

# **DIVERSIFIED UNITED INVESTMENT LIMITED**

ABN 33 006 713 177

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## **APPENDIX 4E STATEMENT FOR THE YEAR ENDED 30 JUNE 2020**

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- Results for announcement to the market
- Letter to Australian Securities Exchange
- Financial Statements
- Independent Audit Report

Authorised for release by A J Hancock, Company Secretary

# RESULTS FOR ANNOUNCEMENT TO THE MARKET

The reporting period is the year ended 30 June 2020 with the prior corresponding period being the year ended 30 June 2019.

This report is based on audited financial statements. A copy of the audit report can be found on page 32 of the financial report.

## Results for announcement to the market

- Revenue from ordinary activities was \$36.9 million, a fall of 18.8% from the prior year.
- Profit after tax and before net realised and unrealised losses/gains on the investment portfolio was \$30.1 million, a decrease of 20.9% from the prior year. Net realised investment gains and losses on the direct investment portfolio are recorded in the Asset Realisation Reserve.
- Profit after tax includes special dividends and capital gains distributed from managed funds of \$2,448,000. (Last year: \$4,653,000). Excluding these items revenue fell 17.1%\* and profit after tax fell 17.2%\*.
- Earnings per share based on profit after tax fell 21.5% to 14.2 cents. Excluding the special dividends and capital gains received, earnings per share fell 17.6%\* to 13.1 cents\*. The weighted average number of ordinary shares for the year was 211,502,436 as against 210,464,960 in the prior year, an increase of 0.5%.
- The final dividend is 8.5 cents per share (8.5 cents for the prior year) fully franked, making total dividends for the year 15.5 cents fully franked, unchanged from 15.5 cents fully franked in the prior year. The final dividend is payable on 22 September 2020. The record date for determining entitlement to the final dividend is 3 September 2020.
- The final dividend will not include any Listed Investment Company capital gain dividend.
- The Company operates a Dividend Reinvestment Plan ("DRP") under which shareholders may elect to have all or part of their dividend payment reinvested in new ordinary shares. Pricing of the new DRP shares will be at the volume weighted average selling price of shares traded on the Australian Securities Exchange on the Dividend ex date of 2 September 2020 and the following four business days, without any discount. The last day for receipt of an election notice for participation in the plan is 4 September 2020.
- The net tangible asset backing per share based on the market valuation of investments was \$4.45 at 30 June 2020, compared to \$4.82 at the end of the prior year, a fall of 7.7%. These calculations are after tax on net realised gains, before any future tax benefit of net realised losses, before estimated tax on net unrealised gains/losses, and before provision for the final dividend.

\* Additional non IFRS information.

**DIVERSIFIED UNITED INVESTMENT LIMITED**

ABN 33 006 713 177

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AUSTRALIA

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18 August 2020

The General Manager  
Australian Securities Exchange Ltd  
10<sup>th</sup> Floor  
20 Bond Street  
Sydney NSW 2000

Dear Sir,

**Financial Results and Dividend Announcement**  
**for the Financial Year Ended 30 June 2020**

The Directors make the following report concerning the Company's performance and final dividend.

**Profit and Realised Capital Gains**

Profit after income tax for the year ended 30 June 2020 was \$30,070,000 (last year: \$38,018,000) a fall of 20.9%.

Profit after income tax includes special dividends received and capital gains distributed from managed funds in which the Company invests of \$2,448,000 (last year: \$4,653,000). Excluding these items profit after tax fell 17.2%\*.

Excluding the special dividends and capital gains distributions, the Company's revenue fell 17.1% on last year. During the second half of the financial year the COVID-19 pandemic affected the operations and outlook for many of the investee companies and a number of dividends and distributions were deferred, reduced or cancelled.

The profit for the year excludes net realised gains and losses on the Company's direct investment portfolio which are transferred directly to the Asset Realisation Reserve. The net realised losses on the investment portfolio after tax for the year were \$1,561,000 (last year: losses of \$2,148,000).

Operating expenses (excluding interest) were 0.13% of the average market value of the portfolio (last year: 0.12%). Including the management fees of the International Exchange Traded Funds and Managed Funds in which the Company is invested, the expense ratio was 0.17% (last year: 0.16%).

**Earnings Per Share**

Earnings per share fell 21.5% to 14.2 cents per share, or 17.6% to 13.1 cents\* excluding the special dividends and capital gains received as income.

The weighted average number of ordinary shares for the year was 211,502,436 against 210,464,960 last year, an increase of 0.5%.

\* Additional non IFRS information.

**Dividends and Franking**

The Directors have declared a final dividend of 8.5 cents per share fully franked at 30% to shareholders registered on 3 September 2020, to be paid on 22 September 2020. The comparable 2019 final dividend was 8.5 cents per share fully franked at 30%. Together with the interim dividend of 7.0 cents per share, total dividends for the year are 15.5 cents per share fully franked, compared to 15.5 cents per share fully franked last year.

The directors have decided to maintain the final dividend even though total dividends for year ended 30 June 2020 are not covered by earnings in the year. Over the previous years, the Company has accumulated retained earnings, particularly by the retention of special dividends received. A modest drawdown of retained earnings has been made to maintain the final dividend. The Company has adequate franking credits to fully frank the final dividend.

Due to the continuing economic effects of the COVID-19 pandemic, the Company expects a further reduction in dividend income in the current financial year ending 30 June 2021. The Company will assess the dividend policy for the year ended 30 June 2021, having regard to the actual earnings outcome and the medium term earnings and future outlook.

**LIC Capital Gains**

The final dividend will not include any Listed Investment Company capital gain dividend.

**Dividend Reinvestment Plan**

The Company operates a Dividend Reinvestment Plan ("DRP") under which shareholders may elect to have all or part of their dividend payment reinvested in new ordinary shares. Pricing of the new DRP shares will be at the volume weighted average selling price of shares traded on the Australian Securities Exchange on the Dividend ex date of 2 September 2020 and the four business days immediately following that date, without any discount. The last day for the receipt of an election notice for participation in the plan is 4 September 2020.

**Asset Backing**

The net tangible asset backing per share based on the market valuation of investments was \$4.45 at 30 June 2020 and \$4.39 at 31 July 2020. These calculations are after tax on net realised gains, before any future tax benefit of net realised losses, before estimated tax on net unrealised gains and losses, and before provision for the final dividend.

The Company is a long term investor and does not intend disposing of its total portfolio. If estimated tax on net unrealised gains were to be deducted, the above figures would be \$3.80 at 30 June 2020 and \$3.75 at 31 July 2020.

**Asset Allocation**

At 30 June 2020, 78.4% of the portfolio was invested in Australian equities, and 17.9% in international equities principally through Exchange Traded Index Funds, and through some managed funds. Cash and short term receivables were 3.7%.

At 30 June 2020 bank facilities were \$115M drawn as to \$72.5M (30 June 2019 \$115M drawn as to \$95M) and cash and net short term receivables were \$38.1M (30 June 2019 \$80M).

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**Performance**

The Company's net asset backing accumulation performance (assuming all dividends paid by the Company were reinvested in its shares, and after all expenses and tax) for the year to 30 June 2020 was a fall of 4.7% while the S&P/ASX 200 accumulation index declined by 7.7% over the same period. The Company's accumulation performance is after all expenses, tax, and the impact of the Company's gearing. Such items are not included in the S&P/ASX index.

Including the benefit of franking credits for shareholders who can fully utilise them, the Company's accumulation return for the year to 30 June 2020 was a fall of 3.6% compared to a fall of 6.6% in the S&P/ASX 200 franking credit adjusted return.

The Company's performance for the year was assisted by overweight positions in healthcare stocks (including CSL), consumer stocks and Transurban. Performance was held back by overweight positions in the energy sector and underweight positions in the strongly performing technology and gold sectors. In Australian dollar terms the international portfolio also contributed significantly to outperformance.

**Annual General Meeting**

The Annual General Meeting of the Company will be held as a virtual meeting on Thursday 15 October 2020 at 9.00 am. Further details will be announced closer to the date of the meeting. Nominations for elections of directors will close at 5.00pm on Monday, 31 August 2020.

**Outlook**

As the effects of the COVID-19 pandemic unfold the outlook for economies and businesses remains uncertain. Financial markets are likely to remain volatile and dependant on central bank and government actions, and the success or otherwise of the containment of COVID-19. It can be expected that company profits and dividend distributions will in aggregate be at significantly lower levels for the financial year to 30 June 2021.

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**Investment Portfolio**

As at 30 June 2020 the twenty-five largest shareholdings of the Company, at market values were:

<b><i>Australian Equities</i></b>	<b><i>Market Value \$'000</i></b>	<b><i>%Market Value of Total Investments</i></b>
CSL Ltd	162,155	15.9%
Transurban Group	77,715	7.6%
Commonwealth Bank of Australia Ltd	69,420	6.8%
Rio Tinto Ltd	46,041	4.5%
BHP Group Ltd	42,984	4.2%
Westpac Banking Corporation Ltd	42,236	4.2%
Australia & New Zealand Banking Group Ltd	37,280	3.7%
Atlas Arteria Ltd	33,100	3.3%
Woodside Petroleum Ltd	26,630	2.6%
Sydney Airport	20,979	2.1%
National Australia Bank Ltd	20,315	2.0%
Wesfarmers Ltd	19,725	1.9%
Washington H Soul Pattinson & Company Ltd	19,530	1.9%
Woolworths Group Ltd	18,640	1.8%
Ramsay Health Care Ltd	16,963	1.75
Sonic Healthcare Ltd	15,215	1.5%
Resmed Inc	13,770	1.4%
Computershare Ltd	13,250	1.3%
<b><i>Total Australian Equities in Top 25:</i></b>	<b>695,948</b>	<b>68.4%</b>
<b><i>International Equities</i></b>		
Vanguard US Total Market Shares Index ETF	35,271	3.5%
Vanguard All-World Ex-US Shares Index ETF	34,990	3.4%
Vanguard Information Technology Index ETF	29,934	2.9%
iShares TR MSCI USA Min Vol Index ETF	21,750	2.1%
Northcape Capital Global Emerging Market Fund	16,749	1.8%
iShares Global Healthcare Index ETF	14,771	1.5%
Vanguard FTSE Developed European Ex UK Index ETF	10,666	1.0%
<b><i>Total International Equities in Top 25:</i></b>	<b>164,131</b>	<b>16.1%</b>
<b>Total Top 25 Australian &amp; International Equities</b>	<b>860,079</b>	<b>84.6%</b>
<b>Total Investments at Market Value, Net Short Term Receivables and Cash</b>	<b>1,017,207</b>	

Yours faithfully,

**A J Hancock**  
Company Secretary

**DIVERSIFIED UNITED INVESTMENT LIMITED**  
**(ABN 33 006 713 177)**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED 30 JUNE 2020**

# DIVERSIFIED UNITED INVESTMENT LIMITED

## *Directors' Report*

The directors of Diversified United Investment Limited present their Directors' Report together with the financial report for the financial year ended 30 June 2020 and the auditor's report thereon.

### **Directors**

The directors of the Company at any time during or since the end of the financial year are:

**Charles Goode** AC, B.Com (Hons) (Melb), MBA (Columbia), Hon LLD (Melb), Hon LLD (Mon)  
Non-Executive Chairman  
Appointed Chairman September 1991

Mr Goode is the Chairman of the Boards of Australian United Investment Company Limited (since 1990), The Ian Potter Foundation Limited (Governor since 1987, Chairman since 1994) and is Chairman Emeritus of Flagstaff Partners Pty Ltd (having been Chairman 2010 – 2019). Mr Goode was formerly a director of Australia and New Zealand Banking Group Limited (1991 – 2010, Chairman 1996 – 2010) and Woodside Petroleum Limited (1988 – 2007, Chairman 1999 – 2007).

**Anthony Burgess** B.Com (Hons) (Melb), MBA (Dist'n) (Harvard), CPA, F.Fin  
Non-Executive Director  
Appointed September 2008

Mr Burgess has over 35 years' experience in corporate finance in Melbourne, London and New York. He is Chairman of Flagstaff Partners Pty Ltd (having been Chief Executive Officer 2010 – 2019), an independent corporate finance advisory firm. He was formerly Global Co-Head of Mergers and Acquisitions at Deutsche Bank AG, based in London. He is a director of Gandel Group Pty Ltd (since 2018) and is a Governor of The Ian Potter Foundation Limited (since 2013), Chairman of the Foundation for Business and Economics at the University of Melbourne (since 2010), a Director of the Melbourne Business School Limited (since 2013) and a member of the Board of Management of the Melbourne Theatre Company (since 2015).

**Stephen Hiscock** B.Com (Melb), M.App.Fin (Macq), F.Fin  
Non-Executive Director  
Appointed November 2011

Mr Hiscock is Chairman and a founding shareholder of SG Hiscock & Company Ltd (SGH), a fund manager specialising in Australian Equities, REITs and Individually Managed Portfolios. Prior to setting up SGH, Mr Hiscock was Chief Investment Officer, National Asset Management Ltd (NAM), a subsidiary of National Australia Bank Ltd and he was also the Chairman of their Asset Allocation Committee. Prior to that he was the Head of NAM's Australian Equities team (for 5 years) and the Head of NAM's Property Team. He is the Chairman of the Company's Nomination and Remuneration Committee.

**Andrew Larke** LLB (Melb), B.Com (Melb), Grad Dip (Corporations & Securities Law) (Melb)  
Non-Executive Director  
Appointed March 2015

Mr Larke is Chairman of L1 Long Short Fund Ltd (since 2018) and of IXOM (a leading Australasian chemicals business), and is a Non-Executive Director of DuluxGroup Ltd (since 2010). Formerly he held senior corporate strategy roles in Orica Ltd and North Ltd and has been involved in mergers, acquisitions and divestments as well as corporate advisory for over 27 years. He is Chairman of the Company's Audit and Risk Management Committee.



# DIVERSIFIED UNITED INVESTMENT LIMITED

## *Directors' Report (Continued)*

### **Company Secretaries**

**Andrew Hancock** FCA, B.Ec (Mon), Grad. Dip. CDP (RMIT)

Company Secretary

Appointed September 1991

Mr Hancock is also a Company Secretary of Australian United Investment Company Limited (since 1995), has served as Chairman and is currently Secretary of the Australian Listed Investment Companies Association.

**James Pollard** CA, B.BusCom (Mon), Grad Cert FP (Kaplan)

Company Secretary

Appointed February 2020

Mr Pollard is also a Company Secretary of Australian United Investment Company Ltd (since 2020), and has over a decade of experience in accounting, taxation and private wealth advisory.

# DIVERSIFIED UNITED INVESTMENT LIMITED

## *Directors' Report (Continued)*

### ***Operating and Financial Review***

The principal activity of the Company is to take a medium to long term view and to invest in Australian equities, listed property trusts and international equities (through exchange traded index funds and unlisted managed funds). The target range for allocation to international equities is 10-20% of the portfolio. Investments may also be made from time to time in interest bearing securities and convertible notes. The directors have sought to invest in a diversified portfolio of investments with the objective of obtaining current income and longer term capital gain within an acceptable level of risk. There has been no significant change in the nature of the Company's activities during the financial year.

The Company's investment portfolio was affected in the second half of the financial year by the COVID-19 pandemic. The market value of the investment portfolio has been volatile and revenue has been reduced by the fall in dividend and distribution income from the Company's investments. Day to day operations have not been significantly affected.

For the year ended 30 June 2020 profit after tax before net gains and losses on the investment portfolio was \$30,070,000 (compared to \$38,018,000 in 2019) – a decrease of 20.9%.

The profit after tax includes special dividends and capital gains distributed by managed funds in which the Company invests. In 2020 these items totalled \$2,448,000 after tax (2019: \$4,653,000). If these items are excluded, profit decreased by 17.2%.

Excluding the special dividends and capital gains distributions, revenue fell 17.1%.

The weighted average number of ordinary shares for the year was 211,502,436 as against 210,464,960 in the previous year, an increase of 0.5%.

The earnings per share was 13.1 cents excluding special dividends and distributed capital gains (2019: 15.9 cents), or 14.2 cents including these items (2019: 18.1 cents).

At 30 June 2020 Australian equities accounted for 78.4%, international equities 17.9% and cash and short term receivables 3.7% of the market value of the portfolio. The foreign exchange currency exposure is currently unhedged.

The net tangible asset backing of each of the Company's shares at 30 June 2020 was \$4.45 (2019: \$4.82). This net tangible asset backing calculation is based on investments at market value and is after tax on net realised gains, before any future tax benefit of net realised losses, and before estimated tax on net unrealised gains and losses, and before provision for the Company's final dividend. The Company is a long term investor and does not intend disposing of its total portfolio. If, however, estimated tax on net unrealised portfolio gains were to be deducted, the net tangible asset backing per share would have been \$3.80 (2019: \$4.06).

Bank facilities as at 30 June 2020 were \$115,000,000, drawn as to \$72,500,000 (2019: \$115,000,000, drawn as to \$95,000,000). Gross debt as a proportion of the portfolio including cash was 7.1% (2019: 8.5%). Cash on hand, cash deposits and net short term receivables were \$38,058,000, or 3.7% of the investment portfolio at market values (2019: \$80,398,000 or 7.2%). Net debt as a proportion of the portfolio excluding cash was 3.5% (2019: 1.4%). Annual interest expense was covered 12.7 times by profit before interest and tax (2019: 11.2 times).

During the year the accumulation performance of the Company's net asset backing (before provision for tax on unrealised gains) was a fall of 4.7%, compared to the S&P/ASX 200 Accumulation Index fall of 7.7%.

Dividends declared by the Company for the 2020 financial year total 15.5 cents per share fully franked (2019: 15.5 cents per share fully franked).

# DIVERSIFIED UNITED INVESTMENT LIMITED

## Directors' Report (Continued)

It is the Directors' intention to continue to invest in a portfolio of listed Australian equities and international equities (through exchange traded index funds and some unlisted managed funds) for long term capital gain and current income. The risks to which the Company is exposed are set out in Notes 20 and 21 to the Financial Statements.

The composition of the profit after income tax was:

	2020 \$'000	2019 \$'000
<b>REVENUE FROM INVESTMENT PORTFOLIO</b>		
Dividends	25,205	33,517
Trust Distributions	5,485	7,685
Foreign Income	5,676	3,713
Interest	328	541
Option Premium Income	167	-
Other	32	-
	<b>36,893</b>	<b>45,456</b>
<b>EXPENSES</b>		
Administration and other expenses:		
Administration, Company Secretarial and Insurance	439	361
Accounting and Custody Fees	204	202
ASIC Fees	50	39
ASX Fees	136	121
Audit	52	52
Directors' Fees	435	420
Share Registry	61	61
Finance Costs:		
Interest	2,802	3,935
	<b>4,179</b>	<b>5,191</b>
Profit before income tax expense and net gains and losses on investment portfolio	32,714	40,265
Income tax expense	(2,644)	(2,247)
<b>Profit before net gains and losses on investment portfolio</b>	<b>30,070</b>	<b>38,018</b>

Expenses (excluding finance costs) were 0.13% of the average market value of the investment portfolio (2019: 0.12%). Including the management fees of the International Exchange Traded Funds and Managed Funds in which the Company was invested during the year, the expense ratio was 0.17% (2019: 0.16%).

# DIVERSIFIED UNITED INVESTMENT LIMITED

## Directors' Report (Continued)

### Dividends

Dividends paid or declared by the Company to members since the end of the previous financial year were:

	\$ '000
<b>Paid or declared during the year</b>	
A final dividend in respect of the year ended 30 June 2019 of 8.5 cents per share fully franked at 30% payable on 20 September 2019.	17,932
An interim dividend in respect of the year ended 30 June 2020 of 7.0 cents per share fully franked at 30% paid on 16 March 2020.	14,805
<b>Paid or declared after end of year</b>	
A final dividend in respect of the year ended 30 June 2020 of 8.5 cents per share fully franked at 30% payable on 22 September 2020.	18,011

### Directors' Meetings

The number of directors' meetings held (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the financial year were:

	Director's Meetings		Audit and Risk Management Committee Meetings		Nomination & Remuneration Committee Meetings	
	No. of Meetings attended	No. of Meetings eligible	No. of Meetings attended	No. of Meetings eligible	No. of Meetings attended	No. of Meetings eligible
Charles Goode	14	14	2*	2*	1	1
Anthony Burgess	14	14	1	2	1	1
Stephen Hiscock	13	14	2	2	1	1
Andrew Larke	13	14	2	2	1	1

\* In attendance – not a committee member.

The Audit and Risk Management Committee comprises Mr Larke (Chairman), Mr Burgess, and Mr Hiscock.

All members of the board are members of the Nomination and Remuneration Committee, which is chaired by Mr Hiscock.

# DIVERSIFIED UNITED INVESTMENT LIMITED

## Directors' Report (Continued)

### Directors' Interests

As at the date of this report the relevant interest of each director in the issued capital of the Company as notified by the directors to the Australian Securities Exchange in accordance with Section 205G(1) of the Corporations Act 2001 is as follows:-

Note	Shares		
	1	2	3
Charles Goode	2,519,784	4,112,026	140,000
Anthony Burgess	-	1,465,000	-
Stephen Hiscock	-	80,000	-
Andrew Larke	-	17,500	-

#### Note:

1. Beneficial in own name
2. Held by an entity/related party in which the director has a relevant interest
3. Held for the Director in accordance with the terms of the Non-Executive Directors 2006 Accrued Entitlements Share Plan

Except as stated above, no director -

- (a) has any relevant interest in shares of the Company or a related body corporate;
- (b) has any relevant interests in debentures of, or interests in a registered scheme made available by, the Company or a related body corporate;
- (c) has any rights or options over shares in, debentures of, or interests in a registered scheme made available by, the Company or a related body corporate;
- (d) is a party to a contract, or is entitled to a benefit under a contract, that confers a right to call for or deliver shares in, or debenture of or interests in a registered scheme made available by the Company or a related body corporate.

### Remuneration Report (audited)

	Non-executive Directors' Fees <sup>(1)</sup>					
	2020			2019		
	Fee \$	Superannuation \$	Total \$	Fee \$	Superannuation \$	Total \$
Charles Goode	158,904	15,096	174,000	153,425	14,575	168,000
Anthony Burgess	83,226	3,774	87,000	76,712	7,288	84,000
Stephen Hiscock	79,452	7,548	87,000	76,712	7,288	84,000
Andrew Larke	83,226	3,774	87,000	76,712	7,288	84,000
<b>Total</b>	<b>404,808</b>	<b>30,192</b>	<b>435,000</b>	<b>383,561</b>	<b>36,439</b>	<b>420,000</b>

(1) No additional fees are paid to members of the board committees.

The Nomination and Remuneration Committee reviews and makes recommendations to the board on remuneration packages and policies applicable to the Company Secretaries and directors of the Company including superannuation entitlements, retirement and termination entitlements, fringe benefits policies and professional indemnity policies. The Company's Key Management Personnel are the Directors and the Company Secretaries.

# DIVERSIFIED UNITED INVESTMENT LIMITED

## Directors' Report (Continued)

### Remuneration Report (audited) (continued)

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced directors. The Nomination and Remuneration Committee may seek independent advice on the appropriateness of remuneration packages, given trends in comparative companies and in light of Company activity and changing responsibilities. The remuneration structures are designed to attract suitably qualified candidates, and to affect the broader outcome of increasing the Company's net profit. Directors' fees are fixed and reviewed annually and the maximum total of directors' fees is set by the shareholders in general meeting, taking into account the Company's performance and market conditions.

The Company's performance in respect of the current financial year and the previous four financial years was:

	2020	2019	2018	2017	2016
Profit (\$ Millions)	30.1	38.1	34.6	32.8	30.5
Earnings per share (excluding special dividends and capital gains from managed funds) (cents per share)	13.1	15.9	15.5	14.3	14.6
Dividends (cents per share)	15.5	15.5	15.0	14.5	14.0
Net asset backing per share before tax on unrealised gains 30 June	\$4.45	\$4.82	\$4.47	\$4.00	\$3.53
Share Price 30 June	\$4.23	\$4.36	\$4.10	\$3.72	\$3.27
Management expense ratio	0.13%	0.12%	0.12%	0.12%	0.13%
Management expense ratio including managed funds fees	0.17%	0.16%	0.15%	0.15%	0.14%
Net asset backing accumulation return before tax on unrealised gains	(4.7%)	11.6%	15.8%	17.6%	0.0%
S&P/ASX 200 Index accumulation return	(7.7%)	11.6%	13.0%	14.1%	0.6%

Each director has entered into a Deed of Access, Indemnity and Insurance with the Company and is covered by the Company's Directors and Officers Liability Insurance. Refer to Note 16 of the financial statements for information relating to the insurance contracts. No director has entered into a material contract with the Company since the end of the previous financial year and there were no material contracts involving directors' interests existing at year end.

The services of the Company Secretaries, Mr Andrew J Hancock and Mr James A Pollard, are provided through an administrative services agreement with Australian United Investment Company Ltd. The amount of the fees paid which relate to the remuneration of the Company Secretaries is as follows:

	Fees paid	
	2020	2019
Andrew Hancock	113,000	-
James Pollard	74,500	-
<b>Total</b>	<b>187,500</b>	<b>-</b>

In 2019, the Company paid Mr Andrew J Hancock \$126,000 for services provided as Company Secretary.

# DIVERSIFIED UNITED INVESTMENT LIMITED

## *Directors' Report (Continued)*

### **Events Subsequent to Balance Date**

Other than as disclosed in the Financial Statements there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company, in future financial years.

### **Likely Developments**

The directors do not anticipate any particular developments in the operations of the Company which will affect the results of future financial years other than the value of the investment portfolio is expected to fluctuate broadly in line with market movements, and dividend and distribution revenue is expected to continue to be impacted by the effects of the Covid-19 pandemic on the earnings of and distributions from investee companies.

### **State of Affairs**

In the opinion of the directors, there were no significant changes in the state of affairs of the Company that occurred during the financial year under review.

### **Non-audit services**

During the year KPMG, the Company's auditor, has provided taxation services in addition to its statutory duties. KPMG received fees of \$10,531 (2019: \$10,429) for these services including GST.

The Board has considered the non-audit services provided during the year by the auditor and in accordance with written advice provided by resolution of the Audit and Risk Management Committee, is satisfied that the provision of those non-audit services is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were reviewed by the Audit and Risk Management Committee to ensure they do not affect the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

### **Environmental Regulation**

The Company's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation.

### **Indemnification**

Details of directors' indemnification are set out in Note 16 to the financial statements.

# DIVERSIFIED UNITED INVESTMENT LIMITED

## *Directors' Report (Continued)*

### ***Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001***

The lead auditor's independence declaration is set out on page 11 and forms part of the Directors' Report for the year ended 30 June 2020.

### ***Rounding of Amounts***

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, and in accordance with that instrument, amounts in the financial report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the directors:

Charles Goode  
Director

Dated at Melbourne this 18th day of August 2020





# Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Diversified United Investment Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Diversified United Investment Limited for the financial year ended 30 June 2020 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.



Chris Sargent

Partner

Melbourne

18 August 2020

**DIVERSIFIED UNITED INVESTMENT LIMITED**  
**Statement of Profit or Loss and Other Comprehensive Income**  
**for the year ended 30 June 2020**

	Note	2020 \$'000	2019 \$'000
Revenue from investment portfolio	2(a)	36,893	45,456
Administration and other expenses		(1,377)	(1,256)
Finance expenses	2(b)	(2,802)	(3,935)
<b>Profit before income tax</b>		<b>32,714</b>	<b>40,265</b>
Income tax expense	4(a)	(2,644)	(2,247)
<b>Profit</b>		<b>30,070</b>	<b>38,018</b>
<b>Other Comprehensive Income</b>			
<i>Items that will not be reclassified to profit or loss:</i>			
Revaluation of investment portfolio for the year		(74,866)	69,212
Provision for tax benefit/(expense) on revaluation for the year of the investment portfolio		21,565	(21,732)
<b>Other Comprehensive (Loss)/Profit net of income tax</b>		<b>(53,301)</b>	<b>47,480</b>
<b>Total Comprehensive (Loss)/Income</b>		<b>(23,231)</b>	<b>85,498</b>
Basic and diluted earnings per share (cents)	18	14.2	18.1

The Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the Notes to the Financial Statements set out on pages 16 to 30.

# DIVERSIFIED UNITED INVESTMENT LIMITED

## *Balance Sheet as at 30 June 2020*

	Note	2020 \$'000	2019 \$'000
<b>Assets</b>			
Cash assets	6	33,092	73,392
Receivables	7	5,019	7,009
Other	9	87	90
<b>Total Current Assets</b>		38,198	80,491
Investment portfolio	8	979,149	1,031,995
<b>Total Non-Current Assets</b>		979,149	1,031,995
<b>Total Assets</b>		1,017,347	1,112,486
<b>Liabilities</b>			
Payables	10	499	473
Current tax payable	4(c)	905	772
Borrowings – interest bearing	11	-	22,500
<b>Total Current Liabilities</b>		1,404	23,745
Provision for long service leave		-	50
Borrowings – interest bearing	11	72,500	72,500
Deferred tax liability	4(b)	139,193	160,315
<b>Total Non-Current Liabilities</b>		211,693	232,865
<b>Total Liabilities</b>		213,097	256,610
<b>Net Assets</b>		804,250	855,876
<b>Equity</b>			
Issued capital	13(a)	437,714	433,372
Reserves	13(b)	366,536	422,504
<b>Total Equity</b>		804,250	855,876

The Balance Sheet is to be read in conjunction with the Notes to the Financial Statements set out on pages 16 to 30.

# DIVERSIFIED UNITED INVESTMENT LIMITED

## *Statement of Changes in Equity for the year ended 30 June 2020*

	Issued Capital \$'000	Revaluation Reserve \$'000	Realisation Reserve \$'000	Retained Earnings \$'000	Total Equity \$'000
<b>As at 1 July 2018</b>	428,689	305,862	(3,746)	67,466	798,271
<b>Comprehensive Income</b>					
Revaluation of investment portfolio	-	69,212	-	-	69,212
Tax expense on revaluation	-	(21,732)	-	-	(21,732)
Net realised losses on investment portfolio	-	2,134	(2,134)	-	-
Tax benefit on net realised losses	-	14	(14)	-	-
Profit	-	-	-	38,018	38,018
	-	49,628	(2,148)	38,018	85,498
<b>Transactions with shareholders</b>					
Dividend reinvestment plan	4,683	-	-	-	4,683
Dividends	-	-	-	(32,576)	(32,576)
	4,683	-	-	(32,576)	(27,893)
<b>As at 30 June 2019</b>	433,372	355,490	(5,894)	72,908	855,876
	Issued Capital \$'000	Revaluation Reserve \$'000	Realisation Reserve \$'000	Retained Earnings \$'000	Total Equity \$'000
<b>As at 1 July 2019</b>	433,372	355,490	(5,894)	72,908	855,876
<b>Comprehensive Income</b>					
Revaluation of investment portfolio	-	(74,866)	-	-	(74,866)
Tax benefit on revaluation	-	21,565	-	-	21,565
Net realised losses on investment portfolio	-	1,635	(1,635)	-	-
Tax benefit on net realised losses	-	(74)	74	-	-
Profit	-	-	-	30,070	30,070
	-	(51,740)	(1,561)	30,070	(23,231)
<b>Transactions with shareholders</b>					
Dividend reinvestment plan	4,342	-	-	-	4,342
Dividends	-	-	-	(32,737)	(32,737)
	4,342	-	-	(32,737)	(28,395)
<b>As at 30 June 2020</b>	437,714	303,750	(7,455)	70,241	804,250

The Statement of Changes in Equity is to be read in conjunction with the Notes to the Financial Statements set out on pages 16 to 30.

# DIVERSIFIED UNITED INVESTMENT LIMITED

## Statement of Cash Flows for the year ended 30 June 2020

	Note	2020 \$'000	2019 \$'000
<b>Cash flows from operating activities</b>			
Interest received		328	541
Dividends and trust distributions received		34,276	45,766
Foreign income received		3,385	2,638
Option premium income received		180	-
Administration and other expenses paid		(1,481)	(1,156)
Finance costs paid		(2,756)	(3,892)
Income taxes paid		(1,370)	(1,559)
<b>Net cash from operating activities</b>	17(b)	32,562	42,338
<b>Cash flows from investing activities</b>			
Proceeds from sale of investments		47,719	115,532
Purchases of investments		(69,686)	(60,716)
<b>Net cash used in investing activities</b>		(21,967)	54,816
<b>Cash flows from financing activities</b>			
Repayment of borrowings		(22,500)	-
Dividends paid net of dividend reinvestment plan		(28,395)	(27,893)
<b>Net cash used in financing activities</b>	11	(50,895)	(27,893)
Net increase / (decrease) in cash held		(40,300)	69,261
Cash and cash equivalents at 1 July		73,392	4,131
<b>Cash and cash equivalents at 30 June</b>	17(a)	33,092	73,392

The Statement of Cash Flows is to be read in conjunction with the Notes to the Financial Statements set out on pages 16 to 30.

# DIVERSIFIED UNITED INVESTMENT LIMITED

## *Notes to the Financial Statements for the year ended 30 June 2020*

### **1. Statement of significant accounting policies**

Diversified United Investment Limited ("the Company") is a for-profit company domiciled in Australia. The financial report was authorised for issue by the directors on 18 August 2020.

#### **(a) Statement of compliance**

This financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') (including Australian Interpretations) adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. The financial report of the Company also complies with International Financial Reporting Standards ('IFRSs') and interpretations adopted by the International Accounting Standards Board.

#### **(b) Basis of preparation**

The financial report is presented in Australian dollars. The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

The Company has not applied any Australian Accounting Standards that have been issued as at balance date but are not yet operative for the year ended 30 June 2020 ("the inoperative standards"). The effect of inoperative standards has been assessed and the effect has been identified as not being material. The Company only intends to adopt inoperative standards at the date at which their adoption becomes mandatory.

AASB16 Leases was adopted effective 1 July 2019. The company assessed the impact of the new standard and, because the company has no leases, AASB16 did not have an impact to the Company's financial statements.

The financial report is prepared on a historical cost basis except that the investment portfolio is stated at its fair value.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

#### **(c) Investments**

The Company is a long term investor. Under Australian Accounting Standards, the Company has elected to classify equity investments at fair value through other comprehensive income, as they are not held for trading. After initial recognition at fair value (being cost), equity investments are measured at fair value.

Unrealised gains or losses on equity investments are recognised in the Asset Revaluation Reserve until the investment is sold, collected or otherwise disposed of, at which time the cumulative gain or loss is transferred to the Asset Realisation Reserve.

# DIVERSIFIED UNITED INVESTMENT LIMITED

## *Notes to the Financial Statements for the year ended 30 June 2020*

### **1. Statement of significant accounting policies (continued)**

#### **(c) Investments (continued)**

The Company derecognises an investment when it is sold, or it transfers the investment and the transfer qualifies for derecognition in accordance with AASB 9. Upon derecognition, unrealised gains/losses net of tax relating to the investment are transferred from the revaluation reserve to the realisation reserve.

Interest bearing investments are recognised at fair value and then measured at amortised cost. Amortised cost is calculated with any difference between cost and redemption value being recognised in the income statement over the period of the investment on an effective interest basis.

#### **(d) Revenue from investment portfolio**

The activity of the Company is that of an investment company, returns being in the form of dividends, interest income, trust income and option premiums. Dividend income is recognised in the income statement at ex-dividend date and all other income is recognised on an accruals basis. Special Dividends are those dividends received which have been designated as special and non-recurring by the declaring company.

The managed funds in which the Company invests distribute realised capital gains from time to time and these are included in operating revenue, as required under accounting standards.

The Company may write covered call options where it is prepared to sell or reduce a long term investment at prices higher than current market. Open option contracts are marked to market through the profit and loss account.

#### **(e) Taxation**

The income tax expense or revenue for the period is the tax payable or receivable on the current period's taxable income based on the applicable company tax rate of 30% adjusted by changes in deferred tax assets and liabilities which arise from items being brought to account in different periods for income tax and accounting purposes.

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

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

# DIVERSIFIED UNITED INVESTMENT LIMITED

## Notes to the Financial Statements for the year ended 30 June 2020

### 1. Statement of significant accounting policies (continued)

#### (f) Interest bearing borrowings

Interest bearing borrowings are recognised initially at fair value less attributable transaction costs.

Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowing on an effective interest basis.

#### (g) Ordinary Shares

Ordinary shares are classified as equity. Costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

#### (h) Foreign currency

Transactions in foreign currencies are translated into Australian dollars at the exchange rate at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Australian dollars at the exchange rate at the reporting date. Realised foreign currency gains or losses are generally recognised in profit or loss. However, foreign currency differences arising from the translation of available for-sale equity investments are recognised in Other Comprehensive Income.

### 2. Revenue and Expenses

	2020 \$'000	2019 \$'000
<b>(a) Revenue</b>		
Ordinary dividends received or due and receivable	24,503	29,330
Special dividends received or due and receivable	702	4,187
	25,205	33,517
Trust distributions received or due and receivable	5,485	7,685
Foreign income received or due and receivable	5,676	3,713
Interest received or due and receivable	328	541
Option premium income	167	-
Other	32	-
	36,893	45,456
<b>(b) Expenses</b>		
Finance expenses:		
- Interest and borrowing expenses	2,802	3,935



# DIVERSIFIED UNITED INVESTMENT LIMITED

## Notes to the Financial Statements for the year ended 30 June 2020

### 3. Auditor's Remuneration

	2020 \$	2019 \$
During the year, KPMG, the Company's auditor, received the following remuneration, inclusive of GST:		
- Audit and review of financial reports	52,484	51,506
- Tax related services	10,531	10,429

### 4. Taxation

	2020 \$'000	2019 \$'000
<b>(a) Income Tax Expense</b>		
<b>(i) Recognised in the income statement</b>		
<b>Current tax expense</b>		
Current year tax payment accrued	(2,336)	(1,547)
Withholding tax on foreign dividends	(615)	(458)
	(2,951)	(2,005)
<b>Deferred tax expense</b>		
Temporary differences	210	(206)
Tax expense on operating profit	(2,741)	(2,211)
Over/(Under) provision for prior years	97	(36)
<b>Income tax expense in income statement</b>	(2,644)	(2,247)
<b>(ii) Reconciliation between tax expense and pre-tax net profit</b>		
Prima facie tax expense calculated at 30% on the pre tax profit	(9,814)	(12,079)
<b>Increase in tax expense due to:</b>		
Franking credits gross up on dividends received	(2,995)	(4,188)
<b>Decrease in tax expense due to:</b>		
Tax deferred distributions received	521	783
Franking credits on dividends received	9,985	13,960
Sundry items	(438)	(687)
Tax expense on operating profit	(2,741)	(2,211)
(Under) / over provision prior year	97	(36)
<b>Tax expense attributable to profit</b>	(2,644)	(2,247)
<b>(iii) Deferred tax recognised directly in equity</b>		
Increase / (decrease) in provision for tax on net unrealised gains on the equity investment portfolio	(21,565)	21,732

# DIVERSIFIED UNITED INVESTMENT LIMITED

## Notes to the Financial Statements for the year ended 30 June 2020

### 4. Taxation (continued)

	2020 \$'000	2019 \$'000
<b>(b) Deferred Tax Assets and Liabilities</b>		
<b>Recognised deferred tax assets and liabilities</b>		
Revaluation reserve – Provision for tax on net unrealised gains on the equity investment portfolio	138,952	160,443
Other	241	438
Tax benefit of capital losses carried forward	-	(566)
Net deferred tax liabilities	139,193	160,315
<b>(c) Current tax payable</b>		
Current year tax liability	1,599	1,539
Taxes paid	(597)	(877)
Prior period under/(over) provision	(97)	110
Net current tax payable	905	772

### 5. Dividends

	2020 \$'000	2019 \$'000
Dividends recognised in the current year by the Company are:		
(i) 2019 final dividend of 8.5 cents per share (2019: 8.5¢) fully franked at 30% paid 20 September 2019	17,932	17,841
(ii) 2020 interim dividend of 7.0 cents per share (2019: 7.0¢) fully franked at 30% paid 16 March 2020	14,805	14,735
	32,737	32,576

Subsequent to reporting date:

Since 30 June 2020, the directors have declared the following dividend payable on 22 September 2020:

Final dividend of 8.5 cents per share fully franked at 30% (2019: 8.5¢)	18,011	17,932
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The final dividend will not contain a Listed Investment Company capital gain dividend (2019: no LIC capital gain dividend).

The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2020.

# DIVERSIFIED UNITED INVESTMENT LIMITED

## Notes to the Financial Statements for the year ended 30 June 2020

### 5. Dividends (continued)

#### Dividend Franking Account

The balance of the Franking Account at 30 June 2020 is \$13,203,573 (2019: \$16,654,250) after adjusting for:

- (a) franking credits that will arise from any current income tax liability
- (b) franking credits that will arise from the receipt of dividends recognised as receivables at year end

After allowing for the final 2020 dividend, which is not provided for in the 30 June financial statements, the balance of the franking account would be \$5,484,606 (2019: \$8,969,051). The ability to utilise the franking credits is dependent upon the ability of the Company to declare dividends.

#### Listed Investment Company (LIC) Capital Gain Account

The balance of the Listed Investment Company (LIC) Capital Gain Account at 30 June 2020 was \$125,092 (2019: \$125,092). When distributed, LIC capital gains may entitle certain shareholders to a special deduction in their taxation return, as set out in the relevant dividend statement.

### 6. Cash Assets

	2020 \$'000	2019 \$'000
Units in Cash Management Trusts and Deposits at Call	33,092	73,392

### 7. Receivables

	2020 \$'000	2019 \$'000
Current		
Sundry debtors	5,019	7,009

### 8. Investments

	2020 \$'000	2019 \$'000
Non-Current		
Investments in equities quoted on prescribed stock exchanges and in managed funds (at fair value)	979,149	1,031,995

### 9. Other Assets

	2020 \$'000	2019 \$'000
Current		
Prepayments	82	85
GST	5	5
	87	90

# DIVERSIFIED UNITED INVESTMENT LIMITED

## Notes to the Financial Statements for the year ended 30 June 2020

### 10. Payables

	2020 \$'000	2019 \$'000
<i>Current</i>		
Settlements Pending	53	-
Trade Creditors	96	168
Accrued Interest	350	305
	499	473

### 11. Borrowings

	2020 \$'000	2019 \$'000
<i>Current</i>		
Bank Borrowings – Secured	-	22,500
<i>Non-Current</i>		
Bank Borrowings - Secured	72,500	72,500
	72,500	95,000

At 30 June 2020 the Company had facilities totalling \$72.5 million (fully drawn) with Australia and New Zealand Banking Group Ltd and \$42.5 million (undrawn) with Australia and New Zealand Banking Group Ltd as follows:

Bank	Amount	Maturity	Interest Rate <sup>(1)</sup>
ANZ	\$20,000,000	2 July 2020 <sup>(2)</sup>	Fixed 4.09%
ANZ	\$10,000,000	2 July 2021	Fixed 3.59%
ANZ	\$10,000,000	2 July 2021	Fixed 3.72%
ANZ	\$20,000,000	2 July 2022	Fixed 3.66%
ANZ	\$7,500,000	2 July 2023	Fixed 4.02%
ANZ	\$5,000,000	2 July 2023	Fixed 4.02%
ANZ	\$22,500,000 (undrawn)	31 May 2021	Floating 1.15%
ANZ	\$20,000,000 (undrawn)	31 May 2021	Floating 1.15%
Total Facilities	\$115,000,000		

(1) Interest rate includes bank margins and fees.

(2) At the maturity date, this facility will be replaced by a new loan for the same amount, maturing 2 July 2024 with a floating interest rate of 1.61%.

The terms of the ANZ agreement require that the loan to value ratio should not exceed 50% (2019: 50%) of the market value of the equity securities pledged as collateral. As at 30 June 2020 the securities pledged as collateral had a market value of \$343 million (2019: \$386 million) giving a ratio of 21% (2019: 25%).

# DIVERSIFIED UNITED INVESTMENT LIMITED

## Notes to the Financial Statements for the year ended 30 June 2020

### 11. Borrowings (continued)

#### Reconciliation of movements in borrowings to cash flows from financing activities

	Liabilities Borrowings 2019 \$'000	Equity / Retained earnings 2019 \$'000
<b>Balance at 1 July 2018</b>	95,000	67,466
<b>Changes from financing cash flows</b>		
Proceeds from loans and borrowings	-	-
Repayment of borrowings	-	-
Cash dividends paid	-	(27,893)
<b>Total changes from financing cash flows</b>	-	(27,893)
<b>Equity-related other changes</b>	-	33,335
<b>Balance at 30 June 2019</b>	95,000	72,908
	Liabilities Borrowings 2020 \$'000	Equity / Retained earnings 2020 \$'000
<b>Balance at 1 July 2019</b>	95,000	72,908
<b>Changes from financing cash flows</b>		
Proceeds from loans and borrowings	-	-
Repayment of borrowings	(22,500)	-
Cash dividends paid	-	(28,395)
<b>Total changes from financing cash flows</b>	(22,500)	(28,395)
<b>Equity-related other changes</b>	-	25,728
<b>Balance at 30 June 2020</b>	72,500	70,241

### 12. Financing Arrangements

	2020 \$'000	2019 \$'000
The Company has access to the following lines of credit:		
<i>Total facility available</i>		
Loan Facility – Secured	115,000	115,000
<i>Facilities utilised at balance date</i>		
Loan Facility – Secured	72,500	95,000

# DIVERSIFIED UNITED INVESTMENT LIMITED

## Notes to the Financial Statements for the year ended 30 June 2020

### 13. Capital and Reserves

#### (a) Issued Capital

	2020 \$'000	2019 \$'000
Issued and paid-up share capital 211,893,222 ordinary fully paid shares (2019: 210,966,260)	437,724	433,372
Movements in issued capital		
Balance at beginning of the year	433,372	428,689
Shares issued:		
- Dividend re-investment plan <sup>(1)</sup>	4,342	4,683
	437,714	433,372

- (1) In respect of the 2019 final dividend, paid on 20 September 2019, 531,853 shares were issued at \$4.4554 each under the dividend re-investment plan. In respect of the 2020 interim dividend, paid on 16 March 2020, 395,109 shares were issued at \$5.0164 each under the dividend re-investment plan.

#### (b) Reserves

	2020 \$'000	2019 \$'000
Retained Earnings	70,241	72,908
Revaluation Reserve	303,750	355,490
Realisation Reserve	(7,455)	(5,894)
	366,536	422,504

#### Revaluation Reserve

Increments or decrements arising from the revaluation of long term equity investments after provision for deferred tax are recorded in this reserve. When an investment has been sold or de-recognised, realised gains or losses (after tax) are transferred from the revaluation reserve to the realisation reserve.

#### Realisation Reserve

The realisation reserve records realised gains and losses (after tax) from the sale of investments in equities which are transferred from the revaluation reserve.

### 14. Directors' Remuneration

Details of the directors' remuneration are set out in the Remuneration Report that forms part of the Directors' Report. Total remuneration received by the directors for 2020 was \$435,000 (2019: \$420,000).

# DIVERSIFIED UNITED INVESTMENT LIMITED

## *Notes to the Financial Statements for the year ended 30 June 2020*

### **15. Contingent Liabilities and Capital Commitments**

There were no contingent liabilities or capital commitments as at 30 June 2020.

### **16. Related Parties**

The Company has entered into an agreement with Australian United Investment Company Ltd for the provision of administrative services, commencing 1 July 2019. The total fees paid for services provided are \$288,200 including GST (2019: nil).

The names of persons holding the position of director of the Company during the year were Messrs C B Goode, A R Burgess, S J Hiscock and A J P Larke.

The Company has indemnified each current director and the Company Secretaries against all liabilities to another person (other than the Company or a related body corporate) that may arise from his position with the Company except where the liability arises out of conduct involving a lack of good faith. The agreements stipulate that the Company will meet the full amount of any such liabilities, including costs and expenses.

The Company has paid insurance premiums in respect of directors' and officers' liability and legal expenses insurance, for current and former directors and officers, insuring them against liabilities, costs and expenses arising out of conduct which does not involve a wilful breach of duty. This insurance premium covers the period from 18 June 2020 to 18 June 2021.

#### *Directors' Holdings of Shares*

The relevant interests of directors and their director related entities in shares of the Company at year end are set out below:

<b>Directors</b>	<b>Held at 01/07/2019</b>	<b>Purchases</b>	<b>Sales</b>	<b>Held at 30/06/2020</b>
Charles Goode	6,553,582	218,228	-	6,771,810
Anthony Burgess	1,315,000	150,000	-	1,465,000
Stephen Hiscock	80,000	-	-	80,000
Andrew Larke	-	17,500	-	17,500

#### *Directors' Transactions in Shares*

The movement in directors' holdings of ordinary shares resulted from purchases under the Company's dividend reinvestment plan which were made on the same terms and conditions offered to other shareholders, and/or purchases on the open market.

# DIVERSIFIED UNITED INVESTMENT LIMITED

## Notes to the Financial Statements for the year ended 30 June 2020

### 17. Notes to the Statement of Cash Flows

#### (a) Reconciliation of Cash

For the purposes of the statement of cash flows, cash includes cash on hand and at bank and short term deposits at call. Cash as at the end of the financial year is shown in the statement of cash flows and in the balance sheet as follows:

	2020 \$'000	2019 \$'000
Units in Cash Management Trusts and Deposits at Call	33,092	73,392

#### (b) Reconciliation of operating profit after income tax to net cash provided by operating activities

	2020 \$'000	2019 \$'000
Profit for the year	30,070	38,018
Adjustments for:		
(Increase) / decrease in prepayments	3	13
(Increase) / decrease in debtors	2,061	4,023
(Increase) / decrease in deferred tax asset	566	36
(Increase) / decrease in prepaid interest	46	43
(Increase) / decrease in other assets	-	-
Increase / (decrease) in current tax payable	133	(91)
Increase / (decrease) in deferred tax liability on operating activities	(210)	206
Increase / (decrease) in operating creditors	(73)	87
Increase / (decrease) in other liabilities	(34)	3
Net cash provided by operating activities	32,562	42,338

#### (c) Financing Facilities

The Company's financing facilities are set out in notes 11 and 12 of these Financial Statements.

### 18. Earnings Per Share

	2020 Cents	2019 Cents
Basic and diluted earnings per share	14.2	18.1
Earnings per share excluding special dividends received and capital gains distributed from managed funds net of tax (refer Note 1(d))	13.1	15.9

There are no factors which cause diluted earnings per share to be different from basic earnings per share. The earnings per share for the year is calculated on a weighted average adjusted number of ordinary shares of 211,502,436 (2019: 210,464,960). The weighted average adjusted number of ordinary shares takes into account the shares issued in the dividend re-investment plan.



# DIVERSIFIED UNITED INVESTMENT LIMITED

## *Notes to the Financial Statements for the year ended 30 June 2020*

### **19. Capital Management**

The Company's objective in managing capital is to continue to provide shareholders with dividends and capital appreciation over the longer term within acceptable levels of risk.

The Company's capital will fluctuate with prevailing market movements and the Company may adjust the amount of dividends paid, issue new shares or sell assets to reduce debt.

The Company is not subject to any externally imposed capital requirements.

### **20. Financial Risk Management**

*AASB 7 – Financial Instruments: Disclosures* identifies three types of risk associated with financial instruments (i.e. investments, receivables, payable and borrowings).

The Company has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk; and
- market risk.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework, and receives advice from the Audit and Risk Management Committee.

#### ***Credit Risk***

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The credit risk exposure of the Company lies principally in its cash and receivables to the extent of their carrying values and any accrued unpaid interest. Refer Notes 7 and 17.

#### ***Cash***

The Company invests in cash management units with the Mutual Trust Cash Management Fund and cash deposits with Australian banks, with a direct or underlying AA- credit rating assigned by Standard & Poor's, being a Recognised Rating Agency.

#### ***Receivables***

Receivables are non-interest bearing and represent dividends, proceeds of sales and distributions yet to be received. The credit risk exposure of the Company in relation to receivables is the carrying amount.

Given the nature of the counterparties with which the Company deals, management does not expect any counterparty to fail to meet its obligations. Additionally, none of these assets is overdue or considered to be impaired.

# DIVERSIFIED UNITED INVESTMENT LIMITED

## *Notes to the Financial Statements for the year ended 30 June 2020*

### **20. Financial Risk Management (continued)**

#### ***Liquidity Risk***

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities as they fall due. The Company monitors its cash flow requirements and ensures that it has cash or access to sufficient borrowing facilities to meet all its financial obligations as they fall due.

Bank Borrowings were \$72.5 million at the end of the financial year (2019: \$95 million) gearing the investment portfolio by 7.1% (2019: 8.5%). At 30 June 2020 the Company had interest bearing loan facilities in place with the Australia and New Zealand Banking Group Ltd which include fixed rate components. The facilities expire at various intervals through to 2 July 2024, unless renewed. Annual interest expense was covered 12.7 times by profit before interest and tax (2019: 11.2 times).

The major cash inflows for the Company include dividends, distributions, sales proceeds received and the proceeds from the issue of further shares to shareholders. The major cash outflows are the purchase of securities, interest expense and dividends paid to shareholders, which can be managed by the Company.

The Company's investments are quoted on a prescribed stock exchange or are in managed investment funds and are able to be realised if required.

#### ***Market Risk***

Market risk is the risk that changes in market prices such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments.

Inherently, the Company is not free of market risk as it invests its capital in securities whose market prices can fluctuate.

Based on a tax rate of 30% (2019: 30%), a general movement in market prices of 5% and 10% would lead to an change in the Company's equity of \$34,270,000, or 4.3% (2019: \$36,120,000, or 4.2%) and \$68,540,000 or 8.5% (2019: \$72,240,000, or 8.4%) respectively.

Market risk is managed by ensuring that the Company's Australian investment portfolio is not overly exposed to one company or one particular sector relative to the S&P/ASX 200 index and the international portfolio is held through Exchange Traded Index funds and managed investment funds invested across geographic regions and sectors. The Company's asset allocation, the relative weightings of the individual securities and the relative market sector weightings are reviewed by the Board at each Directors' meeting.

The Company also has exposure to interest rate risk on its borrowings as detailed in Note 11 which is minimised through conservative levels of gearing and ensuring that there is appropriate interest cover at all times.

# DIVERSIFIED UNITED INVESTMENT LIMITED

## Notes to the Financial Statements for the year ended 30 June 2020

### 21. Financial Instruments Disclosure

#### Interest Rate Risk

The Company's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets which bear interest is set out below:

	Note	Floating Interest Rate \$'000
<b>2020</b>		
Financial Assets		
Cash	6	33,092
Weighted Average Interest Rate		0.68%
<b>2019</b>		
Financial Assets		
Cash	6	73,392
Weighted Average Interest Rate		1.44%

#### Net Fair Values of Financial Assets and Liabilities

##### Recognised Financial Instruments

Listed securities included in "Investments" are readily traded on organised markets in a standardised form. The net fair value of listed securities is determined by valuing them at the last quoted market price as at balance date. In accordance with Australian Accounting Standards, this is considered "level 1" under the fair value measurement hierarchy, which is defined as quoted prices (unadjusted) in active markets for identical assets or liabilities. The net fair value of unlisted managed funds is determined by valuing them at the net asset value provided by the fund manager as at balance date. Unlisted managed funds included in "Investments" are considered "level 2" under the fair value measurement hierarchy, which is defined as inputs other than quoted prices, which can be observed either directly (as prices) or indirectly (derived from prices). Level 2 investments comprised \$28,125,000 (2019: \$23,646,000). The net fair value of investments is set out in notes 8 and 24.

##### Fixed Interest Borrowings

At 30 June 2020, the fair value of the Company's fixed interest rate borrowings was \$75,221,000 (2019: \$96,707,000) while the face value was \$72,500,000 (2019: \$95,000,000).

For all other financial assets and liabilities, the carrying amount closely approximates its fair value.

### 22. Segment Reporting

The Company operates as an investment company in Australia. 17.9% of the investment portfolio is in international equities (2019: 15.1%).

# DIVERSIFIED UNITED INVESTMENT LIMITED

## Notes to the Financial Statements for the year ended 30 June 2020

### 23. Events Subsequent to Balance Date

Other than as disclosed in this report, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature, likely, in the opinion of the directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company, in future financial periods.

### 24. Holdings of Securities as at 30 June 2020

The following is a list of the Company's top 25 Investments as at 30 June 2020, which represent 84.6% of the total investment portfolio (2019: 81.1%). All Investments are valued at fair value through Other Comprehensive Income.

2020		2019	
Security	Market Value \$'000	Security	Market Value \$'000
<b>Australian Equities</b>		<b>Australian Equities</b>	
CSL Ltd	162,155	CSL Ltd	121,475
Transurban Group	77,715	Commonwealth Bank of Australia Ltd	82,780
Commonwealth Bank of Australia Ltd	69,420	Transurban Group	81,070
Rio Tinto Ltd	46,041	Westpac Banking Corporation	65,228
BHP Group Ltd	42,984	Australia & New Zealand Banking Group Ltd	56,420
Westpac Banking Corporation	42,236	BHP Group Ltd	49,392
Australia & New Zealand Banking Group Ltd	37,280	Rio Tinto Ltd	48,767
Atlas Arteria Ltd	33,100	Woodside Petroleum Ltd	40,723
Woodside Petroleum Ltd	26,630	Sydney Airport	29,748
Sydney Airport	20,979	National Australia Bank Ltd	29,392
National Australia Bank Ltd	20,315	Washington H Soul Pattinson & Company Ltd	24,189
Wesfarmers Ltd	19,725	Atlas Arteria Ltd	23,520
Washington H Soul Pattinson & Company Ltd	19,530	Wesfarmers Ltd	23,504
Woolworths Ltd	18,640	Woolworths Group Ltd	23,261
Ramsay Health Care Ltd	16,963	IDP Education Ltd	17,660
Sonic Healthcare Ltd	15,215	Sonic Healthcare Ltd	13,550
Resmed Inc	13,770	Stockland Group	12,510
Computershare Ltd	13,250	Computershare Ltd	11,347
<b>Total Australian Equities in Top 25</b>	<b>695,948</b>	<b>Total Australian Equities in Top 25</b>	<b>754,536</b>
<b>International Equities</b>		<b>International Equities</b>	
Vanguard US Total Market Index ETF	35,271	Vanguard All World Ex-US Index ETF	36,570
Vanguard All World Ex- US Index ETF	34,990	Vanguard US Total Market Index ETF	33,452
Vanguard Information Technology Index ETF	29,934	Vanguard Information Technology Index ETF	22,169
iShares TR MSCI USA Min Vol Index ETF	21,750	iShares TR MSCI USA Min Vol Index ETF	21,640
Northcape Capital Global Emerging Market Fund	16,749	iShares Global Healthcare Index ETF	13,113
iShares Global Healthcare Index ETF	14,771	Northcape Capital Global Emerging Market Fund	12,719
Vanguard FTSE Developed European Ex UK Index ETF	10,666	Vanguard FTSE Developed European Ex UK Index ETF	10,944
<b>Total International Equities in Top 25</b>	<b>164,131</b>	<b>Total International Equities in Top 25</b>	<b>150,607</b>
<b>Total Top 25 Investments</b>	<b>860,079</b>		<b>905,143</b>
<b>Total Investments at Market Value, Net Short Term Receivables and Cash</b>	<b>1,017,207</b>		<b>1,112,396</b>

# DIVERSIFIED UNITED INVESTMENT LIMITED

## *Directors' Declaration*

1. In the opinion of the directors of Diversified United Investment Limited ("the Company"):
  - (a) The financial statements and notes set out on pages 12 to 30, and the remuneration disclosures that are contained in the Remuneration Report on pages 7 and 8 of the Directors' Report, are in accordance with the Corporations Act 2001, including:
    - (i) giving a true and fair view of the financial position of the Company as at 30 June 2020 and of its performance, as represented by the results of its operations and its cash flows, for the year ended on that date; and
    - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
  - (b) The financial report also complies with International Financial Reporting Standards;
  - (c) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The directors have been given the declarations required by Section 295A of the Corporations Act 2001 for the financial year ended 30 June 2020.

Signed in accordance with a resolution of the directors.

Charles Goode  
Director

Dated at Melbourne this 18th day of August 2020



# Independent Auditor's Report

To the shareholders of Diversified United Investment Limited

## Report on the audit of the Financial Report

### Opinion

We have audited the **Financial Report** of Diversified United Investment Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Company's** financial position as at 30 June 2020 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The Financial Report comprises:

- Balance Sheet as at 30 June 2020
- Statement of profit or loss and other comprehensive income, Statement of changes in equity and Statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

### Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Company in accordance with *the Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Liability limited by a scheme approved under Professional Standards Legislation.

## Key Audit Matters

The **Key Audit Matters** we identified are:

- Valuation and existence of the investment portfolio
- Completeness of the deferred tax liability

**Key Audit Matters** are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Valuation and existence of investment portfolio (\$979.1m)

Refer to Note 8 - Investments

#### The key audit matter

The Company's investment portfolio is \$979.1m which constitutes 96% of the Company's total assets as at 30 June 2020 and is considered to be one of the key drivers of operations and performance results.

We do not consider the fair value of the investment portfolio to be judgemental in nature as it is comprised of equity securities listed on the ASX and some unlisted unit funds. However, due to the size of the investment portfolio, valuation and existence is considered a key audit matter. It is an area which had the greatest effect on our overall audit strategy and allocation of time and resources in planning and completing our audit.

#### How the matter was addressed in our audit

Our procedures included:

- Documenting and assessing the processes in place to buy and sell equities in the portfolio, including assessing the controls over transactions;
- Checking the number of shares or units in each equity investment for the entire investment portfolio to electronic share registry records;
- Recalculating the fair value of investments based on the last quoted market price; and
- Assessing the disclosures in the financial statements with reference to the requirements of accounting standards.

## Completeness of the deferred tax liability (\$139.2m)

Refer to Note 4 - Taxation

### The key audit matter

The Company's deferred tax liability is \$139.2m which constitutes 65% of the Company's total liabilities as at 30 June 2020.

The deferred tax liability relates to the expected tax on disposal of equity securities in the investment portfolio. The deferred tax liability is determined as the difference between the carrying amount of the investment portfolio as per the financial statements and the tax base of the individual investments, multiplied by the applicable company tax rate.

The Company's deferred tax assets are set off against the deferred tax liability to the extent that it is probable taxable profit will be available against which the deductible temporary difference can be utilised.

The completeness of the deferred tax liability is a key audit matter given it represents a significant portion of the total liabilities of the Company and involved the use of senior audit team members, including tax specialists.

### How the matter was addressed in our audit

Our procedures included:

- Recalculating the closing tax cost base of the investment portfolio by adding the total purchases and sales for the year, stated at their tax cost base, to the opening balances of the investment portfolio and reconciling this to the Company's portfolio valuation report;
- Recalculating the gross deferred tax liability, including checking the valuation and accuracy of the market value of the investment portfolio and checking the tax base to the Company's investment register;
- Recalculating the net deferred tax liability by reconciling the opening and closing deferred tax balances, including the offset of deferred tax assets and liabilities;
- Assessing whether the tax effects of significant events identified during the audit, such as fair value or tax base adjustments, have been appropriately identified, calculated and recorded, as applicable; and
- Engaging KPMG tax specialists to assess the tax calculations prepared by the Company, including the deferred tax liability relating to the investment portfolio.

## Other Information

Other Information is financial and non-financial information in Diversified United Investment Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.





In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

### Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Company's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at:

[https://www.auasb.gov.au/admin/file/content102/c3/ar2\\_2020.pdf](https://www.auasb.gov.au/admin/file/content102/c3/ar2_2020.pdf). This description forms part of our Auditor's Report.



## Report on the Remuneration Report

### Opinion

In our opinion, the Remuneration Report of Diversified United Investment Limited for the year ended 30 June 2020 complies with *Section 300A* of the *Corporations Act 2001*.

### Directors' responsibilities

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 responsibilities

We have audited the Remuneration Report included in the Directors' report for the year ended 30 June 2020.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG  
KPMG

Chris Sargent

*Partner*

Melbourne

18 August 2020