

DIVERSIFIED UNITED INVESTMENT LIMITED

ABN 33 006 713 177

APPENDIX 4E STATEMENT FOR THE YEAR ENDED 30 JUNE 2018

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RESULTS FOR ANNOUNCEMENT TO THE MARKET

The reporting period is the year ended 30 June 2018 with the prior corresponding period being the year ended 30 June 2017.

This report is based on audited financial statements. A copy of the audit report can be found on page 30.

Results for announcement to the market

- Revenue from ordinary activities was \$41.4 million, up 5.1% from the prior year.
- Profit after tax and before net realised and unrealised losses/gains on the investment portfolio was \$34.6 million, up 5.3% from the prior year. Net realised investment gains and losses are recorded in the Asset Realisation Reserve.
- Profit after tax includes special dividends and capital gains distributed from managed funds of \$2,763,309. (Last year: \$3,058,616). Excluding these items revenue rose 6.3%* and profit after tax rose 6.9%*.
- Earnings per share based on profit after tax rose 4.4% to 16.5 cents. Excluding the special dividends and capital gains received, earnings per share rose 6.3%* to 15.2 cents*. The weighted average number of ordinary shares for the year was 209,355,670 as against 208,179,034 in the prior year, an increase of 0.6%.
- The final dividend is 8.5 cents per share (8.0 cents for the prior year) fully franked, making total dividends for the year 15.0 cents fully franked, compared to 14.5 cents fully franked in the prior year. The final dividend is payable on 21 September 2018. The record date for determining entitlement to the final dividend is 4 September 2018.
- As a result of recent changes to corporate tax legislation the final dividend will be franked at 27.5%. The lower corporate tax rate of 27.5% will apply to the Company for the financial year 30 June 2019 unless the expected legislation denying investment companies the lower tax rate is enacted.
- 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 3 September 2018 and the following four business days, without any discount. The last day for receipt of an election notice for participation in the plan is 5 September 2018.
- The net tangible asset backing per share based on the market valuation of investments was \$4.47 at 30 June 2018, compared to \$4.00 at the end of the prior year, a rise of 11.8%. 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

LEVEL20
101 COLLINS STREET
MELBOURNE VIC 3000
Australia

TEL (613) 9654 0499
FAX (613) 9654 3499

13 August 2018

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

Dear Sir,

Financial Results and Dividend Announcement
for the Financial Year Ended 30 June 2018

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 2018 was \$34,554,000 (last year: \$32,800,000) a rise of 5.3%.

Profit after income tax includes special dividends received and capital gains distributed from managed funds in which the Company invests of \$2,763,309 (last year: \$3,058,616). Excluding these items profit after tax rose 6.9%*.

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 \$3,851,000 (last year: gains of \$10,918,000).

Operating expenses (excluding interest) were 0.12% of the average market value of the portfolio (last year: 0.12%). Including the management fees of the International Exchange Traded Funds and Small Cap Managed Funds in which the Company is invested, the expense ratio was 0.15% (last year: 0.15%).

Earnings Per Share

Earnings per share rose 4.4% to 16.5 cents per share, or 6.3% to 15.2 cents* excluding the special dividends and capital gains received as income.

The weighted average number of ordinary shares for the year was 209,355,670 against 208,179,034 last year, an increase of 0.6%.

Dividends and Franking

The Directors have declared a final dividend of 8.5 cents per share fully franked at 27.5% to shareholders registered on 4 September 2018, to be paid on 21 September 2018. The comparable 2017 final dividend was 8.0 cents per share fully franked at 30%. Together with the interim dividend of 6.5 cents per share, total dividends for the year are 15.0 cents per share fully franked, compared to 14.5 cents per share fully franked last year. The dividend has been increased or maintained in every year since the Company's listing in 1991.

* Additional non IFRS information.

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As a result of recent changes to corporate tax legislation the final dividend will be franked at 27.5%. The lower corporate tax rate of 27.5% will apply to the Company for the financial year to 30 June 2019 unless the expected legislation denying investment companies the lower tax rate is enacted.

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 3 September 2018 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 5 September 2018.

Asset Backing

The net tangible asset backing per share based on the market valuation of investments was \$4.47 at 30 June 2018 and \$4.52 at 31 July 2018. 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 \$3.81 at 30 June 2018 and \$3.85 at 31 July 2018.

Asset Allocation

At 30 June 83.8% of the portfolio was invested in Australian equities, and 14.5% in international equities principally through Exchange Traded Index Funds, and through some managed funds. Cash and short term receivables were 1.7%.

At 30 June 2018 bank facilities were \$115M drawn as to \$95M (30 June 2017 \$95M drawn as to \$95M) and cash and net short term receivables were \$16M (30 June 2017 \$30M).

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 2018 was 15.8% while the S&P/ASX 200 accumulation index increased by 13.0% 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 2018 was 17.3% compared to 14.6% in the S&P/ASX 200 Franking Credit Adjusted Total Return Index.

The Company's relative performance for the year was assisted by stock selection in the Resource and Healthcare sectors, and by its underweight positions in the Telecommunications sector. In Australian dollar terms the international portfolio also contributed to outperformance.

Annual General Meeting

The Annual General Meeting of the Company will be held on Tuesday 16 October 2018 at 9.00 am at the offices of Evans & Partners, Mayfair Building, 171 Collins Street, Melbourne.

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Investment Portfolio

As at 30 June 2018 the twenty-five largest shareholdings of the company, at market values were:

	Market Value \$'000	%Market Value of Total Investments
Australian Equities		
CSL Ltd	108,830	10.5%
Commonwealth Bank of Australia Ltd	72,870	7.0%
ANZ Banking Group Ltd	56,480	5.5%
Westpac Banking Corporation Ltd	55,670	5.4%
Transurban Group	52,069	5.0%
National Australia Bank Ltd	41,115	4.0%
BHP Billiton Ltd	40,692	3.9%
Woodside Petroleum Ltd	39,715	3.8%
Rio Tinto Ltd	39,217	3.8%
Wesfarmers Ltd	32,084	3.1%
Lend Lease Corporation	23,772	2.3%
Sydney Airport	23,628	2.3%
Washington H Soul Pattinson & Co Ltd	22,759	2.2%
Woolworths Ltd	21,364	2.1%
Atlas Arteria Ltd	19,290	1.9%
Oil Search Ltd	17,800	1.7%
IDP Education Ltd	15,765	1.5%
Suncorp Group Ltd	14,590	1.4%
AMP Ltd	14,240	1.4%
Computershare Ltd	12,901	1.2%
Total Australian Equities in Top 25:	724,851	70.0%
International Equities		
Vanguard All-World Ex-US Shares Index ETF	33,881	3.3%
Vanguard US Total Market Shares Index ETF	28,499	2.8%
Vanguard Information Technology Index ETF	18,113	1.8%
Vanguard FTSE Developed European Ex UK Index ETF	16,751	1.6%
iShares TR MSCI USA Min Vol Index ETF	16,255	1.6%
Total International Equities in Top 25:	113,499	11.1%
Total Top 25 Australian & International Equities	838,350	81.1%
Total Investments at Market Value, Net Short Term Receivables and Cash	1,033,633	

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 2018

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 2018 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 Flagstaff Partners Pty Ltd (since 2010). Formerly Mr Goode was 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 30 years' experience in corporate finance in Melbourne, London and New York. He is Chief Executive Officer of Flagstaff Partners Pty Ltd (since 2010), 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 Governor of The Ian Potter Foundation Limited (since 2013), Chairman of the Foundation for Business and Economics at the University of Melbourne, a Director of the Melbourne Business School Limited and a member of the Board of Management of the Melbourne Theatre Company.

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 and REITs. 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 a Non Executive Director of DuluxGroup Ltd and IXOM (a leading Australasian chemicals business). 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 25 years. He is Chairman of the Company's Audit and Risk Management Committee.

DIVERSIFIED UNITED INVESTMENT LIMITED

Directors' Report (Continued)

Company Secretary

Andrew Hancock FCA, B.Ec (Mon), Grad. Dip. CDP (RMIT)
Company Secretary
Appointed September 1991

Mr Hancock is also 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 and is Chairman or a director of a number of private investment companies.

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, international equities mainly through exchange traded index funds, and unlisted managed funds investing in Small Cap Australian equities. The target range for allocation to international equities is 10-20% of the portfolio (last year 10-15%). Investments may also be made from time to time in interest bearing securities or 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.

At 30 June 2018 Australian equities accounted for 83.8% and international equities 14.5% and cash and short term receivables 1.7% of the market value of the portfolio. Any foreign exchange currency exposure is currently unhedged.

For the year ended 30 June 2018 profit after tax before net gains and losses on the investment portfolio was \$34,554,000 (compared to \$32,800,000 in 2017) – an increase of 5.3%.

The profit after tax includes special dividends and capital gains distributed by managed funds in which the Company invests. In 2018 these items totalled \$2,763,309 (2017: \$3,058,616). If these items are disregarded, profit increased by 6.9%.

The weighted average number of ordinary shares for the year was 209,355,670 as against 208,179,034 in the previous year, an increase of 0.6%.

The earnings per share was 15.2 cents excluding special dividends and capital gains (2017: 14.3 cents), or 16.5 cents including these items (2017: 15.8 cents).

The net tangible asset backing of each of the Company's shares at 30 June 2018 was \$4.47 (2017: \$4.00). 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 \$3.81 (2017: \$3.47).

Bank facilities as at 30 June 2018 were \$115 million, drawn as to \$95 million (2017: \$95 million, drawn as to \$95 million) amounting to 9.2% of the investment portfolio at market values (2017: 10%). Cash on hand, cash deposits and net short term receivables were \$17 million, or 1.7% of the investment portfolio at market values (2017: \$30 million or 3.2%). Annual interest expense was covered 9.7 times by profit before interest and tax (2017: 9.2 times).

DIVERSIFIED UNITED INVESTMENT LIMITED

Directors' Report (Continued)

Operating and Financial Review (continued)

During the year the accumulation performance of the Company's net asset backing (before provision for tax on unrealised gains) increased by 15.8%, as compared to the S&P/ASX 200 Accumulation Index rise of 13.0%.

Dividends declared by the Company for the 2018 financial year total 15.0 cents per share fully franked (2017: 14.5 cents per share fully franked). Dividends paid prior to 30 June 2018 have been franked at 30%. However, as a result of recent changes to corporate tax legislation the final dividend will be franked at 27.5%. The lower corporate tax rate of 27.5% will apply to the Company for the financial year to 30 June 2019 unless the expected legislation denying investment companies the lower tax rate is enacted.

It is the Directors' intention to continue to invest in a portfolio of listed Australian equities (directly and through some unlisted managed funds) 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:

	2018 \$'000	2017 \$'000
REVENUE FROM INVESTMENT PORTFOLIO		
Dividends	29,542	29,626
Trust Distributions	8,023	6,614
Foreign Income	3,362	2,169
Interest	328	264
Option Premium Income	152	739
	41,407	39,412
EXPENSES		
Administration and other expenses:		
Accounting and Custody Fees	197	192
Audit	49	49
Share Registry	61	61
Directors' Fees	413	400
ASX Fees	116	108
Company Secretary	124	120
Office rent, insurance, printing and other	183	155
Finance Costs:		
Interest	4,163	4,178
	5,306	5,263
Profit before income tax expense and net gains and losses on investment portfolio	36,101	34,149
Income tax expense	(1,547)	(1,349)
Profit before net gains and losses on investment portfolio	34,554	32,800

Expenses (excluding finance costs) were 0.12% of the average market value of the investment portfolio (2017: 0.12%). Including the management fees of the International Exchange Traded Funds and Small Cap Managed Funds in which the Company is invested, the expense ratio was 0.15% (last year: 0.15%).

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
Paid or declared during the year	
A final dividend in respect of the year ended 30 June 2017 of 8 per share fully franked at 30% paid on 22 September 2017.	16,701
An interim dividend in respect of the year ended 30 June 2018 of 6.5 per share fully franked at 30% paid on 14 March 2018.	13,613
Paid or declared after end of year	
A final dividend in respect of the year ended 30 June 2018 of 8.5 per share fully franked at 27.5% payable on 21 September 2018.	17,837

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	
	<i>No. of Meetings attended</i>	<i>No. of Meetings eligible</i>	<i>No. of Meetings attended</i>	<i>No. of Meetings eligible</i>	<i>No. of Meetings attended</i>	<i>No. of Meetings eligible</i>
Charles Goode	11	11	1*	2*	1	1
Anthony Burgess	10	11	2	2	1	1
Stephen Hiscock	11	11	2	2	1	1
Andrew Larke	11	11	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	2,340,861	3,835,411	140,000
Anthony Burgess	-	1,315,000	-
Stephen Hiscock	-	80,000	-
Andrew Larke	-	-	-

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 ⁽¹⁾					
	2018			2017		
	Fee	Superannuation	Total	Fee	Superannuation	Total
	\$	\$	\$	\$	\$	\$
Charles Goode	150,685	14,315	165,000	146,119	13,881	160,000
Anthony Burgess	75,342	7,158	82,500	73,059	6,941	80,000
Stephen Hiscock	75,342	7,158	82,500	73,059	6,941	80,000
Andrew Larke	75,342	7,158	82,500	73,059	6,941	80,000
Total	376,711	35,789	412,500	365,296	34,704	400,000

(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 Secretary and directors of the Company including superannuation entitlements, retirement and termination entitlements, fringe benefits policies and professional indemnity and liability insurance policies. Other than the Company Secretary the Company has no Executives or Executive Directors.

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 effect 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.

Directors' fees are fixed annually 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 year was:

	2018	2017	2016	2015	2014
Profit (\$ Millions)	34.6	32.8	30.5	33.7	26.4
Earnings per share (excluding special dividends and capital gains from managed funds)	15.2	14.3	14.6	15.1	14.6
Dividends (cents per share)	15.0	14.5	14.0	14.0	13.6
Net asset backing per share before tax on unrealised gains 30 June	\$4.47	\$4.00	\$3.53	\$3.68	\$3.69
Share Price 30 June	\$4.10	\$3.72	\$3.27	\$3.51	\$3.50
Management expense ratio	0.12%	0.12%	0.13%	0.13%	0.15%
DUI Net asset backing accumulation return before tax on unrealised gains	15.8	17.6	0.0	3.6	20.1
S&P/ASX 200 Index accumulation return	13.0	14.1	0.6	5.6	17.3

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 Company Secretary, Mr Andrew J Hancock, received \$123,600 (2017: \$120,000) for services provided to the Company.

Events Subsequent to Balance Date

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.

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.

DIVERSIFIED UNITED INVESTMENT LIMITED

Directors' Report (Continued)

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 \$10,147 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 subject to the corporate governance procedures adopted by the Company and have been 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.

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

The lead auditor's independence declaration is set out on page 9 and forms part of the Directors' Report for the year ended 30 June 2018.

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 13th day of August 2018



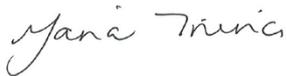
Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

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 2018 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.


KPMG



Maria Trinci
Partner

Melbourne
13 August 2018

DIVERSIFIED UNITED INVESTMENT LIMITED
Statement of Profit or Loss and Other Comprehensive Income
for the year ended 30 June 2018

	Note	2018 \$'000	2017 \$'000
Revenue from investment portfolio	2(a)	41,407	39,412
Administration and other expenses		(1,143)	(1,085)
Finance expenses	2(b)	(4,163)	(4,178)
Profit before income tax		36,101	34,149
Income tax expense	4(a)	(1,547)	(1,349)
Profit		34,554	32,800
Other Comprehensive Income			
<i>Items that will not be reclassified to profit or loss:</i>			
Revaluation of investment portfolio for the year		93,829	94,663
Provision for tax expense on revaluation for the year of investment portfolio		(29,105)	(29,278)
Other Comprehensive Profit / (Loss) net of income tax		64,724	65,385
Total Comprehensive Income		99,278	98,185
Basic and diluted earnings per share (cents)	18	16.5	15.8

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 14 to 28.

DIVERSIFIED UNITED INVESTMENT LIMITED

Balance Sheet
as at 30 June 2018

	Note	2018 \$'000	2017 \$'000
Assets			
Cash assets	6	4,131	20,604
Receivables	7	13,702	9,110
Other	9	103	55
Total Current Assets		17,936	29,769
Investment portfolio	8	1,015,344	899,799
Total Non-Current Assets		1,015,344	899,799
Total Assets		1,033,280	929,568
Liabilities			
Payables	10	667	65
Current tax payable	4(c)	584	422
Total Current Liabilities		1,251	487
Provision for long service leave		46	43
Borrowings – interest bearing	11	95,261	95,060
Deferred tax liability	4(b)	138,451	109,047
Total Non-Current Liabilities		233,758	204,150
Total Liabilities		235,009	204,637
Net Assets		798,271	724,931
Equity			
Issued capital	13(a)	428,689	424,314
Reserves	13(b)	369,582	300,617
Total Equity		798,271	724,931

The Balance Sheet is to be read in conjunction with the Notes to the Financial Statements set out on pages 14 to 28.

DIVERSIFIED UNITED INVESTMENT LIMITED

**Statement of Changes in Equity
for the year ended 30 June 2018**

	Issued Capital \$'000	Revaluation Reserve \$'000	Realisation Reserve \$'000	Retained Earnings \$'000	Total Equity \$'000
As at 1 July 2016	420,190	182,752	(10,745)	59,526	651,723
Comprehensive Income					
Revaluation of investment portfolio	-	94,663	-	-	94,663
Tax expense on revaluation	-	(29,278)	-	-	(29,278)
Net realised gains on investment portfolio	-	(16,838)	16,838	-	-
Tax expense on net realised gains	-	5,920	(5,920)	-	-
Profit	-	-	-	32,800	32,800
	-	54,467	10,918	32,800	98,185
Transactions with shareholders					
Dividend reinvestment plan	4,124	-	-	-	4,124
Dividends	-	-	-	(29,101)	(29,101)
	4,124	-	-	(29,101)	(24,977)
As at 30 June 2017	424,314	237,219	173	63,225	724,931
As at 30 June 2017					
	Issued Capital \$'000	Revaluation Reserve \$'000	Realisation Reserve \$'000	Retained Earnings \$'000	Total Equity \$'000
As at 30 June 2017	424,314	237,219	173	63,225	724,931
Comprehensive Income					
Revaluation of investment portfolio	-	93,829	-	-	93,829
Tax expense on revaluation	-	(29,105)	-	-	(29,105)
Net realised losses on investment portfolio	-	3,885	(3,885)	-	-
Tax benefit on net realised losses	-	34	(34)	-	-
Profit	-	-	-	34,554	34,554
	-	68,643	(3,919)	34,554	99,278
Transactions with shareholders					
Dividend reinvestment plan	4,375	-	-	-	4,375
Dividends	-	-	-	(30,313)	(30,313)
	4,375	-	-	(30,313)	(25,938)
As at 30 June 2018	428,689	305,862	(3,746)	67,466	798,271

The Statement of Changes in Equity is to be read in conjunction with the Notes to the Financial Statements set out on pages 14 to 28.

DIVERSIFIED UNITED INVESTMENT LIMITED

Statement of Cash Flows
for the year ended 30 June 2018

	Note	2018 \$'000	2017 \$'000
Cash flows from operating activities			
Interest received		329	264
Dividends and trust distributions received		36,691	34,354
Foreign income received		1,991	1,484
Option premium income received		152	739
Administration and other expenses paid		(1,171)	(1,122)
Finance costs paid		(3,962)	(4,302)
Income taxes paid		(593)	(889)
Net cash from operating activities	17(b)	33,437	30,528
Cash flows from investing activities			
Proceeds from sale of investments		30,802	90,377
Purchases of investments		(54,773)	(80,274)
Net cash used in investing activities		(23,971)	10,103
Cash flows from financing activities			
Dividends paid net of dividend reinvestment plan		(25,939)	(24,977)
Net cash from / (used) in financing activities		(25,939)	(24,978)
Net increase / (decrease) in cash held		(16,473)	15,653
Cash and cash equivalents at 1 July	17(a)	20,604	4,950
Cash and cash equivalents at 30 June	17(a)	4,131	20,604

The Statement of Cash Flows is to be read in conjunction with the Notes to the Financial Statements set out on pages 14 to 28.

DIVERSIFIED UNITED INVESTMENT LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

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 9 August 2018.

(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 early adopted AASB 9 Financial Instruments with initial application from 7 December 2009 (being the earliest date available for adoption). The Company has not applied any other Australian Accounting Standards that have been issued as at balance date but are not yet operative for the year ended 30 June 2018 ("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.

AASB 15 Revenue from Contracts with Customers is applicable for the year ending 30 June 2019. The Company has assessed the impact of the new standard and has determined that it will have no impact on the accounting for the Company's revenue.

AASB 16 Leases is applicable for the year ending 30 June 2020. The Company has assessed the impact of the new standard and has determined that it will not have a material 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 2018

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.

Under recent changes to corporate tax legislation the Company's tax rate for the financial year to 30 June 2019 will be 27.5% unless the expected legislation denying investment companies the lower corporate tax rate is enacted. Deferred tax balances at 30 June 2018 are calculated on a conservative basis at the rate of 30% (2017: 30%) as the associated unrealised capital gains are likely to be realised only in the long term when the applicable corporate tax rate is expected to be 30%.

DIVERSIFIED UNITED INVESTMENT LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

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*

	2018 \$'000	2017 \$'000
(a) Revenue		
Ordinary dividends received or due and receivable	29,309	27,806
Special dividends received or due and receivable	233	1,820
	<hr/>	<hr/>
	29,542	29,626
Trust distributions received or due and receivable	8,023	6,614
Foreign income received or due and receivable	3,362	2,169
Interest received or due and receivable	328	264
Option premium income	152	739
	<hr/>	<hr/>
	41,407	39,412
(b) Expenses		
Finance expenses:		
- Interest and borrowing expenses	4,163	4,178

DIVERSIFIED UNITED INVESTMENT LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

3. Auditor's Remuneration

	2018	2017
	\$	\$
During the year, KPMG, the Company's auditor, received the following remuneration, inclusive of GST:		
- Audit and review of financial reports	49,369	49,049
- Tax related services	10,147	9,866

4. Taxation

	2018	2017
	\$'000	\$'000
(a) Income Tax Expense		
(i) Recognised in the income statement		
Current tax expense		
Current year tax payment accrued	(896)	(1,059)
Withholding tax on foreign dividends	(307)	(308)
	(1,203)	(1,367)
Deferred tax expense		
(Under) / over provision for prior years deferred tax	(280)	-
Temporary differences	(19)	36
Tax expense on operating profit	(1,502)	(1,331)
(Under) / over provision for prior years	(45)	(18)
Income tax expense in income statement	(1,547)	(1,349)
(ii) Reconciliation between tax expense and pre-tax net profit		
Prima facie tax expense calculated at 30% on the pre tax profit	(10,830)	(10,245)
Increase in tax expense due to:		
Franking credits gross up on dividends received	(3,315)	(3,388)
Franking credits gross up on managed funds received	(54)	-
Foreign credits gross up on managed funds received	(15)	-
Decrease in tax expense due to:		
Tax deferred distributions received	495	453
Franking credits on dividends received	11,051	11,293
Franking credits on managed funds received	179	-
Foreign credits on managed funds received	49	-
Sundry items	938	556
Tax expense on operating profit	(1,502)	(1,331)
(Under) / over provision prior year	(45)	(18)
Tax expense attributable to profit	(1,547)	(1,349)
(iii) Deferred tax recognised directly in equity		
Increase / (decrease) in provision for tax on net unrealised gains on the equity investment portfolio	29,105	29,278

DIVERSIFIED UNITED INVESTMENT LIMITED

**Notes to the Financial Statements
for the year ended 30 June 2018**

4. Taxation (continued)

	2018 \$'000	2017 \$'000
(b) Deferred Tax Assets and Liabilities		
Recognised deferred tax assets and liabilities		
Revaluation reserve – Provision for tax on net unrealised gains on the equity investment portfolio	(138,726)	(109,655)
Other	(306)	(20)
Tax benefit of capital losses carried forward	581	628
Net deferred tax liabilities	(138,451)	(109,047)
(c) Current tax payable		
Current year tax liability	(1,483)	(1,367)
Less: Tax instalments paid	743	945
Less: Prior period over payment	156	-
Net current tax payable	(584)	(422)

5. Dividends

	2018 \$'000	2017 \$'000
Dividends recognised in the current year by the Company are:		
(i) 2017 final dividend of 8 cents per share (2016: 7.5¢) fully franked at 30% paid 22 September 2017	16,701	15,567
(ii) 2018 interim dividend of 6.5 cents per share (2017: 6.5¢) fully franked at 30% paid 14 March 2018	13,613	13,534
	30,314	29,101

Subsequent to reporting date:

Since 30 June 2018, the directors have declared the following dividend payable on 21 September 2018:

Final dividend of 8.5 cents per share fully franked at 27.5% (2017: 8.0¢)	17,837	16,697
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The final dividend will not contain a Listed Investment Company capital gain dividend (2017: 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 2018.

DIVERSIFIED UNITED INVESTMENT LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

5. *Dividends (continued)*

Dividend Franking Account

The balance of the Franking Account at 30 June 2018 is \$15,825,707 (2017: \$16,741,300) 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 2018 dividend, which is not provided for in the 30 June financial statements, the balance of the franking account would be \$9,060,125 (2017: \$9,585,461). 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 2018 was \$125,092 (2017: \$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*

	2018 \$'000	2017 \$'000
Units in Cash Management Trusts and Deposits at Call	4,131	20,604

7. *Receivables*

	2018 \$'000	2017 \$'000
<i>Current</i>		
Sundry debtors	13,702	9,110

8. *Investments*

	2018 \$'000	2017 \$'000
<i>Non-Current</i>		
Investments in equities quoted on prescribed stock exchanges and in managed funds (at fair value)	1,015,344	899,799

9. *Other Assets*

	2018 \$'000	2017 \$'000
<i>Current</i>		
Prepayments	103	55

DIVERSIFIED UNITED INVESTMENT LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

10. Payables

	2018 \$'000	2017 \$'000
<i>Current</i>		
Settlements Pending	415	-
Trade Creditors	252	65
	667	65

11. Borrowings

	2018 \$'000	2017 \$'000
<i>Non-Current</i>		
Bank Borrowings - Secured	95,261	95,060

The face value of the drawn borrowings is \$95 million (2017: \$95 million). The amount disclosed above is held at amortised cost plus accrued interest.

At 30 June 2018 the Company had facilities totalling \$95 million (fully drawn) with Australia and New Zealand Banking Group Ltd and \$20 million (undrawn) with National Australia Bank Ltd as follows:

Bank	Amount	Maturity	Interest Rate ⁽¹⁾
ANZ	\$10,000,000	2 July 2019	Fixed 5.14%
ANZ	\$5,000,000	2 July 2019	Fixed 4.91%
ANZ	\$7,500,000	2 July 2019	Fixed 5.01%
ANZ	\$20,000,000	1 July 2020	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	1 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%
NAB	\$20,000,000 ⁽²⁾	31 July 2019	Floating 3.25%
Total Facilities	\$115,000,000		

(1) Interest rate includes bank margins and fees.

(2) During the year ended 30 June 2018, a new NAB facility for \$20 million was established and remained undrawn as at 30 June 2018.

DIVERSIFIED UNITED INVESTMENT LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

11. Borrowings (continued)

The Company has pledged as collateral for the secured borrowing facilities, the following equity investments:

Equities	No. of Shares	Value at 30 June 2018 \$'000
BHP Billiton Ltd	1,200,000	37,301
Commonwealth Bank Ltd	1,000,000	14,574
CSL Ltd	565,000	108,830
NAB Ltd	1,300,000	35,633
Rio Tinto Ltd	470,000	38,810
South32 Ltd	3,496,000	5,415
Transurban Group	4,000,000	35,910
Woodside Petroleum Ltd	1,120,000	39,400
Total		315,873

The terms of the ANZ agreement require that the loan to value ratio should not exceed 50% (2017: 50%) of the market value of the pledged securities. At 30 June 2018 this was 30% (2017: 37%).

The terms of the NAB agreement require that the bank's valuation of the securities lodged exceed the drawn loan amount by an adequate margin. The loan was undrawn at 30 June 2018 (2017: not present).

12. Financing Arrangements

	2018 \$'000	2017 \$'000
The Company has access to the following lines of credit:		
<i>Total facility available</i>		
Loan Facility – Secured	115,000	95,000
<i>Facilities utilised at balance date</i>		
Loan Facility – Secured	95,000	95,000

DIVERSIFIED UNITED INVESTMENT LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

13. Capital and Reserves

(a) Issued Capital

	2018 \$'000	2017 \$'000
Issued and paid-up share capital 209,841,563 ordinary fully paid shares (2017: 208,711,961)	428,689	424,314
Movements in issued capital		
Balance at beginning of the year	424,314	420,190
Shares issued:		
- Dividend re-investment plan ⁽¹⁾	4,375	4,124
	428,689	424,314

(1) In respect of the 2017 final dividend, paid on 22 September 2017, 646,399 shares were issued at \$3.7225 each under the dividend re-investment plan. In respect of the 2018 interim dividend, paid on 14 March 2018, 483,203 shares were issued at \$4.0737 each under the dividend re-investment plan.

(b) Reserves

	2018 \$'000	2017 \$'000
Retained Earnings	67,466	63,225
Revaluation Reserve	305,862	237,219
Realisation Reserve	(3,746)	173
	369,582	300,617

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 2018 was \$412,500 (2017: \$400,000).

15. Contingent Liabilities and Capital Commitments

There were no contingent liabilities or capital commitments as at 30 June 2018.

DIVERSIFIED UNITED INVESTMENT LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

16. Related Parties

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 Secretary 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 2018 to 18 June 2019.

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:

Directors	Held at 01/07/2017	Purchases	Sales	Held at 30/06/2018
Charles Goode	6,086,268	230,004	-	6,316,272
Anthony Burgess	1,315,000	-	-	1,315,000
Stephen Hiscock	80,000	-	-	80,000
Andrew Larke	-	-	-	-

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 2018**

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:

	2018 \$'000	2017 \$'000
Units in Cash Management Trusts and Deposits at Call	4,131	20,604

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

	2018 \$'000	2017 \$'000
Profit for the year	34,554	32,800
Adjustments for:		
(Increase) / decrease in prepayments	(53)	(3)
(Increase) / decrease in debtors	(1,921)	(2,177)
(Increase) / decrease in deferred tax asset	45	-
(Increase) / decrease in prepaid interest	201	(124)
(Increase) / decrease in other assets	5	1
Increase / (decrease) in current tax payable	566	103
Increase / (decrease) in deferred tax liability on operating activities	19	(36)
Increase / (decrease) in operating creditors	17	(38)
Increase / (decrease) in other liabilities	4	2
Net cash provided by operating activities	33,437	30,528

(c) Financing Facilities

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

18. Earnings Per Share

	2018 Cents	2017 Cents
Basic and diluted earnings per share	16.5	15.8
Earnings per share excluding special dividends received and capital gains distributed from managed funds (refer Note 1(d))	15.2	14.3

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 209,355,670. (2017: 208,179,034). 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 2018

19. Capital Management

The Company's objective 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 MF 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 2018

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 \$95 million at the end of the financial year (2017: \$95 million) gearing the investment portfolio by 9.20% (2017: 10%). The Company has interest bearing loan facilities in place with the Australia and New Zealand Banking Group Ltd and National Australia Bank Ltd which include fixed rate components. The facilities expire at various intervals through to 2 July 2023, unless renewed. Annual interest expense was covered 9.7 times by profit before interest and tax (2017: 9.2 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% (2017: 30%), a general movement in market prices of 5% and 10% would lead to an change in the Company's equity of \$35,537,000, or 4.5% (2017: \$31,493,000, or 4%) and \$71,074,000 or 9% (2017: \$62,986,000, or 9%) 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 21 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 2018

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 and financial liabilities which bear interest is set out below:

	Note	Floating Interest Rate \$'000
2018		
<i>Financial Assets</i>		
Cash	6	4,131
Weighted Average Interest Rate		1.65%
2017		
<i>Financial Assets</i>		
Cash	6	20,604
Weighted Average Interest Rate		1.65%

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 \$39,231,000 (2017: \$17,948,000). The net fair value of investments is set out in notes 8 and 24.

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. 14.5% of the investment portfolio is in international equities.

23. Events Subsequent to Balance Date

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.

DIVERSIFIED UNITED INVESTMENT LIMITED

Notes to the Financial Statements for the year ended 30 June 2018

24. Holdings of Securities as at 30 June 2018

The following is a list of the Company's top 25 Investments as at 30 June 2018, which represent 81.1% of the total investment portfolio (2017: 79%). All Investments are valued at fair value through Other Comprehensive Income.

2018		2017	
<i>Security</i>	<i>Market Value \$'000</i>	<i>Security</i>	<i>Market Value \$'000</i>
<i>Australian Equities</i>		<i>Australian Equities</i>	
CSL Ltd	108,830	Commonwealth Bank of Australia Ltd	82,810
Commonwealth Bank Of Australia Ltd	72,870	CSL Ltd	77,987
Australia & New Zealand Banking Group Ltd	56,480	Westpac Banking Corporation Ltd	57,969
Westpac Banking Corporation	55,669	Australia & New Zealand Banking Group Ltd	57,440
Transurban Group	52,070	Transurban Group	47,400
National Australia Bank Ltd	41,115	National Australia Bank Ltd	44,385
BHP Billiton Ltd	40,692	Woodside Petroleum Ltd	29,870
Woodside Petroleum Ltd	39,715	Rio Tinto Ltd	29,737
Rio Tinto Ltd	39,217	BHP Billiton Ltd	27,936
Wesfarmers Ltd	32,084	Wesfarmers Ltd	26,078
Lend Lease Group	23,772	LendLease Group	19,980
Sydney Airport Group	23,628	Washington H Soul Pattinson & Co Ltd	18,337
Washington H Soul Pattinson & Company Ltd	22,759	Woolworths Ltd	17,878
Woolworths Ltd	21,364	Sydney Airport	17,725
Atlas Arteria Ltd Ordinary Stapled Sec	19,290	AMP Ltd	17,646
Oil Search Ltd	17,800	Macquarie Atlas Roads Group	14,866
IDP Education Ltd	15,765	Suncorp Group Ltd	14,820
Suncorp Group Ltd	14,590	Oil Search Ltd	13,640
AMP Ltd	14,240	Sonic Healthcare Ltd	12,110
Computershare Ltd	12,901	Perpetual Ltd	11,174
<i>Total Australian Equities in Top 25</i>	<i>724,851</i>	<i>Total Australian Equities in Top 25</i>	<i>639,788</i>
<i>International Equities</i>		<i>International Equities</i>	
Vanguard All World Ex- US Index ETF	33,881	Vanguard All-World Ex- US Index ETF	31,573
Vanguard US Total Market Index ETF	28,499	Vanguard US Total Market Index ETF	24,219
Vanguard Information Technology Index ETF	18,113	Vanguard Funds PLC FTSE Developed	14,156
Vanguard Funds PLC FTSE Developed	16,751	Vanguard Information Technology Index ETF	13,513
iShares USA Minimum Volatility Index ETF	16,255	iShares USA Minimum Volatility Index ETF	12,563
<i>Total International Equities in Top 25</i>	<i>113,499</i>	<i>Total International Equities in Top 25</i>	<i>96,024</i>
Total Top 25 Investments	838,350		735,813
Total Investments at Market Value, Net Short Term Receivables and Cash	1,033,663		929,513

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 10 to 28, and the remuneration disclosures that are contained in the Remuneration Report on pages 6 and 7 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 2018 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 2018.

Signed in accordance with a resolution of the directors.

Charles Goode

Director

Dated at Melbourne this 13th day of August 2018



Independent Auditor's Report

To the members 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 2018 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 2018
- 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.



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 (\$1,015,344,000)

Refer to Note 8 - Investments

The key audit matter

The Company's investment portfolio is \$1,015,344,000 which constitutes 98% of the Company's total assets as at 30 June 2018.

We do not consider the fair value of the investment portfolio to be judgemental in nature as it is mostly comprised of equity securities listed on the Australian Securities Exchange. 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 and key controls in place to buy and sell investments in the portfolio, including the process to value investments within the portfolio;
- Assessing the valuation of a sample of investments by comparing the valuation to publicly quoted prices;
- For a sample of investments, comparing the number of shares or units held to third party share or unit registry records; and
- Performing a recalculation of the total value of investments based on the last quoted market price.

Completeness of Deferred tax liability (\$138,451,000)

Refer to Note 4 - Taxation

The key audit matter

The Company's deferred tax liability is \$138,451,000 which constitutes 59% of the Company's total liabilities as at 30 June 2018.

The deferred tax liability relates to the expected tax on disposal of investments in the investment portfolio and is recognised in equity and as a

How the matter was addressed in our audit

Our procedures included:

- Involving our tax specialists, evaluating the reconciliation of the opening to closing deferred tax balances;
- Recalculating the 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;



<p>deferred tax liability. The deferred tax liability is determined as the tax effect, applying a 30% corporate tax rate, of the difference between the carrying amount of the investment portfolio as per the financial statements and the tax base recorded.</p> <p>The Company's deferred tax assets are set off against the deferred tax liability arising on the unrealised gains on the investment portfolio in the Balance Sheet.</p> <p>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.</p>	<ul style="list-style-type: none">• Recalculating the closing tax cost base by adding the total purchases and sales for the year, stated at their tax cost base, to the opening balance of the investment portfolio and reconciling this to the Company's portfolio valuation report; and• Assessing whether the tax effects of significant events such as corporate actions, such as fair value or tax base adjustments, have been appropriately identified, calculated and recorded.
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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 will 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 controls 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: http://www.auasb.gov.au/auditors_responsibilities/ar2.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 2018, 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 pages 6 to 7 of the Directors' report for the year ended 30 June 2018.

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

KPMG

Maria Trinci

Partner

Melbourne

13 August 2018