Australian Foundation
INVESTMENT COMPANY

ABN 56 004 147 120

APPENDIX 4E STATEMENT
FOR THE YEAR ENDING 30 JUNE 2008

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RESULTS FOR ANNOUNCEMENT TO THE MARKET

The reporting period is the year ended 30 June 2008 with the corresponding period being the year ended 30 June 2007.

Results for announcement to the market

- Revenue from operating activities was $232.4 million, 4.2% up from the prior year.
- Operating profit after tax was $205.1 million, 8.6% down from the prior year.
- Net profit (including capital gains) was $416.1 million, 60.5% up from the prior year.
- A fully-franked final dividend of 13 cents per share will be paid on 25 August 2008 to shareholders on the register on 8 August 2008. The shares are expected to trade ex-dividend on 4 August 2008. The final dividend is entirely sourced from capital gains on which the Company will pay tax. This is known as an LIC gain and will enable most shareholders to benefit from claiming a deduction in their tax return. Further details will be on the dividend statement.
- The interim dividend of 8 cents per share was paid to shareholders on 27 February 2008.
- The total dividend for the financial year is therefore 21 cents, fully-franked, the same as last year.
- Net tangible assets per share as at 30 June 2008, before allowing for the final dividend, were $5.13 per share before allowing for the provision of deferred tax on unrealised gains in the investment portfolio (2007: $6.02). After this provision, the figure was $4.39 (2007 : $4.96).
- A Dividend Reinvestment Plan (DRP) is available, the price for which will be set by the Volume Weighted Average Price of the Company's shares traded on the ASX over the five trading days after the shares trade ex-dividend. The last day for notice of participation in the DRP is the record date, being 8 August 2008.

MEDIA RELEASE - FULL YEAR RESULT

28 July 2008

KEY POINTS

- **Net Operating Profit after tax** was $205.1 million (last year $224.4 million). This figure does not include realised gains from sales in the Investment Portfolio. Dividend income from investments was down slightly because there were fewer special dividends for the year. Also given the market decline in the second half of the financial year there was a fall in value of the Trading Portfolio.
- **Profit after tax** was $416.1 million (last year $259.3 million). This figure varies greatly from year-to-year as it includes realised capital gains from sales from the Company's Investment Portfolio. These have been substantial during this period largely due to take-over activity which resulted in the sale of the Company's holdings in Alinta, Coles Group, Dyno Nobel, Rinker, Smorgon Steel, Southern Cross Broadcasting and Symbion Health.
- **Earnings per share** based on Net Operating Profit were 21.2 cents (last year 23.7 cents).
- **A fully franked final dividend** of 13 cents per share (13 cents last year) will be paid on 25 August 2008. The final dividend of 13 cents brings total dividends for the year to 21 cents per share, the same as last year.
- **LIC gains.** The final dividend is sourced from pre-tax Listed Investment Company capital gains of 18.6 cents per share (last year 2.5 cents per share). Most shareholders will be able to benefit by claiming some of this amount as a tax deduction.
- **Total portfolio return** over the twelve month period after fees and tax paid (measured by change in net asset backing per share plus dividends reinvested) was negative 11.5% whereas the S&P/ASX accumulation Index declined 13.4% over the same period.
- **Total shareholder return** for the year to 30 June 2008 measured by the change in share price plus dividends reinvested was negative 7.6%.
- **Net asset backing** per share at 30 June 2008 was $5.13 (before allowing for the 13 cent final dividend).
- **Management expense ratio** was 0.14% after recovery of administration fees from other Investment Companies (last year it was 0.13%).
- **Total portfolio** (including cash and bank bills of $261 million) at 30 June 2008 was $5.1 billion.

Chairman's Comments

The Chairman, Mr Bruce Teele commented "The Australian equity market has essentially been a tale of two markets over the past financial year. Investors have had to grapple with the conflicting themes flowing from the upheaval in global credit markets, possible recession in the developed world, the implications of accelerating commodity prices and the ongoing growth in China and other emerging markets.

As a result, global equity markets have been extremely volatile. In particular, after the market reached record highs in Australia in November 2007, the share prices of financial and industrial stocks have declined significantly over the second half of financial year. Companies with high levels of debt and complex financial structures have been particularly hard hit.

On the other hand the resources and energy sectors have remained strong, in some instances rising to all time high prices.

This has presented a very difficult market environment. However, we were fortunate to have good exposure to the resources and energy sectors. These sectors turned out to be somewhat of a safe haven for investors over the past year. It helped to offset declines in the more traditional parts of our portfolio, such as the banks and industrials.

The concern about complex financial structures is one we have had for some time and we exited some exposures to companies which we believed would find the new financial environment challenging.

The Company held a reasonable amount of cash through the year. This arose following the receipt of funds from the sale of our holding in Rinker Group as a result of the takeover by CEMEX, part of the consideration for the Coles Group paid by Wesfarmers and the sale of some positions from the investment portfolio. At the end of June, AFIC had $261 million of cash available to invest.

The performance of the total portfolio for the year was down 11.5% on an accumulation basis whereas the S&P/ASX 200 Accumulation Index was down 13.4% over the corresponding period. It should be noted that our figures are after fees and tax paid whereas the index comparisons do not bear such costs.

Outlook

The factors driving market conditions are unlikely to change in the short term. Most sectors of the Australian economy have to deal with growing pressures on input costs, relatively high interest rates and restricted access to credit in an environment where the Reserve Bank is trying to soften demand. This is usually an environment which puts pressure on margins and earnings. However the resources and energy sectors are likely to benefit from continued strength in commodity and energy prices.

The upcoming reporting season will also be an important guide to how companies are dealing with these pressures. The market will be closely monitoring trends in profit margins and their prospects for earnings growth over the medium term, particularly for those companies operating outside of the resources sector.

As we move into the new financial year we will be attempting to look through the turbulence of present market conditions for opportunities to further invest in good companies with quality long term business franchises. AFIC moves into the new financial year with a relatively high level of cash and will be seeking to invest these funds judicially over the coming year".

Profit Performance

Net Operating Profit after tax (which excludes realised capital gains) for the period was $205.1 million, a decrease of $19.3 million on the corresponding period last year. Net Operating Profit per share was 21.2 cents per share versus 23.7 cents per share over the corresponding period last year.

In the year just ended dividends and distributions were $217.4 million (last year $220.5 million). In the prior year AFIC received a one off special dividend of $13.0 million as a result of the de merger of Toll Holdings and Asciano Limited and a special income payment of $2.5 million from Centro Properties. There were fewer such special dividends this year.

The decline in the value of the Trading Portfolio given the fall in value of the market over the second half of the financial year had a negative impact on the profit result. The Trading Portfolio is marked to market prices on an ongoing basis and the changes in market value are taken directly through the Company's income statement. Whilst the Trading Portfolio averaged just under 3% of the Company's total portfolio, over the financial year ended 30 June 2008 the contribution was negative $7.6 million whereas over the corresponding period last year the Trading Portfolio contributed a positive $30.5 million.

Under the new International Accounting Standards (AIFRS), **Net Profit after tax** includes realised gains made on sales from the investment portfolio. As previously highlighted to shareholders this measure varies significantly from period to period depending on the levels of sales from the Investment Portfolio. Such sales are inherently unpredictable. The profit on this basis for the twelve months to 30 June 2008 was $416.1 million. This was significantly higher than last year's figure of $259.3 million and reflects the number and size of takeovers and disposals from the Investment Portfolio which occurred during the period.

Dividends

Directors have declared a final dividend of 13 cents per share fully franked (13 cents last year). The dividend is to be paid on 25 August 2008 to shareholders on the register on 8 August 2008 (shares will trade ex dividend from 4 August 2008). The final dividend of 13 cents brings total dividends for the year to 21 cents per share, the same as last year.

The final dividend is sourced from pre-tax Listed Investment Company capital gains of 18.6 cents per share (last year 2.5 cents per share). Most Australian shareholders will be able to benefit by claiming some of this amount as a tax deduction.

Investment Portfolio

The significant positive contributors to AFIC's Investment Portfolio performance over the twelve months were BHP Billiton, Rio Tinto, Incitec Pivot, Woodside Petroleum, Santos and Origin Energy, all of which benefited from the strength in demand for commodities and energy.

Another key feature was the impact of corporate activity. The take-over of Coles Group by Wesfarmers and Rinker by Cemex S.A.B. de C.V. produced very large realised gains from the Investment Portfolio for the year. In addition, a number of other companies in the portfolio were also sold because of this activity, with Dyno Nobel being taken over by Incitec Pivot, Southern Cross Broadcasting by Fairfax & Macquarie Media, Smorgon Steel taken over by OneSteel, Alinta by a consortium of interests and the acquisition of Symbion Health by Primary Healthcare Limited.

The Company also made some other adjustments to the portfolio to reduce its position in companies with relatively high levels of gearing and debt relative to their cashflows and balance sheet positions. As a result, we exited our entire holdings in Asciano Group, Centro Properties Group and Transpacific Industries during the year.

During the twelve months to 30 June 2008 we have been selectively adding to existing holdings across a number of areas. The major additional investments were in Wesfarmers, as an outcome of the Coles takeover, Telstra, as a result of taking up our T3 Instalment Receipts, National Australia Bank, QBE Insurance, Equity Trustees, and Campbell Brothers. However it should be noted that these have been relatively small investments.

New Companies added to AFIC's Investment Portfolio during the year were:

- OneSteel (as a result of the takeover of Smorgon Steel), a miner of iron ore, steel manufacturer, and distributor of metal products.
- Fleetwood Corporation, a provider of manufactured accommodation for the resources and retirement sectors.
- IRESS Market Technology, which designs, develops, markets and supports share market information systems.
- Crane Group, a manufacturer and distributor of non ferrous metal products and plastic pipeline systems and a major distributor of plumbing and electrical supplies.

These also have been small additional investments.

Please direct any enquiries to:

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TOP 25 INVESTMENTS AS AT 30 JUNE 2008

Includes investments held in both the Investment and Trading Portfolios

Valued at closing prices at 30 June 2008

				Total Value $ million
*	1	BHP	BHP Billiton	624.9
*	2	RIO	Rio Tinto	332.3
*	3	CBA	Commonwealth Bank of Australia	320.8
*	4	WES	Wesfarmers (a)	299.4
	5	WBC	Westpac Banking Corporation	249.6
*	6	TLS	Telstra Corporation	210.4
*	7	NAB	National Australia Bank	201.4
	8	WOW	Woolworths	151.7
*	9	WPL	Woodside Petroleum	149.5
	10	IPL	Incitec Pivot	119.8
*	11	STO	Santos	100.2
*	12	ANZ	Australia & New Zealand Banking Group	96.1
*	13	OSH	Oil Search	78.6
*	14	ORG	Origin Energy	77.6
	15	CPU	Computershare	75.1
	16	SGB	St George Bank	69.0
	17	QBE	QBE Insurance Group	67.6
*	18	WDC	Westfield Group	65.7
	19	ORI	Orica	65.3
*	20	BXB	Brambles	64.2
*	21	AWC	Alumina	63.8
*	22	AMP	AMP	63.8
	23	WAN	West Australian Newspapers Holdings	62.2
*	24	AGK	AGL Energy	61.8
	25	MLT	Milton Corporation	55.8
			Total	**3,726.8**
			As % of Total Portfolio Value (excludes Cash & Bank Bills)	77.8%

* Indicates that options were outstanding against part or all of the holding in the Trading Portfolio

(a) Includes $52.7 million of WESN partially protected securities

FINANCIAL STATEMENTS

INCOME STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	Note	Consolidated 2008 $'000	Consolidated 2007 $'000	Parent Entity 2008 $'000	Parent Entity 2007 $'000
Dividends and distributions		217,402	220,549	217,402	220,549
Revenue from deposits and bank bills		11,963	787	11,878	770
Other revenue		2,994	1,665	18	1
Total revenue		**232,359**	**223,001**	**229,298**	**221,320**
Net gains/(losses) on trading portfolio		(7,608)	30,498	(7,608)	30,498
Income from operating activities before net gains on investments		**224,751**	**253,499**	**221,690**	**251,818**
Finance costs		(3,425)	(5,076)	(3,425)	(5,076)
Administration expenses		(10,676)	(7,937)	(7,786)	(6,273)
Operating profit before income tax expense and net gains on investments	**4**	**210,650**	**240,486**	**210,479**	**240,469**
Income tax expense*	**5**	(5,596)	(16,088)	(5,601)	(16,083)
Net operating profit before net gains on investments		**205,054**	**224,398**	**204,878**	**224,386**
Net gains/(losses) on investments					
Net gains on Ordinary Securities sold from the investment portfolio		295,360	34,862	295,360	34,862
Net gains/(losses) on Other Securities		(3,896)	2,634	(3,896)	2,634
Tax expense on net gains on investments*	**5**	(80,377)	(2,553)	(80,377)	(2,553)
		211,087	34,943	211,087	34,943
Profit for the year		**416,141**	**259,341**	**415,965**	**259,329**
Profit is attributable to :					
Equity holders of Australian Foundation Investment Company Ltd		416,099	259,341	415,965	259,329
Minority interest		42	-	-	-
		416,141	**259,341**	**415,965**	**259,329**
		Cents	**Cents**		
Basic and diluted earnings per share		43.11	27.38		

These Income Statements should be read in conjunction with the accompanying notes.

Information on earnings per share, including net operating profit before net gains on investments per share, can be found in Note 25.

	Consolidated 2008 $'000	Consolidated 2007 $'000	Parent Entity 2008 $'000	Parent Entity 2007 $'000
* Total tax expense	85,973	18,641	85,978	18,636

BALANCE SHEETS AS AT 30 JUNE 2008

	Note	Consolidated 2008 $'000	Consolidated 2007 $'000	Parent entity 2008 $'000	Parent entity 2007 $'000
Current assets					
Cash	**6**	261,129	9,796	259,286	8,562
Receivables	**7**	44,043	37,792	44,121	37,939
Trading portfolio	**8**	126,602	129,482	126,602	129,482
Interest-rate Hedging Contracts	**21**	1,709	1,002	1,709	1,002
Total current assets		**433,483**	**178,072**	**431,718**	**176,985**
Non-current assets					
Fixtures & fittings	**9**	838	816	838	816
Investment portfolio	**10**	4,662,323	5,671,726	4,662,323	5,671,726
Deferred tax assets	**15**	4,424	-	3,929	-
Total non-current assets		**4,667,585**	**5,672,542**	**4,667,090**	**5,672,542**
Total assets		**5,101,068**	**5,850,614**	**5,098,808**	**5,849,527**
Current liabilities					
Payables	**11**	2,549	10,965	2,310	10,822
Tax payable		71,222	11,050	70,970	10,822
Borrowings	**6**	50,000	50,000	50,000	50,000
Provisions	**12**	1,314	794	-	-
Total current liabilities		**125,085**	**72,809**	**123,280**	**71,644**
Non-current liabilities					
Provisions	**13**	217	134	-	-
Deferred tax liabilities - investment portfolio	**14**	722,683	1,012,930	722,683	1,012,930
Deferred tax liabilities - other	**15**	-	5,020	-	5,244
Total non-current liabilities		**722,900**	**1,018,084**	**722,683**	**1,018,174**
Total liabilities		**847,985**	**1,090,893**	**845,963**	**1,089,818**
Net Assets		**4,253,083**	**4,759,721**	**4,252,845**	**4,759,709**
Shareholders' equity					
Share Capital	**16**	1,692,908	1,638,948	1,692,908	1,638,948
Revaluation Reserve	**18**	1,754,633	2,530,231	1,754,633	2,530,231
Realised Capital Gains Reserve	**19**	468,904	271,883	468,904	271,883
General Reserve	**20**	23,637	23,637	23,637	23,637
Interest-rate Hedging Reserve	**21**	1,709	1,002	1,709	1,002
Retained Profits	**22**	311,200	294,020	311,054	294,008
Parent Entity Interest		**4,252,991**	**4,759,721**	**4,252,845**	**4,759,709**
Minority Interest		92	-	-	-
Parent Entity Interest		**4,253,083**	**4,759,721**	**4,252,845**	**4,759,709**

These Balance Sheets should be read in conjunction with the accompanying notes.

STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2008

	Note	Consolidated 2008 $'000	Consolidated 2007 $'000	Parent entity 2008 $'000	Parent entity 2007 $'000
Total equity at the beginning of the year		**4,759,721**	**3,812,928**	**4,759,709**	**3,812,928**
Dividends paid	**24**	(201,898)	(174,339)	(201,898)	(174,339)
Shares issued					
- Dividend Reinvestment Plan	**24**	45,390	40,077	45,390	40,077
- Share Acquisition Plan	**16**	9,173	97,979	9,173	97,979
- To minority interests		50	-	-	-
On-market share buy-backs	**16**	(28)	(26)	(28)	(26)
Other Share Capital Adjustments	**16**	(575)	(738)	(575)	(738)
Total transactions with shareholders		**(147,888)**	**(37,047)**	**(147,938)**	**(37,047)**
Revaluation of investment portfolio		(1,081,524)	1,057,464	(1,081,524)	1,057,464
Provision for tax on unrealised gains		305,926	(333,781)	305,926	(333,781)
Net unrealised gains/(losses) recognised directly in equity	**18**	(775,598)	723,683	(775,598)	723,683
Profit for the year		416,141	259,341	415,965	259,329
Net movement in fair value for interest rate swaps	**21**	707	816	707	816
Total recognised income (including unrealised gains) & expense for the year		**(358,750)**	**983,840**	**(358,926)**	**983,828**
Total equity at the end of the financial year		**4,253,083**	**4,759,721**	**4,252,845**	**4,759,709**

These Statements of Changes in Equity should be read in conjunction with the accompanying notes.

CASH FLOW STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	Note	Consolidated 2008 $'000 INFLOWS/ (OUTFLOWS)	Consolidated 2007 $'000 INFLOWS/ (OUTFLOWS)	Parent entity 2008 $'000 INFLOWS/ (OUTFLOWS)	Parent entity 2007 $'000 INFLOWS/ (OUTFLOWS)
Cash flows from operating activities					
Sales from trading portfolio		140,876	108,152	140,876	108,152
Purchases for trading portfolio		(152,804)	(100,108)	(152,804)	(100,108)
Interest received		12,174	4,620	12,088	4,603
Dividends and distributions received		207,426	208,295	207,426	208,295
		207,672	220,959	207,586	220,942
Other receipts/(payments)		2,990	1,652	(78)	(78)
Administration expenses		(9,518)	(7,032)	(7,366)	(6,319)
Finance costs paid		(3,542)	(5,653)	(3,542)	(5,653)
Taxes paid		(10,802)	(11,453)	(10,559)	(11,453)
Net cash inflow/(outflow) from operating activities	**30**	**186,800**	**198,473**	**186,041**	**197,439**
Cash flows from investing activities					
Sales from investment portfolio		441,859	131,295	441,859	131,295
Purchases for investment portfolio		(220,782)	(283,663)	(220,782)	(283,663)
Taxes paid on capital gains		(8,471)	(9,455)	(8,471)	(9,455)
Loan to subsidiary		-	-	200	(200)
Payment for fixed assets		(123)	(19)	(123)	(19)
Net cash inflow/(outflow) from investing activities		**212,483**	**(161,842)**	**212,683**	**(162,042)**
Cash flows from financing activities					
Proceeds from borrowings		200,000	617,000	200,000	617,000
Repayment of borrowings		(200,000)	(608,000)	(200,000)	(608,000)
Share issues		9,223	97,979	9,173	97,979
Share issues transaction costs		(693)	(342)	(693)	(342)
Payment for shares bought back		(28)	(26)	(28)	(26)
Dividends paid		(156,452)	(134,184)	(156,452)	(134,184)
Net cash inflow/(outflow) from financing activities		**(147,950)**	**(27,573)**	**(148,000)**	**(27,573)**
Net increase/(decrease) in cash held		251,333	9,058	250,724	7,824
Cash at the beginning of year		9,796	738	8,562	738
Cash at the end of year	**6**	**261,129**	**9,796**	**259,286**	**8,562**

These Cash Flow Statements should be read in conjunction with the accompanying notes.

1. Summary of significant accounting policies

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*. This financial report has been authorised for issue as per the Directors Declaration and is presented in the Australian currency. The Company has the power to amend and reissue the financial report.

In this report, "Group" refers to the consolidated entity and "Company" refers to the parent entity, Australian Foundation Investment Company Ltd ("AFIC"). This financial report includes separate financial statements for AFIC as an individual entity and the consolidated entity consisting of AFIC and its subsidiary. The Group has attempted to improve the transparency of its reporting by adopting 'plain English' where possible. Key 'plain English' phrases and their equivalent AASB terminology are as follows:

Phrase	AASB Terminology
Market Value	Fair Value for Actively Traded Securities
Cash	Cash & Cash Equivalents
Share Capital	Contributed Equity

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards ("AIFRS"). Compliance with AIFRS ensures that the financial statements and notes of both the Group and the Company comply with International Financial Reporting Standards (IFRS).

The Group has not applied any Australian Accounting Standards or UIG interpretations that have been issued as at balance date but are not yet operative for the year ended 30 June 2008 ("the inoperative standards"). The impact of the inoperative standards has been assessed and the impact has been identified as not being material. The Group only intends to adopt inoperative standards at the date at which their adoption becomes mandatory.

a) Basis of accounting

The financial statements are prepared using the valuation methods described below for holdings of securities, including options. All other items have been treated in accordance with the historical cost convention.

b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of the Company's subsidiary, Australian Investment Company Services Ltd ("AICS") as at 30 June 2008, and its results for the year then ended. AICS is a 75% owned subsidiary of the Company (2007 : 100%). No other subsidiaries were acquired or disposed of during the year. Intercompany transactions and balances between AFIC and AICS are eliminated on consolidation. The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group.

c) Holdings of securities

(i) Balance sheet classification

The Group has two discrete portfolios of securities, the investment portfolio and the trading portfolio. The purchase and the sale of securities are accounted for at the date of trade.

The investment portfolio relates to holdings of securities which the Directors intend to retain on a long-term basis.

The trading portfolio comprises securities held for short term trading purposes, including exchange traded options contracts that are entered into as described in Note 8.

Ordinary securities within the investment portfolio are classified as ‘assets available for sale’, whereas securities that contain a derivative element (eg Convertible Notes) and the trading portfolio are classified as ‘assets measured at fair value through the Income Statement’.

(ii) Valuation of investment portfolio

Securities, including listed and unlisted shares and notes, are initially brought to account at market value, which is the cost of acquisition including transaction costs, and are revalued to market values continuously. Increments and decrements on Ordinary Securities are taken to the Revaluation Reserve.

Where disposal of an investment occurs any revaluation increment or decrement relating to it is transferred from the Revaluation Reserve to the Income Statement.

Increments and decrements on the value of the securities that contain a derivative element (known as ‘Hybrids’) are taken directly through the Income Statement.

(iii) Valuation of trading portfolio

Securities, including listed and unlisted shares, notes and options, are initially brought to account at market value, which is the cost of acquisition, or proceeds in the case of options written, and are revalued to market values continuously.

Increments and decrements on the value of securities in the trading portfolio are taken directly through the Income Statement.

(iv) Income from holdings of securities

Distributions relating to listed securities are recognised as income when those securities are quoted in the market on an ex-distribution basis and distributions relating to unlisted securities are recognised as income when received. If the distributions are capital returns on ordinary shares the amount of the distribution is treated as an adjustment to the carrying value of the shares.

The realised gain or loss on options written is not recognised until the option expires, is exercised or is closed out. All unrealised gains or losses which represent movements in the Market Value of the options are recognised through the Income Statement.

d) Taxation

The income tax expense or credit for the period is the tax payable on the current period’s taxable income adjusted by any unused tax losses and changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets and liabilities are offset as all current and deferred taxes relate to the Australian Taxation Office and can legally be settled on a net basis.

A tax provision is made for the unrealised gain or loss on securities valued at fair value through the Income Statement – i.e. hybrids and the trading portfolio.

A provision has to be made for any taxes that could arise on disposal of securities in the investment portfolio, even though there is no intention to dispose of them. Where the Group 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.

e) Cash flows

For the purpose of the cash flow statement, ‘cash’ includes cash, deposits held at call, investment grade promissory notes and discounted bills of exchange.

f) Bills of exchange

Bills of exchange and investment grade promissory notes, which have been purchased in the market at a discount to face value, are carried at an amount representing amortised cost using the effective interest rate method, and the amortised interest is accounted for as interest received.

g) Fair value of financial assets and liabilities

The fair value of cash and cash equivalents, and non-interest bearing monetary financial assets and liabilities of the Group approximates their carrying value.

The fair value for assets that are actively traded on market is defined by AASB 139 as ‘last bid price’.

h) Employee benefits

(i) Wages, salaries and annual leave

Liabilities for wages and salaries, including annual leave, expected to be settled within 12 months of balance date are recognised as current provisions in respect of employees’ services up to balance date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long service leave

In calculating the value of long service leave, consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at balance date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Cash incentives

Cash incentives are provided under the Executive Short Term Incentive Plan and are dependent upon the performance of the Group. A provision is made for the cost of unsettled cash incentives at balance date.

The Investment Team Annual Incentive plans are settled on a cash basis.

(iv) Share incentives

Share incentives are provided under the Executive Short Term and Long Term Incentive plans and the Employee Share Acquisition Scheme.

For the Employee Share Acquisition Scheme and the Executive Short Term Incentive plan, the incentives are based on the performance of the individual and the Group for the financial year. The Employee Share Acquisition Scheme and a portion of the Executive Short Term Incentive are settled in shares, but based on a cash amount. A provision for the amount payable under the Short Term Incentive plan is recognised on the Balance Sheet.

Shares acquired to satisfy obligations under the Executive Long Term Incentive plans are recognised as an adjustment against share capital (referred to as “ELTIP shares adjustment”) as at the date of acquisition by the Group. Between the award date and the vesting date, the fair value of the ELTIP shares is expensed over the relevant period of service for each executive, and recognised in equity in the ELTIP shares adjustment account. In the event that the executive does not complete the period of service, the cumulative expense is reversed. The fair value of the shares is determined at the award date and is based on:

- the market price of the shares at award date;

- allowance for the impact of the holding restriction between award date and vesting date; and
- the expected performance of the Group in meeting the market hurdles which determine vesting.

Any shares that do not ultimately vest are cancelled by offsetting the relevant component of the ELTIP shares adjustment account against share capital. The reduction in share capital is based on that proportion of the original acquisition cost of share compensation that did not vest. Any residual element in the ELTIP shares adjustment account for the relevant award year is transferred to retained earnings.

i) Directors' retirement allowances

The Group recognises as 'amounts payable' Directors' retirement allowances that have been crystallised. No further amounts will be expensed as retirement allowances.

j) Administration fees

The Group currently provides administrative services to other Listed Investment Companies. The associated fees are recognised on an accruals basis as income throughout the year. Any amounts outstanding at balance date are recognised as receivable, subject to the assessment of recoverability by the Directors.

k) Operating leases

The Group currently has an operating lease in respect of its premises. Payments made under operating leases are charged to the Income Statement on a straight-line basis over the period of the lease.

l) Interest-rate swaps

The Company has hedged a proportion of its short term borrowings against changes in interest rates by entering into interest rate swap agreements. Interest-rate swaps are shown at 'fair value' on the Balance Sheet representing the cost of unwinding the swap. For that portion of the Company's swap agreements that are effective hedges (which is 100%), the fair value of the unused portion of the swap agreement is recognised in equity. Otherwise the fair value is recognised in Net Profit. Accumulated amounts in equity are recycled in the income statement as the interest on the borrowings becomes due and payable and the hedge is used. The amount recognised is accounted for as finance costs during the period along with the interest on the borrowings. The net amount receivable or payable under interest rate swap agreements is also recognised at this time and is included in 'other receivables' or 'other payables' at each balance date.

m) Plant and Equipment

Plant and equipment represents the costs of furniture and fittings plus expenses incurred in entering the lease. It is depreciated over the initial period of the lease plus a committed extension.

n) Rounding of amounts

The Group is of the kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order, to the nearest thousand dollars, or in certain cases, to the nearest dollar.

2. Critical Accounting Estimates and Judgements

The preparation of financial reports in conformity with AIFRS requires the use of certain critical accounting estimates. This requires the Board and management to exercise their judgement in the process of applying the Group's accounting policies.

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. In accordance with AASB112 *Income Taxes* deferred tax liabilities have been recognised for Capital Gains Tax (CGT) on the unrealised gain in the Investment Portfolio at current tax rates.

As the Directors do not intend to dispose of the portfolio, this tax liability may not be crystallised at the amount disclosed in Note 14. In addition, the tax liability that arises on disposal of these securities may be impacted by changes in tax legislation relating to treatment of capital gains and the rate of taxation applicable to such gains at the time of disposal.

Apart from this, there are no key assumptions or sources of estimation uncertainty that have a risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period.

3. Financial Reporting by segments

The Group operates as a Listed Investment Company in Australia. It has no reportable business or geographic segments.

4. Operating profit before income tax expense and net gains on investments

	Consolidated		Parent entity	
	2008 $'000	**2007 $'000**	**2008 $'000**	**2007 $'000**
Dividends and distributions				
• securities held in investment portfolio	211,945	211,941	211,945	211,941
• securities held in trading portfolio	5,174	4,761	5,174	4,761
	217,119	216,702	217,119	216,702
Interest income				
• securities held in investment portfolio	283	3,847	283	3,847
• income from cash investments	11,963	787	11,878	770
	12,246	4,634	12,161	4,617
Net gains/(losses) and write downs				
• net gains from trading portfolio sales	9,516	9,025	9,516	9,025
• unrealised gains/(losses) in trading portfolio	(17,124)	21,473	(17,124)	21,473
	(7,608)	30,498	(7,608)	30,498
Administration fees	2,882	1,446	-	-
Other income	112	219	18	1
	2,994	1,665	18	1
Income from operating activities before net gains on investments	**224,751**	**253,499**	**221,690**	**251,818**
Finance costs	(3,425)	(5,076)	(3,425)	(5,076)
Rental expense relating to non-cancellable operating leases	(454)	(437)	-	-
Employee benefits expense	(5,347)	(3,481)	(567)	(513)
Depreciation charge	(102)	(102)	(102)	(102)
Other administration expenses	(4,773)	(3,917)	(7,117)	(5,658)
Operating profit before income tax expense and net gains on investments	**210,650**	**240,486**	**210,479**	**240,469**

Further information relating to remuneration of auditors is set out in Note 29, Directors and

Executives in Note 26.

5. Tax expense

(a) Reconciliation of income tax expense to prima facie tax payable

	Consolidated		Parent entity	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Operating profit before income tax expense and net gains on investments	**210,650**	**240,486**	**210,479**	**240,469**
Tax at the Australian tax rate of 30% (2007 – 30%)	63,195	72,146	63,144	72,141
Tax effect of amounts which are not deductible (taxable) in calculating taxable income :				
Tax offset for franked dividends	(51,901)	(48,920)	(51,901)	(48,920)
Non-taxable distributions	(4,114)	(3,518)	(4,114)	(3,518)
Sundry items	(1,237)	(978)	(1,181)	(978)
	5,943	**18,730**	**5,948**	**18,725**
Under (over) provision in prior years	(347)	(2,642)	(347)	(2,642)
Income tax expense on operating profit before net gains on investments	**5,596**	**16,088**	**5,601**	**16,083**
Net gains on investments	**291,464**	**37,496**	**291,464**	**37,496**
Tax at the Australian tax rate of 30% (2007 – 30%)	87,439	11,249	87,439	11,249
Tax effect of amounts which are not deductible (taxable) in calculating taxable income :				
Differences between accounting and tax cost bases for capital gains purposes	(4,181)	206	(4,181)	206
Accounting gains rolled-over for taxation purposes	-	(8,902)	-	(8,902)
Under (over) provision in prior years	(2,881)	-	(2,881)	-
Tax expense on net gains on investment portfolio	**80,377**	**2,553**	**80,377**	**2,553**
Total tax expense	**85,973**	**18,641**	**85,978**	**18,636**

(b) Tax expense composition

Charge for tax payable relating to the current year	99,629	20,177	99,363	19,948
Under (over) provision in prior years	(3,228)	(2,642)	(3,228)	(2,642)
Increase (decrease) in deferred tax liabilities – investment portfolio	(984)	(2,899)	(984)	(2,899)
Increase (decrease) in deferred tax liabilities - other	(9,444)	4,005	(9,173)	4,229
	85,973	**18,641**	**85,978**	**18,636**

(c) Amounts recognised directly in equity

Increase (decrease) in deferred tax liabilities relating to capital gains tax on the movement in unrealised gains on Ordinary Securities in the investment portfolio	(305,926)	333,781	(305,926)	333,781
	(305,926)	**333,781**	**(305,926)**	**333,781**

6. Current assets – cash

Cash at bank and in hand	57	55	3	9
Deposits at call	261,072	9,741	259,283	8,553
	261,129	9,796	259,286	8,562

Deposits at call yield an average floating interest rate of 7.3% (2007: 6.2%).

(a) Credit risk exposure

All cash investments not held in a transactional account are invested in the Goldman Sachs JB Were Australian $ Cash Reserves Fund. This fund is research rated AAAm by Standard & Poor's and has also been given a Fund Rating of 5 stars, the highest possible, and is rated Aaa/MR1+ by Moody's. The credit risk exposure of the Group in relation to cash and deposits is the carrying amount and any accrued unpaid interest.

(b) Standby arrangements and credit facilities

The Group is party to agreements under which Commonwealth Bank of Australia and the National Australia Bank will extend a cash advance facility (formerly the Group had agreements to accept or accept and discount bills of exchange).

	Consolidated		Parent Entity	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Commonwealth Bank of Australia –cash advance facility	150,000	150,000	150,000	150,000
Amount drawn down	50,000	50,000	50,000	50,000
Undrawn facilities	100,000	100,000	100,000	100,000
National Australia Bank- cash advance facility (2007 : floating rate bill facility)	50,000	50,000	50,000	50,000
Amount drawn down	-	-	-	-
Undrawn facilities	50,000	50,000	50,000	50,000
Total short-term loan facilities	200,000	200,000	200,000	200,000
Total drawn down	50,000	50,000	50,000	50,000
Total undrawn facilities	150,000	150,000	150,000	150,000

The above borrowings are unsecured. Repayment of facilities is done either through the use of cash received from distributions or the sale of securities, or by rolling existing facilities into new ones. Facilities are normally drawn down for no more than 3 months.

7. Current assets – receivables

Dividends and distributions receivable	32,790	31,896	32,790	31,896
Interest receivable/pre-paid	827	624	827	624
Outstanding settlements – Investment portfolio	-	4,036	-	4,036
Outstanding settlements – Trading portfolio	10,273	1,089	10,273	1,089
Loan to subsidiary	-	-	-	200
Other receivables/pre-payments	153	147	231	94
	44,043	37,792	44,121	37,939

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.

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

8. Current assets – trading portfolio

Listed securities at market value				
- shares and trust units	133,171	134,115	133,171	134,115
- Options sold by the Group				
• Calls	(5,974)	(4,527)	(5,974)	(4,527)
• Puts	(595)	(106)	(595)	(106)
	126,602	129,482	126,602	129,482

The total of the trading portfolio, which is defined as "assets held for trading" and hybrids, which are defined as "assets measured at fair value through the income statement", is $166.5 million (2007 : $173.7 million).

(a) Credit risk exposure

Credit risk exposures of the Group arise in relation to converting and convertible notes and other interest-bearing securities to the extent of their carrying values, in the event of a shortfall on winding-up of the issuing companies.

Credit risk exposure also arises in relation to options bought by the Group, if any, to the extent of their carrying value.

(b) Options sold

The Group enters into option contracts in the trading portfolio as part of its trading activities to generate profits on dealing in securities. Where the Group sells a call option it is obligated to deliver securities at an agreed price if the taker exercises the option. Whereas if the Group sells a put option it is obligated to buy the underlying shares at an agreed price if the taker exercises the option. Options are valued at a theoretical price which is obtained from an independent third-party data provider.

As at balance date the Group had sold put options which at the option of the purchaser may require the Group to buy prior to the respective expiry dates if they were exercised, certain securities at prices which in aggregate totalled $7.2 million (2007: $8.1 million). As at balance date there were call options outstanding which potentially required the Group if they were exercised to deliver securities to the value of $85.5 million (2007: $67.5 million) held by the Group in its trading portfolio. As at balance date all of these contracts are exchange-traded options and are entered into within the constraints and controls imposed by the Australian Securities Exchange Limited. Dealing and administrative (including settlement) functions are separated. The total exposure position is determined daily. The Investment Committee meets regularly (normally weekly) to consider, review and approve the investment, trading and sub-underwriting transactions of the Group and related matters.

$40.9 million of shares are held by the Australian Clearing House (ACH) as collateral for sold option positions written by the Group (2007: $35.2 million). These shares are held by ACH under the terms of ACH Pty Ltd which require participants in the Exchange Traded Option market to lodge collateral, and are recorded as part of the Group's Investment Portfolio.

9. Non-current assets – fixtures & fittings

	Consolidated		Parent Entity	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Opening Balance	816	899	816	899
Additions	124	19	124	19
Depreciation charge	(102)	(102)	(102)	(102)
Book cost of furniture and fittings, plus leasehold expenses	838	816	838	816

10. Non-current assets – investment portfolio

Listed securities				
- shares at market value	4,622,462	5,627,479	4,622,462	5,627,479
- converting and convertible notes and other interest bearing securities at market value	39,861	44,247	39,861	44,247
Unlisted securities at fair value	-	-	-	-
	4,662,323	5,671,726	4,662,323	5,671,726

Credit risk exposures of the Group arise in relation to converting and convertible notes to the extent of their carrying values in the event of a shortfall on winding-up of the issuing companies.

Excluding the hybrids, the total of the remainder, which are defined as "assets available for sale", is $4,622.5 million (2007: $5,627.5 million).

11. Current liabilities - payables	**Consolidated 2008 $'000**	**Consolidated 2007 $'000**	**Parent Entity 2008 $'000**	**Parent Entity 2007 $'000**
Dividends payable	579	522	579	522
Outstanding settlements – Investment portfolio	-	7,803	-	7,803
Outstanding settlements – Trading portfolio	-	1,011	-	1,011
Directors' retirement benefits	681	681	681	681
Other payables	1,289	948	1,050	805
	2,549	10,965	2,310	10,822

Payables 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.

12. Current liabilities – provisions

Employee entitlements	1,314	794	-	-
	1,314	794	-	-

13. Non-current liabilities – provisions

Employee entitlements	217	134	-	-
	217	134	-	-

14. Deferred tax liabilities – investment portfolio

Deferred tax liabilities on unrealised gains in the investment portfolio	722,683	1,012,930	722,683	1,012,930
Movements:				
Opening balance at 1 July	1,012,930	682,048	1,012,930	682,048
(Credited)/charged to Income Statement for securities that contain a derivative element (eg Convertible Notes)	(984)	(2,899)	(984)	(2,899)
Accounting charge for tax on scrip-for-scrip acquisitions	16,663	-	16,663	-
(Credited)/charged to equity for ordinary securities	(305,926)	333,781	(305,926)	333,781
	722,683	1,012,930	722,683	1,012,930

Refer Note 2 for further detail on the nature of the deferred tax liabilities on the investment portfolio.

15. Deferred tax assets

	Consolidated		Parent Entity	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000

The Group's deferred tax assets or liabilities arise from temporary differences in the recognition of items for taxation and accounting purposes, as described in Note 1 d). The key components are:

	Consolidated 2008 $'000	Consolidated 2007 $'000	Parent Entity 2008 $'000	Parent Entity 2007 $'000
(a) The difference in the value of the trading portfolio for tax and accounting purposes	1,962	(5,664)	1,962	(5,664)
(b) Tax paid up front on sold option premiums which are not included as accounting income until they lapse, are exercised or closed out	1,946	1,048	1,946	1,048
(c) Provisions and expenses charged to the accounting profit which are not yet tax deductible	955	483	460	259
(d) Interest and dividend income receivable which is not assessable for tax until receipt	(439)	(887)	(439)	(887)
	4,424	(5,020)	3,929	(5,244)
Movements:				
Opening balance at 1 July	(5,020)	(1,015)	(5,244)	(1,015)
Credited/(charged) to Income statement	9,444	(4,005)	9,173	(4,229)
	4,424	(5,020)	3,929	(5,244)

Any deferred tax asset arising from provisions and expenses charged but not yet tax deductible will be obtained when the relevant items become tax deductible, provided that the Group derives sufficient assessable income to enable the benefit from the deductions to be taken in that year and there are no intervening changes in tax legislation adversely affecting the Group's ability to claim the tax deduction.

The portion of deferred tax asset likely to be reversed within the next 12 months is $3.6 million (2007: ($5.5 million)). This relates primarily to items described in items (a), (b) and (d) above.

16. Shareholders' equity – share capital

(a) Share capital

	Consolidated and Parent entity		Consolidated and Parent entity	
	2008 Shares '000	2008 $'000	2007 Shares '000	2007 $'000
Ordinary shares – fully paid	969,466	1,693,521	959,576	1,639,677
Less ELTIP shares adjustment	-	(613)	-	(729)
	969,466	1,692,908	959,576	1,638,948

(b) Movements in share capital of the Group during the past two years were as follows:

Date	Details	Notes	Number of shares '000	Issue price $	Paid-up Capital $'000
1/07/2006	Balance		931,661		1,501,987
23/08/2006	Dividend Reinvestment Plan	i	4,772	4.70	22,430
22/12/2006	Share Acquisition Plan	iii	19,996	4.90	97,979
8/03/2007	Dividend Reinvestment Plan	i	3,152	5.60	17,647
Various	Buy-backs	ii	(5)		(26)
Various	Cost of share issues		-		(340)
30/06/2007	Balance		959,576		1,639,677
22/08/2007	Dividend Reinvestment Plan	i	4,835	5.78	27,945
27/02/2008	Dividend Reinvestment Plan	i	3,316	5.26	17,445
11/04/2008	Share Acquisition Plan	iii	1,744	5.26	9,173
Various	Buy-backs	ii	(5)		(28)
Various	Cost of share issues		-		(691)
30/06/2008	Balance		969,466		1,693,521

i. The Group has a Dividend Reinvestment Plan (DRP) under which shareholders elected to have all or part of their dividend payment reinvested in new ordinary shares. Pricing of the new DRP shares is based on the average selling price of shares traded on the Australian Stock Exchange in the five days after the shares begin trading on an ex-dividend basis.

ii. The Group introduced an on-market Buy-Back Program in December 2000. During the 2008 financial year the Group had bought back 5,000 shares (2007: 5,000 shares) at an average price of $5.56 (2007: $5.17).

iii. The Group issued shares under a Share Acquisition Plan which enabled shareholders to acquire up to $4,997 worth of shares (2007 : $4,998).

(c) Movements in ELTIP shares adjustment during the past two years were as follows ($) :

	Award Date	Opening balance	Acquired on market	Expense recognised	Cancelled	Residual transferred	Closing balance
2006/7	*Mar 2004*	80,672	-	46,098	-	-	34,574
	Oct 2004	56,067	-	24,920	-	-	31,147
	Apr 2005	22,535	-	8,194	-	-	14,341
	Oct 2005	94,341	-	29,028	-	-	65,313
	Mar 2006	77,320	-	21,087	-	-	56,233
	Aug 2006	-	70,762	16,216	-	-	54,546
	Oct 2006	-	128,073	24,021	-	-	104,052
	Feb 2007	-	426,967	58,535	-	-	368,432
	Total for 2006/2007	330,935	625,802	228,099	-	-	728,638
2007/8	*Mar 2004*	34,574	-	34,574	-	-	0
	Oct 2004	31,147	-	24,920	-	-	6,227
	Apr 2005	14,341	-	8,194	-	-	6,147
	Oct 2005	65,313	-	29,028	-	-	36,285
	Mar 2006	56,233	-	21,087	-	-	35,146
	Aug 2006	54,546	-	16,216	-	-	38,330
	Oct 2006	104,052	-	32,016	-	-	72,036
	Feb 2007	368,432	-	140,494	-	-	227,938
	Aug 2007	-	247,183	56,646	-	-	190,537
	Total for 2007/2008	728,638	247,183	363,175	-	-	612,646

17. Capital Management

The Company's objectives in managing capital is to continue to provide shareholders with attractive investment returns through access to a steady stream of fully-franked dividends and enhancement of capital invested, with goals of paying dividends which over time grow faster than the rate of inflation and providing attractive total returns over the medium to long term.

The Company recognises that its capital will fluctuate in accordance with market conditions, and may adjust the amount of dividends paid, issue new shares from time to time or buy-back its own shares or sell assets to reduce debt.

The Company's capital consists of its shareholders equity less the fair value of the interest-rate swaps, plus any net borrowings. The change in this capital is as noted in notes 6, 16, 18, 19, 20 and 22.

18. Revaluation Reserve

	Consolidated		Parent entity	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Opening balance at 1 July	2,530,231	1,806,548	2,530,231	1,806,548
Revaluation of investment portfolio	(1,081,524)	1,057,464	(1,081,524)	1,057,464
Provision for tax on unrealised gains	305,926	(333,781)	305,926	(333,781)
	1,754,633	2,530,231	1,754,633	2,530,231

This reserve is used to record increments and decrements on the revaluation of the investment portfolio as described in accounting policy note 1 c)(ii).

19. Realised Capital Gains Reserve

Opening balance at 1 July	271,883	243,400	271,883	243,400
Dividends paid	(16,793)	(13,224)	(16,793)	(13,224)
Transfer from retained profits	213,814	41,707	213,814	41,707
	468,904	271,883	468,904	271,883

This reserve records gains or losses after applicable taxation arising from disposal of securities in the investment portfolio as described in accounting policy note 1 c)(ii). As the balance relates to net realised gains it may be distributed as cash dividends at the discretion of Directors.

20. General Reserve

Opening balance at 1 July	23,637	23,637	23,637	23,637
	23,637	23,637	23,637	23,637

This reserve relates to past profits or gains set aside by Directors. It reflects realised surpluses and may be distributed as cash dividends at the discretion of Directors.

21. Interest-rate swaps

Fair value of Interest-rate swap agreements	1,709	1,002	1,709	1,002

The Company has entered into interest-rate hedging contracts at a rate of 6.095% with the Commonwealth Bank of Australia, under which the Company will pay a fixed interest rate on $50 million worth of short-term borrowings. They have been designated as an effective hedge and any movements in their fair value will be shown as an adjustment against equity. These swaps commenced in August 2006 and have a five-year effective life. The reserve and the corresponding asset are the fair value of the interest-rate swaps. They cover 100% of the loan principal outstanding.

22. Retained Profits

	Consolidated		Parent entity	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Opening balance at 1 July	294,020	237,501	294,008	237,501
Dividends paid	(185,105)	(161,115)	(185,105)	(161,115)
Profit for the year	416,099	259,341	415,965	259,329
Transfer to realised capital gains reserve	(213,814)	(41,707)	(213,814)	(41,707)
	311,200	294,020	311,054	294,008

23. Financial Risk Management

Accounting Standards identify three types of risk associated with financial instruments (i.e. the Group's investments, receivables, payables and borrowings):

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.

Credit risk is managed as noted in Notes 6 a), 7, 8 a) & 10 with respect to cash, receivables, securities in the trading portfolio and securities in the investment portfolio respectively. With regards to credit risk, none of these assets are over-due or considered to be impaired.

Liquidity risk

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

The Group monitors its cash-flow requirements daily. Furthermore, the Investment Committee monitors the level of contingent payments on a weekly basis by reference to known sales and purchases of securities, dividends and distributions to be paid or received, put options that may require the Group to purchase securities and facilities that need to be repaid. The Group ensures that it has either cash or access to short-term borrowing facilities sufficient to meet these contingent payments.

The relatively low level of gearing that the Group has ensures that covenant levels associated with facilities are unlikely to be breached. In the unlikely event that a fall in the value of the stock market is such that a breach would appear possible, the Group would amend its cash-flows through the sale of securities and the cessation of purchases to ensure that any short-term debt is extinguished.

The Group's inward cash-flows depend upon the level of distributions received. Should these drop by a material amount, the Group would amend its outward cash-flows accordingly. As the Group's major cash outflows are the purchase of securities and dividends paid to shareholders, the level of both of these is manageable by the Board and management. Furthermore, the assets of the Group are largely in the form of readily tradeable securities which can be sold on-market if necessary. Current financial liabilities are shown in Notes 6 b) & 11. All borrowing facilities are normally drawn for a period no longer than three months.

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.

By its nature as a Listed Investment Group that invests in tradeable securities, the Group can never be free of market risk as it invests its capital in securities which are not risk free – the market price of these securities can fluctuate.

A general fall in market prices of 5% and 10%, if spread equally over all assets in the investment portfolio and trading portfolio would lead to a reduction in the Group's equity of $167.6 million and $335.2 million respectively, at a tax rate of 30%. The fall in the Trading Portfolio would lead to a reduction in profit after-tax of $4.4 million and $8.9 million respectively. The Revaluation Reserve at 30 June 2008 was $1,755 million. It would require a fall in the value of the Investment Portfolio of 53% after tax to fully deplete this. In accordance with Accounting Standards, any further falls in value would continue to be recognised in equity as unrealised losses.

The Group seeks to reduce market risk at the investment portfolio level by ensuring that it is not, in the opinion of the Investment Committee, overly exposed to one company or one particular sector of the market. The relative weightings of the individual securities and the relevant market sectors are reviewed by the Investment Committee, normally weekly, and risk can be managed by reducing exposure where necessary. The Group does not have set parameters as to a minimum or maximum amount of the portfolio that can be invested in a single company or sector.

The Group's investment by sector is as below:

	2008	**2007**
Energy	9.26%	5.19%
Materials	27.34%	23.34%
Industrials	6.48%	14.48%
Consumer Discretionary	3.42%	5.29%
Consumer Staples	10.49%	7.31%
Banks	18.65%	21.80%
Other Financials (incl Property Trusts)	11.31%	14.05%
Telecommunications	4.17%	3.47%
Other - Health Care, Info Technology, Utilities	3.71%	4.90%
Cash	5.17%	0.17%

Securities representing over 5% of the combined investment and trading portfolio at 30 June 2008 were:

	% of portfolio
BHP Billiton	13.0%
Rio Tinto	6.9%
Commonwealth Bank	6.7%
Wesfarmers	6.3%
Westpac	5.2%

No other security represents over 5% of the Group's investment and trading portfolios.

The Group is not currently materially exposed to interest rate risk as all its cash investments and borrowings are short-term for a fixed interest rate but it has entered into a interest-rate hedging contracts with the Commonwealth Bank of Australia, under which the Group will pay a fixed interest rate on $50 million worth of short-term borrowings, which commenced in August 2006. This locks in a fixed rate for a substantial proportion of the Group's debt. Should interest-rates move to the extent that the Board feel that the swaps are uneconomical, they will be unwound and the cost of unwinding them would be reflected through the Income Statement. Interest rate risk on hybrid securities held by the Group is reflected in their market value.

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

In the trading portfolio, the writing of call options provides some protection against a fall in market prices as it generates income to partially compensate for a fall in capital values. Options are only written against securities that are held in the trading portfolio.

Under Accounting Standards, movements in the market value of the trading portfolio are reflected directly through the Income Statement. However, the trading portfolio is never permitted to be more than 10% of the total value of the Group's holdings and is usually at much lower levels than this. As at 30 June 2008, it was 2.51% of the total invested including cash (2007: 2.23%). This reduces the risk to the Group's earnings of a short-term fall in the value of securities held in the trading portfolio.

24. Dividends	**2008 $'000**	**2007 $'000**
(a) Dividends paid during the year		
Final dividend for the year ended 30 June 2007 of 13 cents fully franked at 30% paid on 22 August 2007 (2007: 10.5 cents fully franked at 30% paid on 23 August 2006).	124,745	97,824
Interim dividend for the year ended 30 June 2008 of 8.0 cents per share fully franked at 30%, paid 27 February 2008 (2007: 8.0 cents fully franked at 30% paid 8 March 2007)	77,153	76,515
	201,898	174,339
Dividends paid in cash or reinvested in shares under the dividend reinvestment plan		
Paid in cash	156,508	134,262
Reinvested in shares	45,390	40,077
	201,898	174,339
b) Franking credits		
Opening Balance of Franking Account at 1 July	62,578	46,510
Franking Credits on Dividends Received	74,328	69,885
Tax Paid during the year	19,021	20,900
Franking Credits paid on Ordinary Dividends paid	(86,528)	(74,717)
Loss of Franking Credits under 45 Day Rule	-	-
Closing Balance of Franking Account	**69,399**	**62,578**
Adjustments for tax payable in respect of the current year's profits and the receipt of dividends recognised as receivables	81,791	20,008
Adjusted Closing Balance	**151,190**	**82,586**
Impact on the franking account of dividends declared but not recognised as a liability at the end of the financial year:	(54,013)	(53,462)
Net available	**97,177**	**29,124**
These franking account balances would allow the Group to frank additional dividend payments up to an amount of:	226,746	67,956

The Group's ability to continue to pay franked dividends is dependent upon the receipt of franked dividends from the trading and investment portfolios and the Group paying tax.

(c) Dividends declared after balance date

	$'000
Since the end of the year Directors have declared a final dividend of 13 cents per share fully franked at 30%. The aggregate amount of the final dividend for the year to 30 June 2008 to be paid on 25 August 2008, but not recognised as a liability at the end of the financial year	126,031

(d) Listed Investment Company capital gain account	**2008 $'000**	**2007 $'000**
Balance of the Listed Investment Company (LIC) capital gain account	148,360	20,949
This would equate to an attributable amount of	211,943	29,927

Distributed LIC capital gains may entitle certain shareholders to a special deduction in their taxation return, as set out in the dividend statement.

LIC capital gains available for distribution are dependent upon the disposal of investment portfolio holdings which qualify for LIC capital gains or the receipt of LIC distributions from LIC securities held in the portfolios.

25. Earnings per share

Basic Earnings per Share	**2008**	**2007**
	Number	**Number**
Weighted average number of ordinary shares used as the denominator	965,213,204	947,117,861
	$'000	**$'000**
Profit for the year	416,141	259,341
	Cents	**Cents**
Basic earnings per share	43.11	27.38
Basic net operating profit before net gains on investment portfolio per Share		
	$'000	**$'000**
Net operating profit before net gains on investment portfolio	205,054	224,398
	Cents	**Cents**
Basic net operating profit per share	21.24	23.69

Dilution

As there are no options, convertible notes or other dilutive instruments on issue, diluted earning per share is the same as basic earnings per share. This similarly applies to diluted net operating profit per share.

26. Directors and Executives

The sub-totals of Remuneration for the Directors and Executives are as follows :

	Short-term benefits $	Post-employment benefits $	Share-based payments $	Total $
2008				
Non-executive Directors (Parent & Consolidated)	484,400	43,600	-	528,000
Executives (Consolidated Only)	2,802,218	237,548	586,709	3,626,475
	3,286,618	281,148	586,709	4,154,475
2007				
Non-executive Directors (Parent & Consolidated)	132,992	347,008	-	480,000
Executives (Consolidated Only)	2,255,905	205,215	470,621	2,931,741
	2,388,897	552,223	470,621	3,411,741

Detailed remuneration disclosures are provided in the Remuneration Report.

The Group does not make loans to Directors or Executives.

During the current financial year the following numbers of AFIC shares were purchased as part of the Short Term Incentive Plan based on an assessment of performance:

	2008 Number	**2007 Number**
RE Barker	22,509	26,186
GN Driver	8,177	5,275
AJB Porter	7,883	4,832
SE Crook	3,642	5,377
Shares awarded during the year	42,211	41,670

Set out below is a summary of AFIC shares awarded but not yet vested under the Executive Long Term Incentive Plan and under the Chief Investment Officer's commencement arrangements :

Award date	**Assessment period**	**Balance at start of the year Number**	**Awarded during the year Number**	**Vested during the year Number**	**Lapsed during the year Number**	**Balance at end of the year Number**
Mar 2004	Apr 08 - Mar 09	56,166	-	14,041	-	42,125
Oct 2004	Nov 08 - Oct 09	29,485	-	-	-	29,485
Apr 2005	May 09 – Apr 10	9,130	-	-	-	9,130
Oct 2005	Nov 09 – Oct 10	28,995	-	-	-	28,995
Mar 2006	Apr 10 – Mar 11	17,391	-	-	-	17,391
Aug 2006	Sept 10 – Aug 11	15,484	-	-	-	15,484
Oct 2006	Nov 10 – Oct 11	26,186	-	-	-	26,186
Feb 2007*	N/A	70,000	-	23,334	-	46,666
Aug 2007		-	42,211	-	-	42,211
Total		252,837	42,211	37,375	-	257,673

* These shares relate to commencement arrangements for the Chief Investment Officer, and will vest over 3 years.

- The maximum number of shares that may vest is as above. The minimum is nil.

Shareholdings

At balance date, shares issued by the Group and held directly, indirectly or beneficially by non-executive directors and executives of the Group, or by entities to which they were related were:

	Opening balance	Received as remuneration	Other changes	Closing balance	Subject to vesting
BB Teele	1,761,329	-	-	1,761,329	-
DR Argus	412,375	-	8,500	420,875	-
RE Barker	651,797	45,018	3,990	700,805	140,192
TA Campbell	198,020	-	15,833	213,853	-
J Paterson	207,163	-	-	207,163	-
FD Ryan	83,520	-	-	83,520	-
SDM Wallis	163,900	-	-	163,900	-
CM Walter	100,449	-	-	100,449	-
GN Driver	100,707	16,354	1,585	118,646	40,656
RM Freeman	82,944	-	2,801	85,745	46,666
AJB Porter	26,810	15,766	11	42,587	21,140
SE Crook	124,569	7,284	700	132,553	9,019

Note: Shareholdings do not include shares that were purchased during the year ended 30 June 2009 as part of remuneration for the year ending 30 June 2008. Shareholdings do include amounts that are subject to vesting.

Other arrangements with non-executive directors

Non Executive Directors Fergus Ryan, Stan Wallis and Catherine Walter rent office space from the Group at commercial rates with effect from 6 March 2006. Sub-lease rental income (included in revenue) received by the Group during the year was :

(Consolidated Only)	2008 $	2007 $
FD Ryan	12,569	12,136
SDM Wallis	20,503	19,480
CM Walter	19,875	18,734
	52,947	50,350

27. Employee information

	2008	2007
Employee numbers	**Number**	**Number**
Number of employees at balance date	17	14

Employee share scheme

The Group has established a formal process for awarding up to $1,000 worth of fully-paid ordinary shares for each completed year of service to employees not participating in the ELTIP. During the current financial year the 7 participants (2007: 6) in the scheme were each awarded 208 shares (2007: 187) in the Group. These shares cost the Group $6,989 (2007: $5,979) to acquire on market, including brokerage.

28. Related parties

All transactions with deemed related parties were made on normal commercial terms and conditions and approved by independent Directors.

Director TA Campbell had or has an interest in the following transactions as Director, employee and shareholder of Goldman Sachs JBWere Group Holdings Pty Ltd, Goldman Sachs JBWere Pty Ltd, Goldman Sachs JBWere Services Pty Ltd and Goldman Sachs JBWere Capital Markets Limited.

		Consolidated		Parent entity	
		2008 $'000	2007 $'000	2008 $'000	2007 $'000
(a)	The Group invests surplus funds in deposits at call with Goldman Sachs JBWere				
	- interest revenue received or receivable	11,963	787	11,878	770
	- deposits at call (at balance date)		-		-
	- funds invested in Goldman Sachs JB Were A$ Cash Reserves Fund	261,072	9,741	259,283	8,553
(b)	The management of surplus funds was outsourced for part of last year to Goldman Sachs JB Were Capital Markets Ltd				
	- expense paid or payable for management of the cash and bill portfolio	-	18	-	18
(c)	The Group obtained investment advice and buys and sells securities through Goldman Sachs JBWere Pty Ltd amongst other brokers				
	- Brokerage expenses paid or payable	322	735	322	735
	- Portfolio advice services paid or payable	-	44	-	44
(d)	The Group obtains the following services from Goldman Sachs JBWere Pty Ltd				
	- Computer services	275	175	-	-

Director FD Ryan is a non-executive Director of the Commonwealth Bank of Australia, who are one of the Group's bankers. Details of the cash advance facilities are found in Note 6. During the year, the following amounts were paid or payable to the Commonwealth Bank of Australia :

	Fees and Net Interest	3,279	4,807	3,281	4,817

The below transactions were with AICS, the sole subsidiary of the Group.

(a)	Administration expenses paid during the year	-	-	4,234	3,544
(b)	Loan outstanding at balance date	-	-	-	200

The below transactions were with Djerriwarrh Investments Ltd as a minority interest holder in the Company's subsidiary.

(a)	Administration expenses charged the year	1,453	n/a	-	-

29. Remuneration of auditors	Consolidated 2008	2007	Parent 2008	2007
	$	$	$	$
During the year the auditor earned the following remuneration:				
PricewaterhouseCoopers				
Audit or review of financial reports	176,595	151,800	151,745	118,800
Non-Audit Services				
Taxation compliance services	76,978	23,100	76,978	23,100
Other taxation services	5,170	5,390	-	5,390
Other assurance services #	6,500	47,575	-	40,975
Total Non-Audit Services	88,648	76,065	76,978	69,465
Total remuneration	265,243	227,865	228,723	188,265

The other assurance service relates to work regarding an examination of the Group's risk management systems (in 2007) and its compliance with its Australian Financial Services Licence obligations.

The Group's Audit Committee oversees the relationship with the Group's External Auditors. The Audit Committee reviews the scope of the audit and the proposed fee. It also reviews the cost and scope of other audit related tax compliance services provided by the audit firm to ensure they do not compromise independence. Other non-audit services would not normally be provided by the external audit firm. However, if for special reasons such services were to be proposed, the Audit Committee would review the proposal to also ensure they did not affect the independence of the external audit function. The Group also conforms to legal requirements regarding audit partner rotation every 5 years.

30. Reconciliation of net cash flows from operating activities to profit

	Consolidated		Parent entity	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Profit for the year	416,141	259,341	415,965	259,329
- Add back depreciation	102	102	102	102
- Net decrease (increase) in trading portfolio	2,880	(27,658)	2,880	(27,658)
- Net capital (gains) before tax	(291,464)	(37,496)	(291,464)	(37,496)
- Dividends received as securities under DRP investments	(5,499)	(4,727)	(5,499)	(4,727)
- Accounting adjustment for tax on scrip-for-scrip	16,663	-	16,663	-
- Decrease (increase) in current receivables	(6,251)	3,756	(6,182)	3,610
- Less increase (decrease) in receivables for investment portfolio	(4,036)	(1,196)	(4,036)	(1,196)
- Less loan repaid from subsidiary	-	-	(200)	-
- Increase (decrease) in deferred tax liabilities	(299,691)	334,887	(299,420)	335,111
- Less (increase) decrease in deferred tax liability on investment portfolio	290,247	(330,882)	290,247	(330,882)
- Less (credit) charge for income tax on gain or loss on hybrid securities	(984)	(2,899)	(984)	(2,899)
- Increase (decrease) in current payables	(8,416)	6,858	(8,512)	6,715
- Less decrease (increase) in payables for investment portfolio	7,803	(7,429)	7,803	(7,429)
- Less (increase) decrease in dividends payable	(57)	(78)	(57)	(78)
- Increase (decrease) in provision for tax payable	60,172	(3,507)	60,148	(3,736)
- Add taxes paid on capital gains	8,471	9,455	8,471	9,455
- Movement in ELTIP account	116	(398)	116	(398)
- Increase (decrease) in other provisions	603	344	-	(384)
Net cash flows from operating activities	186,800	198,473	186,041	197,439

31. Performance Bond

The Group's subsidiary, AICS, has under the terms of its Australian Financial Services License in place a performance bond to the sum of $20,000 underwritten by the Commonwealth Bank of Australia in favour of the Australian Securities and Investment Commission ("ASIC"), payable on demand to ASIC.

32. Contingencies

At balance date Directors are not aware of any material contingent liabilities or contingent assets other than those already disclosed elsewhere in the financial report.

33. Lease commitments

The Group has entered into a non-cancellable operating lease for the use of its premises for 6 and half years with three further options of 4 years. Commitments relating to leases at balance date, but not recognised as a liability:

	Consolidated		Parent entity	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Due within one year	454	412	454	412
Later than one year but less than five	1,439	1,893	1,439	1,893
Greater than five years	-	-	-	-
	1,893	2,305	1,893	2,305

34. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy noted in Note 1 b) **:**

Name of entity	Country of Incorporation	Class of shares	Equity holding	
			2008	2007
Australian investment Company Services Ltd	Australia	Ordinary	75%	100%

The investment in AICS is accounted for at cost in the individual financial statements of AFIC.

35. Share based payments

The Group has a number of share incentive arrangements, these are accounted for in accordance with note 1 h). Where shares are issued to employees of AICS, AICS compensates AFIC for the fair value of the shares.

(a) Executive Incentive Plans

The executives' remuneration arrangements incorporate an 'at risk' component as set out in the remuneration report. Part of this 'at risk' component is paid in shares in the Group. The plans are summarised below, further details can be found in the remuneration report and note 16.

(i) Short Term Incentive Plan
As set out in the remuneration report the amount of shares awarded to executives depends on performance assessed against a number of quantitative measures, being: total shareholder return; total portfolio return; growth in earnings per share; and management expense ratio. Assessment is also made against a number of qualitative measures.

These shares are subject to a two year holding lock.

(ii) Executive Long Term Incentive Plan
Shares awarded under the long term incentive plan are acquired on market. The award of shares to participants is made for no consideration. The shares are subject to a holding lock for a minimum of four years during which time the executive will be entitled to receive dividends and hold voting rights.

Between year four and year five, an assessment of the Group's performance is made each month to determine the Total Portfolio Return of the Group against the S&P/ASX200 Accumulation Index Return, and the Total Portfolio Return of the Group against the survey of Australian Retail Fund Managers over the previous 48 months (from month of assessment).

Shares will vest based on the highest cumulative performance class achieved during this assessment period. If after five years full vesting does not occur, the shares that have not been awarded will lapse and be transferred back to the Group for no consideration. These shares will then be cancelled.

Details of the movements on ELTIP shares in the period are set out in note 16.

(b) Employee Share Scheme

The Group has established a formal process for awarding up to $1,000 worth of fully-paid ordinary shares for each completed year of service to employees not participating in the ELTIP. During the current financial year 7 participants (2007: 6) in the scheme were each awarded 208 shares (2007: 187).

(c) Other Share Based Payments

From time to time the Group may remunerate executives or employees in shares. These shares may be subject to a holding lock or vesting conditions, and would be purchased on-market.

(d) Expenses arising from share based payment transactions

Total expenses arising from share based payment transactions recognised during the period as part of the employee benefit expense (including the expense for the ELTIP) were as follows:-

	Consolidated		Parent Entity	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Share-based payment expense	638	482	-	-

(e) Liability

The total liability arising from share based payment transactions is disclosed in note 12.

PRICEWATERHOUSECOOPERS

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Independent auditor's report to the members of Australian Foundation Investment Company Limited

Report on the financial report

We have audited the accompanying financial report of Australian Foundation Investment Company Limited (the company), which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both Australian Foundation Investment Company Limited and the Australian Foundation Investment Company Group (the consolidated entity). The consolidated entity comprises the company and the entity it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the 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 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. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies 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. These Auditing 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 and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

For further explanation of an audit, visit our website http://www.pwc.com/au/financialstatementaudit.

PRICEWATERHOUSECOOPERS

Independent auditor's report to the members of Australian Foundation Investment Company Limited (continued)

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of Australian Foundation Investment Company Limited is in accordance with the *Corporations Act 2001*, including:

    (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and

    (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001;* and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2008. 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.

Auditor's opinion

In our opinion, the Remuneration Report of Australian Foundation Investment Company Limited for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001.*

PricewaterhouseCoopers

PricewaterhouseCoopers

David Coogan
Partner

Melbourne
28 July 2008