

**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: 16 FEBRUARY 2009

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

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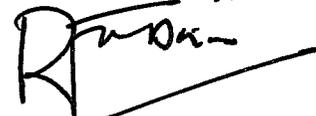
Dear Sir / Madam

RE: 2008 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 2008.

It is recommended that these half-year reports be read in conjunction with the Annual Report for the year ending 30 June 2008 and any public announcements made by the company during the half-year.

Yours sincerely,



**Richard Fabricius**  
Company Secretary

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**APPENDIX 4D**

HALF-YEAR REPORT  
PERIOD ENDED 31 DECEMBER 2008  
(PREVIOUS CORRESPONDING PERIOD HALF-YEAR ENDED 31 DECEMBER 2007)

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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 2008**

	2008 Half-Year \$'000	2007 Half-Year \$'000	% Change Prior Period	Up/Down
Investment revenue from ordinary activities	739	947	22	DOWN
Profit before tax for the period attributable to members (excluding realised capital gains/(losses))	439	386	14	UP
Profit from ordinary activities after tax attributable to members	474	475	0	DOWN
Profit after tax for the period attributable to members (including realised capital gains/(losses))	(472)	1,924	125	DOWN
Net Tangible Assets per share - pre deferred capital gains tax	\$0.799	\$1.395	43	DOWN
Net Tangible Assets per share - post deferred capital gains tax	\$0.880	\$1.320	33	DOWN

**DIVIDENDS**

The following dividends were declared and paid in the half-year ended 31 December 2008:

	<b>Dividend Rate</b>	<b>Total Amount \$'000</b>	<b>Date of Payment</b>	<b>Percentage Franked %</b>
Ordinary Final	2.75cps	887	<b>23/09/08</b>	100%

No dividend has been declared at 31 December 2008. The Company has significant cash reserves and franking credits, and the Board intends to resume paying dividends as soon as possible subject to generating profits in the current year.

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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.

**COMMENTARY ON THE RESULTS FOR THE PERIOD**

The Fat Prophets Australia Fund Limited ("Fat Fund" or "the Company") has recorded an after tax loss of \$472,273 for the six months to 31 December 2008. The result includes after tax capital losses of \$946,103 and equates to a net loss per share of 1.48 cents. The profit figures do not include unrealised losses of \$9,107,411 before tax (\$6,429,718 after tax) which are credited directly to the Investment Portfolio Revaluation Reserve.

The Directors have been unable to declare a dividend for the period as a result of the period loss and a deficit within the retained earnings and investment reserve accounts. Unless equity markets recover dramatically, it is unlikely that the Company will be able to pay a final dividend for the year. This does not constrain the ability of Fat Fund to pay dividends in the 2010 financial year, if there is an upturn in markets during that period, which creates "current period" profits.

The Manager (Fat Prophets Fund Management Pty. Limited) estimates the gross performance of the portfolio – prior to expenses and tax on realised gains over the six months to 31 December 2008 – was -23.7%; this compares favourably to the return of the S&P/ASX 300 Accumulation index ("SAP300"), the Fat Fund's benchmark, of -27.2%. Whilst this is a horrendous absolute return, it is respectable relative to the benchmark in the context of:

- the Fat Fund being almost fully invested through much of the period;
- the Fat Fund's overweight positions in "deep value" securities which underperformed dramatically during the period; and
- the Fund's overweight exposure to smaller companies and (marginally) to resources shares.

The past six months have produced an arena for investment like no other seen by the manager in close to thirty years of professional investing and advising. It is worth blandly contextualising that between 30 June and 31 December 2008:

- the S&P/ASX300 Resources Accumulation index fell 42%;
- the S&P/ASX Small Resources Accumulation index fell 57%;
- the S&P/ASX Small Industrials Accumulation index fell 31%;
- the S&P/ASX300 A-REIT Accumulation index fell by 34%, but excluding its largest constituent, Westfield, the residue fell by over 40% ;
- the copper price in US\$ terms fell from \$3.92/lb to \$1.30/lb;
- the nickel price in US\$ terms fell from \$9.68/lb to \$4.82/lb;
- the oil price fell from US\$140/bbl to US\$39.25;
- the A\$ fell by 24% on a trade weighted basis.

That's like playing rugby league without mouthguards or referees, where spectators in the opposite stands are firing machine guns at each other.

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Whilst we anticipated an inevitable repricing of risk, the quantum shift to extremes never previously seen has shocked even the most seasoned investor. This repricing of risk has taken place across most asset classes, but most importantly short term money, longer term debt and equity. This was classically seen in:

- previously unseen blow out in the spreads between US Treasury bills and inter bank lending rates as trust between global banks evaporated – this spread, for years meandering between 0.2% - 0.4% catapulted up to 4.5% in late October 2008, before settling at current levels of around 1%;
- the spread between high yield bonds and government paper – measured on a global basis – blew out for the ludicrous 2.4% in July 2007, way past its previous “crisis” peaks of 12% to a never before seen 22%, before a recent retreat to 17%;
- the VIX index which measures volatility on options over S&P equity indices in the USA, which had touched highs of 40% in previous times of extreme crisis, exploded from 24% at end June to a high of 81% in November, before subsiding to a mere 40% by year end – around its current level.

The good news is that many of these measures are well off their October/November peaks, in the wake of the biggest wave of liquidity ever thrown at developed economies. However, the magnitude of these movements makes a mockery of most types of finance theory and effectively equate to catastrophic pricing of equity capital. In that sense, the pricing of Australian equities relative to long term risk free instruments such as bonds is now at levels not previously observed; most reasoned analyses would suggest that overall Australian share prices are factoring in well over 30% profit declines. This is important insofar as equity prices are already very cheap, and are already factoring in much of the dire co-incident economic news which will emerge over the course of 2009.

This pricing can now be seen in the queue of major companies ready to tap equity holders without regard to issue price; however, we would hope to see the flip side of this later in 2009 when liquid companies will hopefully look to make acquisitions of their weaker brethren for significant long term benefit. These recent initiatives in raising equity are by no means dissimilar to the emergence of the equity market from the aftermath of its last major economically induced slow down, in the early 1990's .

Perhaps the most interesting shift which occurred through the six month period, and which gives real hope that equity prices are close to a nadir is in the form of domestic interest rates. The RBA inspired lunacy of Q1 2008 pushing rates to 7.25% in the midst of pursuing an apparition termed “inflation”, was rapidly reversed with official rates fully 3% lower by end December. The impact of this and lower oil prices on the population with gainful employment prospects is extremely significant; this fact has been picked up by the domestic bond market where the yield gap between 90 day bank bills and 10 year bonds has shifted from a highly inverted -1.35% at end June to -0.48% at end December and is currently a reasonably positive 1.16%. This is a genuine positive in an environment where there are peeks of light in housing in the western areas of Sydney, and where cashed up savvy investors won't be rolling over their one year deposits placed in the second quarter of 2008 when they mature.

Within the Fat Fund portfolio, we have further emphasised our bias to major bank shares which are now starting to enjoy even stronger margin and cost conditions; clearly increased bad debts will continue to a black spot on the businesses, but with a three year AAA Government guarantee to use in wholesale money raising, we view the concerns about the need to raise “wholesale” offshore money as being a trifle overblown. We are around 10% overweight the “Big Four” versus benchmark.

We continue to hold both major miners, but have been very circumspect elsewhere within the resources sector; most domestic pure base metal plays are not in business at current commodity prices (even with the exchange rate) but we are still bullish on medium sized gold and oil stocks, albeit that the latter group has been a drag on our performance. We eschewed

**Fat Prophets Australia Fund Limited**  
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the mining services sector for good reason and have been vindicated by its total emasculation in recent months.

In totality, we have significantly increased our weighting to large-cap blue chip stocks in recent months; the portfolio at 31 December 2008 comprised over 70% Top 100 securities by value – its highest such weighting since inception in early 2005.

We still maintain the flexibility to sit with selected undervalued smaller “asset” based situations such as Seven Network, Allco Equity Partners, a couple of Babcock satellites, GPG and Soul Pattinson. We remain underweight manufacturing, construction and media companies, but have found great value in the Wesfarmers conglomerate, which with the post balance date equity raising, can now focus on improvements in its acquired Coles businesses.

As value investors, we have a tendency to buy early – it can be argued that by having a low cash weighting, we did so across the market, at a time when other listed investment companies have carried cash of well over 10-15%. With the price/value metrics as attractive as they have been, we feel justified in doing so. We do acknowledge a mistake, however, in going far too early into the REIT sector, where the shift in the A\$ compounded the clearer issues of declining asset values - which we felt were already reflected in share prices - and brought debt exposure and bank covenants into clear focus. We under-estimated this, and it cost us dearly, notably in the overseas property owners.

As a counterpoint, we have been able to take advantage of these factors through active buy-backs of Fat Fund shares, particularly at the outlandish discounts to net assets prevailing in October and November. On any medium term view, the ability to buy a quality portfolio this cheaply should prove advantageous. We acknowledge the next six months or so will be tough economically but strongly recognize the equity market's forward looking nature. Remember July 1982 and January 1991?

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 2008**

**FAT PROPHETS AUSTRALIA FUND LIMITED**  
**ABN 62 111 772 359**  
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**FOR THE HALF-YEAR ENDED 31ST DECEMBER, 2008**

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**FAT PROPHETS AUSTRALIA FUND LIMITED**

ABN 62 111 772 359

**PORTFOLIO SHAREHOLDING**

**AS AT 31ST JANUARY 2009**

SECURITY	Gross Market Value	% of portfolio
	\$	
<b>Consumer Discretionary</b>		
Consolidated Media Holdings Limited	115,221.00	0.50%
Seven Network Limited	401,330.00	1.73%
Tabcorp Holdings Limited	62,400.00	0.27%
<b>Consumer Staples</b>		
Wesfarmers Limited	792,575.00	3.42%
Woolworths Limited	1,319,905.00	5.70%
<b>Energy</b>		
Australian Worldwide Exploration	312,642	1.35%
Beach Petroleum Limited	656,062	2.83%
Beach Petr. Ltd \$2.00 Opt Ex 300610	3,217	0.01%
Buru Energy Limited	15,300	0.07%
Buru Energy Ltd Options	368	0.00%
<b>Financials</b>		
Allco Equity Partners Limited	421,202	1.82%
ANZ Banking Group Limited	1,174,395	5.07%
Babcock & Brown Capital Ltd	127,371	0.55%
Bravura Solutions Limited	95,048	0.41%
Commonwealth Bank Of Australia	1,439,150	6.21%
Everest B&B Alt. Inv. Trust	291,100	1.26%
Galileo Japan Trust	35,496	0.15%
Guinness Peat Group Plc	358,855	1.55%
General Property Trust	585,948	2.53%
Lion Selection Limited	133,851	0.58%
Magellan Financial Group	227,370	0.98%
Macquarie Office Trust	171,000	0.74%
National Australia Bank Limited	1,942,218	8.39%
Premier Investments Limited	266,790	1.15%
QBE Insurance Group Limited	1,404,000	6.06%
Washington H Soul Pattinson & Co Ltd	700,409	3.02%
Tishman Speyer Office Fund	50,079	0.22%
Westpac Banking Corporation	2,187,567	9.44%
Westpac Office Trust	282,555	1.22%
Insurance Australia Group Ltd	566,950	2.45%
<b>Industrials</b>		
Ambition Group Limited	61,250	0.26%
Coffey International Ltd	183,797	0.79%
Konekt Limited	52,586	0.23%
Savcor Group Limited	59,570	0.26%
<b>Information Technology</b>		
Allium Limited	273,430	1.18%
Integrated Research Limited	191,002	0.82%
UXC Limited	146,415	0.63%
<b>Materials</b>		
BHP Billiton Limited	3,672,719	15.86%
Image Resources NL	41,225	0.18%
Kingsgate Consolidated Limited	188,000	0.81%
Lihir Gold Limited	381,860	1.65%
Mundo Minerals Limited	258,286	1.12%
Oz Minerals Limited	60,500	0.26%
Rio Tinto Limited	406,326	1.75%
<b>Telecommunication Services</b>		
SP Telemedia Limited	178,814	0.77%
Telstra Limited	227,400	0.98%
<b>Total Equities</b>	<u>22,523,553</u>	<u>97.24%</u>
<b>Cash (excludes operating accounts)</b>	<u>639,334</u>	<u>2.76%</u>
<b>TOTAL</b>	<u>23,162,887</u>	<u>100.00%</u>

# FAT PROPHETS AUSTRALIA FUND LIMITED

ABN 62 111 772 359

## DIRECTORS' REPORT TO SHAREHOLDERS FOR THE HALF-YEAR ENDED 31 DECEMBER 2008

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 2008.

### 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 (Chairman)	Commenced 19/01/2005
▪ Mr John Reynolds	Commenced 30/06/2008
▪ Mr Andrew Brown	Commenced 22/12/2005
▪ Mr Angus Geddes	Commenced 12/09/2006
▪ 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 (\$472,273) (2007: \$1,923,621). Basic earnings per share before net realised gains/(losses) amounted to \$1.28 cents (2007: 1.46) cents for the half-year.

The net asset backing of the company's shares, which includes 100% of the current market value of investments less capital gains tax, dropped 33% to \$0.880 (2007: \$1.320) at the 31<sup>st</sup> December, 2008.

### 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 2008.

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

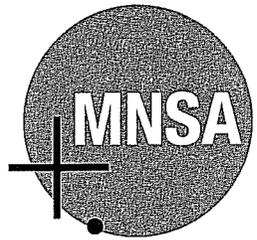
R.J. Bolton  
Director



SYDNEY, this 16<sup>th</sup> day of February, 2009.

# FAT PROPHETS AUSTRALIA FUND LIMITED

ABN 62 111 772 359



## AUDITOR'S INDEPENDENCE DECLARATION

Auditor's Independence Declaration Under section 307C of the Corporations Act 2001 to the Directors of Fat Prophets Australia Fund Limited.

I declare that, to the best of my knowledge and belief, during the half-year ended 31 December 2008 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (ii) 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.

Mark Schiliro  
Partner

Signed at Sydney this 16<sup>th</sup> day of February, 2009.

MNSA

MNSA  
Chartered Accountants

**FAT PROPHETS AUSTRALIA FUND LIMITED**  
**ABN 62 111 772 359**  
**CONDENSED INCOME STATEMENT**  
**FOR THE HALF-YEAR ENDED 31ST DECEMBER, 2008**

	Notes	Half-year ended 31 December 2008 \$	Half-year ended 31 December 2007 \$
<b>Investment Revenue from ordinary activities</b>	2(a)	739,364	946,498
<b>Income from trading portfolio</b>			
Revenue from trading portfolio	2(b)	13,050	28,925
Net realised gains on disposal		-	-
Net unrealised gains/(losses)		60,900	(99,188)
<b>Expenses</b>			
Administrative expenses		(32,431)	(30,228)
Management fees		(184,624)	(299,952)
Audit fees		(16,500)	(8,800)
Company secretarial fees		(10,250)	(10,250)
Directors' fees		(38,150)	(38,150)
Share registry fees		(34,706)	(21,192)
Brokerage expense		-	(17,062)
Legal Fees		(10,614)	(14,585)
ASX Listing Fees		(9,677)	(9,825)
Other		(37,858)	(40,176)
<b>Total expenses from ordinary activities</b>		(374,810)	(490,220)
<b>Operating profit before income tax benefit and capital gains</b>		438,504	386,015
<b>Income tax benefit relating to ordinary activities</b>		35,326	88,800
<b>Operating profit before capital gains</b>		473,830	474,815
<b>Capital Profits Realised</b>			
Net realised gains/(losses) on Investment Portfolio		(1,377,653)	1,924,298
Income Tax expense on Investment Portfolio		431,550	(475,492)
<b>Net Realised Capital Profits/(Losses)</b>		(946,103)	1,448,806
<b>Profit/(Loss) attributable to members of Fat Prophets Australia Fund Limited</b>		(472,273)	1,923,621
<b>Basic earnings per share (excluding net realised gains/(losses) on investment portfolio)</b>	5	1.49 cents	1.46 cents
<b>Basic earnings per share (Including net realised gains/(losses) on investment portfolio)</b>	5	(1.48 cents)	5.93 cents
<b>Diluted earnings per share (excluding net realised gains/ (losses) on investment portfolio)</b>	5	1.49 cents	1.40 cents
<b>Diluted earnings per share (Including net realised gains/ (losses) on investment portfolio)</b>	5	(1.48 cents)	5.66 cents

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

**FAT PROPHETS AUSTRALIA FUND LIMITED**

ABN 62 111 772 359  
**CONDENSED BALANCE SHEET**  
 AS AT 31ST DECEMBER, 2008

	31 December 2008 \$	30 June 2008 \$
<b>CURRENT ASSETS</b>		
Cash Assets	823,291	2,021,163
Trade and other Receivables	89,391	369,526
Held for Trading Portfolio	564,050	503,150
Prepayments	36,686	5,796
<b>TOTAL CURRENT ASSETS</b>	<u>1,513,418</u>	<u>2,899,635</u>
<b>NON-CURRENT ASSETS</b>		
Available for Sale Portfolio	22,923,686	33,560,371
Deferred Tax Assets	3,080,170	137,200
<b>TOTAL NON-CURRENT ASSETS</b>	<u>26,003,856</u>	<u>33,697,571</u>
<b>TOTAL ASSETS</b>	<u>27,517,274</u>	<u>36,597,206</u>
<b>CURRENT LIABILITIES</b>		
Trade and other Payables	75,409	83,675
Current Tax Liabilities	-	-
<b>TOTAL CURRENT LIABILITIES</b>	<u>75,409</u>	<u>83,675</u>
<b>NON-CURRENT LIABILITIES</b>		
Deferred Tax Liabilities	1,073	202,677
<b>TOTAL NON-CURRENT LIABILITIES</b>	<u>1,073</u>	<u>202,677</u>
<b>TOTAL LIABILITIES</b>	<u>76,482</u>	<u>286,352</u>
<b>NET ASSETS</b>	<u>27,440,792</u>	<u>36,310,854</u>
<b>EQUITY</b>		
Share Capital	30,796,847	31,877,583
Investment Portfolio Revaluation Reserve	(7,240,045)	(810,323)
Realised Capital Profits Reserve	3,965,358	4,911,457
Retained Earnings	(81,368)	332,137
<b>TOTAL EQUITY</b>	<u>27,440,792</u>	<u>36,310,854</u>

*This Condensed Balance Sheet should be read in conjunction with the Notes to the Financial Statements which follow.*

**FAT PROPHETS AUSTRALIA FUND LIMITED**

ABN 62 111 772 359

**CONDENSED STATEMENT OF CHANGES IN EQUITY  
FOR THE HALF-YEAR ENDED 31ST DECEMBER, 2008**

	Share Capital \$	Investment Portfolio Revaluation Reserve/ Realised Capital Profits Reserve \$	Retained Earnings \$	Total \$
<b>As at 1 July 2007</b>	31,763,329	10,924,083	807,267	43,494,679
<b>Direct equity adjustments</b>				
Costs associated with initial public offer	(1,342)	-	-	(1,342)
<b>Investment portfolio</b>				
Net unrealised losses on investment portfolio	-	(9,747,070)	-	(9,747,070)
Tax on unrealised losses on investment portfolio	-	2,924,121	-	2,924,121
<b>Total direct equity adjustments</b>	<b>(1,342)</b>	<b>(6,822,949)</b>	<b>-</b>	<b>(6,824,291)</b>
Profit for the year	-	-	1,482,682	1,482,682
Net Realised Loss on Investment Portfolio	-	-	-	-
Tax expense on net realised gains on Investment portfolio	-	-	-	-
<b>Total recognised income and expense for year</b>	<b>-</b>	<b>-</b>	<b>1,482,682</b>	<b>1,482,682</b>
<b>Transactions with shareholders</b>				
Dividends paid from retained earnings	-	-	(1,922,952)	(1,922,952)
Issue of Shares	1,567,919	-	-	1,567,919
Shares Bought Back	(1,452,323)	-	(34,860)	(1,487,183)
<b>As at 30 June 2008</b>	<b>31,877,583</b>	<b>4,101,134</b>	<b>332,137</b>	<b>36,310,854</b>
<b>Direct equity adjustments</b>				
<b>Investment portfolio</b>				
Net unrealised losses on investment portfolio	-	(9,107,411)	-	(9,107,411)
Tax on unrealised losses on investment portfolio	-	2,677,693	-	2,677,693
<b>Total direct equity adjustments</b>	<b>-</b>	<b>(6,429,718)</b>	<b>-</b>	<b>(6,429,718)</b>
Profit for the half-year	-	-	473,830	473,830
Net Realised Gains/(Losses) on Investment Portfolio	-	(1,377,653)	-	(1,377,653)
Tax expense on net realised gains on Investment portfolio	-	431,550	-	431,550
<b>Total recognised income and expense for year</b>	<b>-</b>	<b>(946,103)</b>	<b>473,830</b>	<b>(472,273)</b>
<b>Transactions with shareholders</b>				
Dividends paid from retained earnings	-	-	(887,335)	(887,335)
Issue of Shares	-	-	-	-
Shares Bought Back	(1,080,736)	-	-	(1,080,736)
<b>As at 31 December 2008</b>	<b>30,796,847</b>	<b>(3,274,687)</b>	<b>(81,368)</b>	<b>27,440,792</b>

*This Condensed 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**  
**CONDENSED CASH FLOW STATEMENT**  
**FOR THE HALF-YEAR ENDED 31ST DECEMBER, 2008**

	Half-year ended 31 December 2008 \$	Half-year ended 31 December 2007 \$
<b>Cash Flows from Operating Activities</b>		
Interest received	40,534	148,132
Underwriting Income	-	5,726
Dividends received	1,041,692	995,419
Investment manager's fees paid	(198,250)	(301,545)
Other expenses paid	(213,869)	(200,649)
	<u>670,107</u>	<u>647,083</u>
<b>Net Cash Inflow from Operating Activities</b>		
<b>Cash Flows from Investing Activities</b>		
Proceeds from sale of investments	(4,064,614)	8,304,203
Purchase of investments	4,164,706	(9,202,599)
	<u>100,092</u>	<u>(898,396)</u>
<b>Net Cash Inflow/(Outflow) from Investment Activities</b>		
<b>Cash Flows from Financing Activities</b>		
Dividends paid	(887,335)	(980,428)
On market buyback of shares	(1,080,736)	(776,808)
Proceeds from issue of shares	-	266,702
	<u>(1,968,071)</u>	<u>(1,490,534)</u>
<b>Net Cash Outflow from Financing Activities</b>		
<b>Net (Decrease) in Cash Held</b>	(1,197,872)	(1,741,847)
Cash at the beginning of the half-year	2,021,163	6,628,605
	<u>823,291</u>	<u>4,886,758</u>
<b>Cash at the End of the Half-Year</b>		

*The Condensed Cash Flow Statement 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, 2008**

**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 Standard 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 2008 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 2008 Annual Report, unless otherwise stated.

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

**Reporting Basis and Conventions**

The half-year 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 of the Company complied with International Financial Reporting Standards.

**(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 profit or loss 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 profit or loss are expensed to the profit and loss immediately. Subsequent to initial recognition these instruments are measured as set out below.

**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 income statement.

**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 income statement 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 Income Statement.

**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 income statement.

**FAT PROPHETS AUSTRALIA FUND LIMITED**  
**ABN 62 111 772 359**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE HALF-YEAR ENDED 31ST DECEMBER, 2008**

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

**(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.

Where temporary differences exist in relation to investment in subsidiaries, branches, associates and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

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 Income Statement.

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.

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	Half-year ended 31 December 2008 \$	Half-year ended 31 December 2007 \$
<b>2. REVENUE</b>		
<b>(a) REVENUE FROM INVESTMENT PORTFOLIO</b>		
Dividends and Trust distributions received	702,206	803,850
Interest Received	<u>37,158</u>	<u>142,648</u>
	<u>739,364</u>	<u>946,498</u>
<b>(b) REVENUE FROM TRADING PORTFOLIO</b>		
Dividends received	13,050	23,200
Underwriting Income	<u>-</u>	<u>5,725</u>
	<u>13,050</u>	<u>28,925</u>
<b>TOTAL</b>	<u>752,414</u>	<u>975,423</u>

**3. SHARE CAPITAL**

During the reporting period, the Company bought back 1,413,471 (financial year 30 June 2008: 1,452,323) ordinary shares under the share buy back plan. A total of 1,567,919 options were exercised during the financial year ended 30 June 2008. Options expired on 20 April 2008.

	Half-year ended 31 December 2008 \$	Half-year ended 31 December 2007 \$
<b>4. DIVIDENDS PAID OR PROVIDED FOR</b>		
Dividends paid on ordinary shares	887,335	980,428
<b>TOTAL</b>	<u>887,335</u>	<u>980,428</u>

	Dividend Rate	Total Amount \$	Date of Payment	% Franked
Ordinary Shares Final	2.75 cps	887,335	23/09/2008	100%

No dividend has been declared at 31 December 2008. The Company has significant cash reserves and franking credits, and the Board intends to resume paying dividends as soon as possible subject to generating profits in the current year.

**FAT PROPHETS AUSTRALIA FUND LIMITED**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE HALF-YEAR ENDED 31ST DECEMBER, 2008**

**5. EARNINGS PER SHARE**

	<b>Half-year ended 31 December 2008</b>	<b>Half-year ended 31 December 2007</b>
Basic earnings per share (excluding net realised gains/(losses) on investment portfolio)	1.49 cents	1.46 cents
Basic earnings per share (including net realised gains/(losses) on investment portfolio)	(1.48 cents)	5.93 cents
Diluted earnings per share (excluding net realised gains/(losses) on investment portfolio)	1.49 cents	1.40 cents
Diluted earnings per share (including net realised gains/(losses) on investment portfolio)	(1.48 cents)	5.66 cents
Weighted average number of ordinary shares used in the calculation of basic earnings per share	31,837,891	32,442,667
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	31,837,891	34,014,348

**6. SEGMENT INFORMATION**

The company was engaged in investment activities conducted in Australia and derived revenue from dividends, interest income and the sale of investments.

**7. CONTINGENT LIABILITIES**

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

**8. SUBSEQUENT EVENTS**

No 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:
  - (a) comply with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations; and
  - (b) give a true and fair view of the financial position of the Company as at 31<sup>st</sup> December 2008 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.

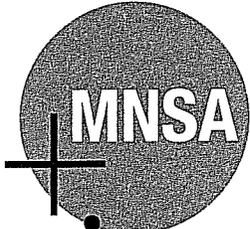


**R.J. Bolton**  
Director

Dated at Sydney this 16<sup>th</sup> day of February, 2009.

## INDEPENDENT REVIEW REPORT

TO THE SHAREHOLDERS OF FAT PROPHETS AUSTRALIA FUND LIMITED



MNSA

### 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 balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and the cash flow statement for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration.

### 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 controls relevant to the preparation and fair presentation of the half-year financial report that it 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 2008 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 financial report.

A review of the half-year financial report consists of making enquiries, primarily of persons responsible for the financial and accounting matters, and applying analytical and other review procedures. 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.

### Independence

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, provided to the directors of Fat Prophets Australia Fund Limited on the 16<sup>th</sup> February 2008, would be in the same terms if provided to the directors as at the date of the auditors review report.

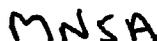
### Conclusion

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 value of the Company's financial position as at 31 December 2008 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134: Interim Financial Reporting and Corporations Regulations 2001.



Mark Schiliro  
Partner



MNSA  
Chartered Accountants

Signed at Sydney  
Dated this 16<sup>th</sup> day of February, 2009.