120,375	0.38%
<b>Telecommunication Services</b>		
Telstra Limited	1,419,500	4.49%
<b>Total Equities</b>	31,151,876	98.48%
<b>Cash (excludes operating accounts)</b>	481,166	1.52%
<b>TOTAL</b>	31,633,042	100.00%



**FAT PROPHETS AUSTRALIA FUND LIMITED**  
**ABN 62 111 772 359**  
**DIRECTORS' REPORT TO THE SHAREHOLDERS**  
**FOR THE HALF-YEAR ENDED 31ST DECEMBER 2009**

The directors present their report together with the financial report of Fat Prophets Australia Fund Limited ("the Company") for the half-year ended 31 December 2009.

**DIRECTORS**

The names of the Directors who held office during or since the end of the half-year:

	<b>Period of Directorship</b>
Mr Robert Bolton	Resigned 31/10/2009
Mr John Reynolds	Commenced 30/06/2008
Mr Andrew Brown (Chairman)	Commenced 22/12/2005
Mr Angus Geddes	Commenced 12/09/2006
Mr Richard Fabricius (Alternate Director)	

Mr Richard Fabricius (Company Secretary)

**REVIEW OF OPERATIONS AND OPERATING RESULTS**

The Company's net operating profit after tax (including net realised capital profits) for the half-year is a loss of \$1,382,556 (2008 net loss: \$472,273). Basic earnings per share before net realised gains/(losses) amounted to 1.44 cents (2008: 1.49) for the half-year.

The Company's total comprehensive income, which includes unrealised capital profits net of the imputed tax liability, for the half year is \$4,419,141 (2008: loss of \$7,295,222) equivalent to 14.7cents per share (2008: loss of 22.9cents per share).

The net asset backing of the company's shares, which includes 100% of the current market value of investments less capital gains tax, increased 30.52% to \$1.1487 (2008: \$0.880) at the 31<sup>st</sup> December, 2009.

The board has declared a fully franked dividend of 3 cents per share to be paid on the 26<sup>th</sup> of March 2010.

**AUDITOR'S INDEPENDENCE DECLARATION**

The lead auditor's independence declaration as required under Section 307C of the Corporations Act 2001 is set out on page 4 for the half-year ended 31 December 2009.

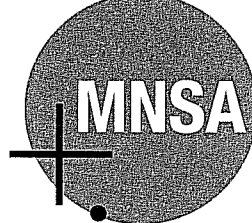
This report is signed in accordance with a resolution of the Board of Directors.



**Andrew Brown**  
**Director**

SYDNEY, this 24th day of February, 2010.

**FAT PROPHETS AUSTRALIA FUND LIMITED**  
**ABN 62 111 772 359**



**AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE  
CORPORATIONS ACT 2001 TO THE DIRECTORS OF FAT PROPHETS AUSTRALIA FUND LIMITED**

As lead auditor for the review of Fat Prophets Australia Fund Limited for the half-year ended 31 December 2009, I declare that to the best of my knowledge and belief, there have been:

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

This declaration is in respect of Fat Prophets Australia Fund Limited during the period.

MNSA

MNSA

**Mark N Schiliro**  
Partner

Sydney

Dated this 24<sup>th</sup> day of February 2010

**FAT PROPHETS AUSTRALIA FUND LIMITED**  
**ABN 62 111 772 359**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE HALF-YEAR ENDED 31ST DECEMBER 2009**

	Notes	Half-year ended 31 December 2009 \$	Half-year ended 31 December 2008 \$
<b>Investment Revenue from ordinary activities</b>	<b>2(a)</b>	778,802	739,364
<b>Income from trading portfolio</b>			
Revenue from trading portfolio	<b>2(b)</b>	-	13,050
Net unrealised gains/(losses)		-	60,900
<b>Expenses</b>			
Administrative expenses		(31,903)	(32,431)
Management fees		(205,844)	(184,624)
Audit fees		(23,430)	(16,500)
Company secretarial fees		(10,250)	(10,250)
Directors' fees		(37,717)	(38,150)
Share registry fees		(17,106)	(34,706)
Legal Fees		-	(10,614)
ASX Listing Fees		(11,954)	(9,677)
Other		(29,876)	(37,858)
<b>Total expenses from ordinary activities</b>		(368,080)	(374,810)
<b>Operating profit before income tax benefit</b>		410,722	438,504
<b>Income tax benefit relating to ordinary activities</b>		22,583	35,326
<b>Operating profit for the period</b>		433,305	473,830
<b>Other comprehensive income</b>			
Net realised gains/(losses) on Investment Portfolio		(2,311,525)	(1,377,653)
Income Tax (expense)/benefit on Investment Portfolio		495,664	431,550
Net unrealised gains/(losses) on investment portfolio		8,288,141	(9,747,070)
Tax on unrealised (gains)/losses on investment portfolio		(2,486,444)	2,924,121
<b>Other comprehensive income/(loss) for the period, net of tax</b>		3,985,836	(7,769,052)
<b>Total comprehensive income/(loss) for the period</b>		4,419,141	(7,295,222)
<b>Profit attributable to member of the Company</b>		433,305	473,830
<b>Total comprehensive profit/(loss) attributable to members of the Company</b>		4,419,141	(7,295,222)
<b>Basic earnings per share (excluding net realised gains/(losses) on investment portfolio)</b>	<b>5</b>	1.44 cents	1.49 cents
<b>Basic earnings per share (including net realised gains/(losses) on investment portfolio)</b>	<b>5</b>	(0.7 cents)	(1.48 cents)
<b>Diluted earnings per share (excluding net realised gains/ (losses) on investment portfolio)</b>	<b>5</b>	1.44 cents	1.49 cents
<b>Diluted earnings per share (including net realised gains/ (losses) on investment portfolio)</b>	<b>5</b>	(0.7 cents)	(1.48 cents)

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

# FAT PROPHETS AUSTRALIA FUND LIMITED

ABN 62 111 772 359  
STATEMENT OF FINANCIAL POSITION  
AS AT 31ST DECEMBER 2009

	31 December 2009 \$	30 June 2009 \$
<b>CURRENT ASSETS</b>		
Cash Assets	766,541	839,995
Trade and other Receivables	57,466	839,094
Prepayments	40,160	7,297
<b>TOTAL CURRENT ASSETS</b>	<b>864,167</b>	<b>1,686,386</b>
<b>NON-CURRENT ASSETS</b>		
Available for Sale Portfolio	32,941,527	25,820,645
Deferred Tax Assets	1,579,029	2,318,436
<b>TOTAL NON-CURRENT ASSETS</b>	<b>34,520,556</b>	<b>28,139,081</b>
<b>TOTAL ASSETS</b>	<b>35,384,723</b>	<b>29,825,467</b>
<b>CURRENT LIABILITIES</b>		
Trade and other Payables	135,784	422,549
<b>TOTAL CURRENT LIABILITIES</b>	<b>135,784</b>	<b>422,549</b>
<b>NON-CURRENT LIABILITIES</b>		
Deferred Tax Liabilities	1,509,799	751
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>1,509,799</b>	<b>751</b>
<b>TOTAL LIABILITIES</b>	<b>1,645,583</b>	<b>423,300</b>
<b>NET ASSETS</b>	<b>33,739,140</b>	<b>29,402,167</b>
<b>EQUITY</b>		
Share Capital	29,310,403	30,554,273
Investment Portfolio Revaluation Reserve	2,550,356	(3,251,337)
Realised Capital Profits Reserve	1,643,458	3,459,315
Retained Earnings	234,923	(1,360,084)
<b>TOTAL EQUITY</b>	<b>33,739,140</b>	<b>29,402,167</b>

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

**FAT PROPHETS AUSTRALIA FUND LIMITED**  
**ABN 62 111 772 359**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE HALF-YEAR ENDED 31ST DECEMBER 2009**

	Share Capital \$	Investment Portfolio Revaluation Reserve/ Realised Capital Profits Reserve \$	Retained Earnings \$	Total \$
<b>Total equity as at 1 July 2008</b>	31,877,583	4,101,134	332,137	36,310,854
Dividends paid from retained earnings	-	-	(887,337)	(887,337)
Shares Bought Back	(1,323,310)	-	-	(1,323,310)
<b>Total Transactions with shareholders</b>	(1,323,310)	-	(887,337)	(2,210,647)
<b>Total comprehensive income/(loss) for the period</b>	-	-	(2,257,026)	(2,257,026)
<b>Other comprehensive income</b>				
Net unrealised losses on investment portfolio	-	(5,787,914)	-	(5,787,914)
Tax on unrealised losses on investment portfolio	-	1,736,375	-	1,736,375
Tax effect Impairment loss recognised in income statement	-	1,610,525	-	1,610,525
Net realised loss on investment portfolio	-	(2,297,795)	2,297,795	-
Income tax expense on investment portfolio	-	845,653	(845,653)	-
<b>Total other comprehensive income</b>	-	(3,893,156)	1,452,142	(2,441,014)
<b>Total equity as at 1 July 2009</b>	30,554,273	207,978	(1,360,084)	29,402,167
Dividends paid from retained earnings	-	-	-	-
Shares Bought Back	(1,243,870)	-	-	(1,243,870)
<b>Total Transactions with shareholders</b>	(1,243,870)	-	-	(1,243,870)
<b>Total comprehensive income/(loss) for the period</b>	-	-	(1,382,556)	(1,382,556)
<b>Other comprehensive income</b>				
Net unrealised gains on investment portfolio	-	8,288,141	-	8,288,141
Tax on unrealised gains on investment portfolio	-	(2,486,444)	-	(2,486,444)
Tax effect Impairment loss recognised in income statement	-	-	1,161,702	1,161,702
Net realised loss on investment portfolio	-	(2,311,525)	2,311,525	-
Income tax (expense)/benefit on investment portfolio	-	495,664	(495,664)	-
<b>Total other comprehensive income</b>	-	3,985,836	2,977,563	6,963,399
<b>Total equity as at 31 December 2009</b>	29,310,403	4,193,814	234,923	33,739,140

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

**FAT PROPHETS AUSTRALIA FUND LIMITED**  
**ABN 62 111 772 359**  
**STATEMENT OF CASH FLOWS**  
**FOR THE HALF-YEAR ENDED 31ST DECEMBER 2009**

	Half-year ended 31 December 2009 \$	Half-year ended 31 December 2008 \$
<b>Cash Flows from Operating Activities</b>		
Interest received	12,223	40,534
Dividends received	920,154	1,041,692
Investment manager's fees paid	(198,254)	(198,250)
Other expenses paid	(199,146)	(213,869)
<b>Net Cash provided by Operating Activities</b>	534,977	670,107
<b>Cash Flows from Investing Activities</b>		
Proceeds from sale of investments	7,948,912	4,164,706
Purchase of investments	(7,313,472)	(4,064,614)
<b>Net Cash provided by Investment Activities</b>	635,440	100,092
<b>Cash Flows from Financing Activities</b>		
Dividends paid	-	(887,335)
On market buyback of shares	(1,243,871)	(1,080,736)
<b>Net Cash used in Financing Activities</b>	(1,243,871)	(1,968,071)
<b>Net Decrease in Cash Held</b>	(73,454)	(1,197,872)
Cash at the beginning of period	839,995	2,021,163
<b>Cash at End of the period</b>	766,541	823,291

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

**FAT PROPHETS AUSTRALIA FUND LIMITED**  
**ABN 62 111 772 359**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE HALF-YEAR ENDED 31ST DECEMBER 2009**

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

**(a) Basis of Accounting**

The half-year financial statements are a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards including AASB 134: Interim Financial Reporting, Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

It is recommended that this half-year financial report be read in conjunction with the Annual Financial Report for the year ending 30 June 2009 and any public announcements made by the company during the half-year in accordance with any continuous disclosure obligations arising under the Corporations Act 2001.

The accounting policies have been consistently applied by the company and are consistent with those applied in the 30 June 2009 Annual Report, unless otherwise stated.

The half-year financial report does not include full disclosures of the type normally included in an annual financial report.

**Reporting Basis and Conventions**

The half-year financial report has been prepared on an accrual basis, and are based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

**Australian Equivalents to International Financial Reporting Standards**

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards ("AIFRS"). Compliance with AIFRS ensures that the half-year financial report and notes of the Company complied with International Financial Reporting Standards.

*Accounting Standards not previously applied*

The Company has adopted the following new and revised Australian Accounting Standards issued by Australian Accounting Standards Board, which are effective for annual reporting periods beginning on or after 1 January 2009.

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

AASB 8 and AASB 2007-3 are effective for annual reporting periods beginning on or after 1 January 2009. Application of these standards has not effected any of the amounts recognised in the financial statements, but has effected the segment disclosures provided in Note 6.

(ii) Revised AASB 101: *Presentation of Financial Statements* and AASB 2007-8: *Amendments to Australian Accounting Standards arising from AASB 101* (effective from 1 January 2009).

With effect from 1 July 2009, the Company has adopted the revised AASB 101 Presentation of Financial Statements. This standard requires the presentation of a new Statement of Comprehensive Income separate from changes in equity arising from transactions with shareholders.

The adoption of this new standard has no impact on the Company's net assets, net profit or total recognised gains and losses, but changes the statement where certain gains and losses are presented. If a company has made a prior period adjustment or has reclassified items in the financial statements, it will need to disclose a third balance sheet (Statement of Financial Position), this one being at the beginning of the comparative period.

**(b) Investments**

**Classification**

Investments are classified into either the investment portfolio (long term) or trading portfolio (short term) at acquisition.

**Recognition**

Financial instruments are initially measured at fair value on trade date, which includes transaction costs where the instrument is not classified at fair value through Statement of Comprehensive Income on trade date, for the investment portfolio where the related contractual rights or obligations exist. Transaction costs related to instruments classified as at fair value through Statement of Comprehensive Income are expensed to the Statement of Comprehensive Income immediately. Subsequent to initial recognition these instruments are measured as set out below.

**FAT PROPHETS AUSTRALIA FUND LIMITED**  
**ABN 62 111 772 359**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE HALF-YEAR ENDED 31ST DECEMBER 2009**

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(b) Investments (continued)**

***Investment Portfolio***

Securities are classified as available-for-sale. After initial recognition at cost, securities are measured at fair value.

Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investments are sold, collected or otherwise disposed of, or until the securities are determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the Statement of Comprehensive Income.

***Trading Portfolio***

Investments are classified as held for trading financial assets if acquired principally for the purposes of selling in the short term or if so designated by management and within the requirements of AASB139: recognition and measurement of financial instruments.

Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the Statement of Comprehensive Income in the period which they arise.

**Determination of Fair Value**

AIFRS defines fair value for the purpose of valuing holdings of securities that are listed or traded on an exchange to be based on quoted "bid" prices for securities prevailing at the close of business on the balance date.

AASB 139 and AG72 state that the current bid price is usually the appropriate price to be used in measuring the fair value of actively traded financial assets. Financial assets should be valued at their fair values without any deduction for transaction costs that may be incurred on sale or other disposal. Certain costs in acquiring investments, such as brokerage and stamp duty, are expressed in the Statement of Comprehensive Income.

**Impairment**

At each reporting date, the company assess whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the Statement of Comprehensive Income.

**(c) Taxation**

The income tax expense/(revenue) for the period comprises current income tax expense/(income) and deferred tax expense/(income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using the applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense/(income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.



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**ABN 62 111 772 359**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE HALF-YEAR ENDED 31ST DECEMBER 2009**

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(c) Taxation (continued)**

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective assets and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Additional income taxes that arises from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

**Trading Portfolio**

A tax provision is made for the unrealised gain or loss on securities valued at fair value through the Statement of Comprehensive Income.

Where the Company disposes of such securities, tax is calculated on gains made according to the particular parcels allocated to the sale for tax purposes offset against any losses carried forward.

**Investment Portfolio**

A tax provision is made for the unrealised gain or loss on securities valued at fair value through the Investment Portfolio Revaluation Reserve.

The expected tax on disposal of securities in the investment portfolio is recognised directly in equity and as deferred tax liability. Where the Company disposes of such securities, tax is calculated on gains made according to the particular parcels allocated to the sale for tax purposes offset against any capital losses carried forward. At this time the tax recognised directly in equity is transferred to Net Profit and adjusted to actual tax expense. The associated deferred tax liability is similarly adjusted and transferred to tax payable.

	<b>Half-year ended 31 December 2009 \$</b>	<b>Half-year ended 31 December 2008 \$</b>
<b>2. REVENUE</b>		
<b>(a) REVENUE FROM INVESTMENT PORTFOLIO</b>		
Dividends and Trust distributions received	765,609	702,206
Interest Received	13,193	37,158
	778,802	739,364
<b>(b) REVENUE FROM TRADING PORTFOLIO</b>		
Dividends received	-	13,050
	-	13,050
<b>TOTAL</b>	778,802	752,414

**3. SHARE CAPITAL**

During the reporting period, the Company bought back 1,402,896 (financial year 30 June 2009: 1,822,325) ordinary shares under the share buy back plan.

**FAT PROPHETS AUSTRALIA FUND LIMITED**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE HALF-YEAR ENDED 31ST DECEMBER 2009**

	<b>Half-year ended 31 December 2009 \$</b>	<b>Half-year ended 31 December 2008 \$</b>
<b>4. DIVIDENDS PAID OR PROVIDED FOR</b>		
Dividends paid on ordinary shares	-	887,335
<b>TOTAL</b>	-	887,335

There were no dividends declared or paid during the half-year ended 31 December 2009.

**Unrecognised amounts**

Since the end of the half-year, the Directors have recommended the following dividends:

	<b>Dividend rate</b>	<b>Total Amount \$</b>	<b>Date of payment</b>	<b>Franking %</b>
Ordinary Shares				
Interim	3 cps	879,648	26/03/2010	100%

The interim dividend for the half year ended 31 December 2009 has not been recognised in this financial report because it was declared after 31 December 2009.

**5. EARNINGS PER SHARE**

	<b>Half-year ended 31 December 2009</b>	<b>Half-year ended 31 December 2008</b>
Basic earnings per share (excluding net realised gains/(losses) on investment portfolio)	1.44 cents	1.49 cents
Basic earnings per share (including net realised gains/(losses) on investment portfolio)	(0.7 cents)	(1.48 cents)
Diluted earnings per share (excluding net realised gains/(losses) on investment portfolio)	1.44 cents	1.49 cents
Diluted earnings per share (including net realised gains/(losses) on investment portfolio)	(0.7 cents)	(1.48 cents)
Weighted average number of ordinary shares used in the calculation of basic earnings per share	30,074,191	31,837,891
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	30,074,191	31,837,891

**6. SEGMENT INFORMATION**

The Company has only one reportable segment. The Company is engaged solely in investment activities conducted in Australia, deriving revenue from dividend income, interest income and from the sale of its trading portfolio. Segments identified in accordance with the first time application of AASB 8: *Operating Segments* have not differed from those disclosed under AASB 114: *Segment Reporting* in the annual financial report for the year ended 30 June 2009.

**7. CONTINGENT LIABILITIES**

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

**8. SUBSEQUENT EVENTS**

A fully franked dividend for the half-year ended 31 December 2009 of 3 cents per share, totalling \$879,648 has been declared by the Directors. This dividend has not been provided for in these accounts.

No other matters or circumstances have arisen since the end of the reporting period which have 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 periods.

**FAT PROPHETS AUSTRALIA FUND LIMITED**


**ABN 62 111 772 359**

**DIRECTORS' DECLARATION**

The directors' of Fat Prophets Australia Fund Limited declare that:

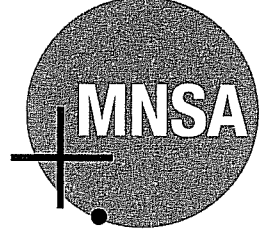
1. The financial statements and notes, as set out on pages 5 to 12 are in accordance with the *Corporations Act 2001*, including:
  - (a) complying with Accounting Standard AASB 134: *Interim Financial Reporting*; and
  - (b) giving a true and fair view of the financial position of the Company as at 31<sup>st</sup> December 2009 and of its performance for the half-year ended on that date.
2. In the directors opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

A handwritten signature in black ink that reads "Andrew J. Brown". The signature is written in a cursive style and is positioned above a horizontal line that extends to the right.

**Andrew Brown**  
Director

Dated at Sydney this 24th day of February, 2010



## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FAT PROPHETS AUSTRALIA FUND LIMITED

### *Report on the Half-year Financial Report*

We have reviewed the accompanying half-year financial report of Fat Prophets Australia Fund Limited, which comprises the statement of financial position as at 31 December 2009, the statement of comprehensive income, the statement of changes in equity and statement of cash flows for the half-year ended on that date, the accounting policies and other selected explanatory notes and the directors' declaration for Fat Prophets Australia Fund Limited (the company).

### *Directors' Responsibility for the Half-year Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

### *Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410: *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the company's financial position as at 31 December 2009 and its performance for the half-year ended on that date and complying with Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Fat Prophets Australia Fund Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. It also includes reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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

Our review did not involve an analysis of the prudence of business decisions made by directors or management.

*Independence*

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

*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Fat Prophets Australia Fund Limited is not in accordance with the *Corporations Act 2001* including:

- a) giving a true and fair view of the company's financial position as at 31 December 2009 and of its performance of the half-year ended on that date; and
- b) complying with AASB 134: *Interim Financial Reporting* and the *Corporations Regulations 2001*;

MNSA

MNSA



**Mark N Schiliro**  
Partner

Sydney

Dated this 24<sup>th</sup> day of February 2010