

Annual Report 2012

YEAR ENDED 30 JUNE 2012



Australian Leaders Fund

Level 5, 139 Macquarie Street NSW Sydney 2000

TEL (02) 9252 0225 **FAX** (02) 9252 1220

info@wfunds.com.au | www.australianleaders.com.au

COMPANY PARTICULARS

Australian Leaders Fund Limited

A.B.N. 64 106 845 970

Australian Leaders Fund Limited (ALF) is a listed investment company focusing on the largest 200 listed Australian companies. ALF has a long standing agreement with Watermark Funds Management Pty Ltd as the external manager of the investment portfolio (formerly Braitling Investments Pty Ltd).

DIRECTORS:

J. Braitling (Chairman)
G. Wilson
J. Abernethy
J. Gosse

SECRETARY:

P. Roberts

AUDITORS:

MNSA Pty Limited

COUNTRY OF INCORPORATION:

Australia

REGISTERED OFFICE:

Australian Leaders Fund Limited
Suite 4,
Level 5, 139 Macquarie Street
Sydney NSW 2000

CONTACT DETAILS:

Mail Address: Suite 4
Level 5, 139 Macquarie Street
Sydney NSW 2000
Telephone: (02) 9252 0225
Fax: (02) 9252 1220
Email: info@wfunds.com.au
For enquiries regarding net asset backing
(as advised each month to the Australian Securities Exchange)
call (02) 8236 7701.

SHARE REGISTRAR:

Boardroom Pty Limited (previously Registries Limited)
Level 7, 207 Kent Street Sydney NSW 2000
Telephone: (02) 9290 9600
Fax: (02) 9279 0664
For all enquiries relating to shareholdings, dividends
(including participation in the Dividend Reinvestment Plan)
and related matters, please contact the share registrar.

STOCK EXCHANGE:

Australian Securities Exchange (ASX)
The home exchange is Sydney.
ASX code: ALF Ordinary shares

CONTENTS

Chairman's Letter	1
Chief Investment Officer's Report.....	2
Company Profile.....	3
Investments at Market Value	6
Corporate Governance Statement.....	7
Directors' Report to Shareholders	13
Auditor's Independence Declaration.....	20
Statement of Comprehensive Income	21
Statement of Financial Position.....	22
Statement of Changes in Equity	23
Statement of Cash Flows	24
Notes to the Financial Statements.....	25
Directors' Declaration	45
Independent Audit Report	46
ASX Additional Information	48

AUSTRALIAN LEADERS FUND LIMITED

A.B.N. 64 106 845 970

CHAIRMAN'S LETTER

The Australian Leaders Fund reported a \$1.3 million loss for the period ending June 30, 2012 following a \$14.0 million after tax gain last financial year. As at the 30 June 2012, the after tax net tangible asset backing (NTA) of ALF was \$1.25 per share.

Total dividends declared for the year were 11 cents a share fully franked, comprising a 5 cent interim dividend and a 6 cent final dividend.

The gross portfolio value was more or less flat over the financial year, a solid result given the All Ordinaries Accumulation Index decreased by 7%, representing an outperformance of 7.3%. After deducting costs in funding the balance sheet, along with management and other expenses, the fund reported a negative 2.3% return for the year.

Since inception, the net value of the portfolio has increased by 187% while the All Ordinaries Index has increased by 78.5%. The investment process has added 108.5% to the value of your investment (after all fees and expenses). The board has endeavoured to return a significant portion of this to shareholders via ordinary and special dividends (65.5c paid to date; 70.5c declared to date).

In keeping with good capital management practice, the board has looked to buy back shares in the company on occasions when the discount to Net Asset Backing has moved beyond reasonable levels. ALF has completed four buy backs to date. We have always felt the discount to NTA would reduce over time as we established a performance track record. Pleasingly, following the strong results achieved in recent years, the discount has fallen to 6% at year end, an improvement from 9% last year.

As at the 30th June 2012, the company has maintained conservative portfolio settings with 21% of our capital invested in listed Australian shares on a net basis; 21% held in high quality listed corporate bond and hybrids; and the remaining balance of 58% retained in cash. Approximately half of the company's assets are funded from the proceeds of short sales. Shorts also provide the added benefit of a hedge for the fund's assets if shares fall in value.

Given a softer outlook for growth in advanced economies, shares are likely to deliver lower returns in the medium term. Financial risks will also remain elevated in the aftermath of the financial crisis ensuring heightened levels of share market volatility.

Given this balance of risk and return, cautious portfolio settings are warranted. This approach has protected our shareholders from loss before expenses in recent years. Unlike a traditional fund, we can significantly reduce market risk by adjusting the balance of long and short positions, while still taking advantage of the mispricing of individual shares. At 30 June 2012, the fund's net exposure to the broader share market was quite small.

This protection against a market setback comes at a cost however. If the share market was to advance rapidly we may well underperform. So long as our market weighting is low, portfolio returns will reflect our success in selecting securities to buy and sell and be far less correlated to movements in share markets.



Justin Braiting
Chairman

Dated at Sydney this 10th day of August 2012

AUSTRALIAN LEADERS FUND LIMITED

A.B.N. 64 106 845 970

CHIEF INVESTMENT OFFICER'S REPORT

The Financial Year in Review

Last year was challenging for investors in shares, with the ASX200 accumulation index falling 7%, giving back more than half of the 11% gain in the prior year.

Markets sold off sharply from August as European Sovereign debt concerns first emerged. Investors feared losses in the European Periphery would spread to core Europe and engulf the banking system. Late in 2011, emergency measures taken by the ECB in extending cheap liquidity support to banks and troubled sovereigns provided a much needed circuit breaker and markets started 2012 on a stronger footing. The advance was further assisted by a re-acceleration in the US economy following a soft patch in the second half of 2011. However financial markets fell again in May as failed elections in Greece raised the spectre of a disorderly default and exit from the Euro-Zone.

Risk aversion peaked in June as Spanish and Italian long term bond yields moved beyond 7%, threatening loss of market access for these two core European countries. Again the ECB came to the rescue in July insisting it would do whatever it takes to save the Euro, including direct bond purchases in support of troubled sovereigns. The Euro Stoxx 50 ended the year down 16.2%.

Meanwhile US shares marched higher despite weakening economic trends as the year progressed with investors anticipating further central bank intervention to boost activity. US dollar assets and the currency have also benefited from capital flight out of Europe. The S&P 500 accumulation index finished 5.4% higher for the 12 month period.

While our market fell by 7%, the fall was almost entirely due to a sharp sell-off in resource shares. The poor performance of this important sector reflected softer commodity prices and falls in the Chinese share market as the economy slowed. ASX listed industrial companies were actually up slightly after adding back dividends. Even amongst industrial companies there was a sharp divergence between the banks and defensive industrials which performed well and cyclical companies that struggled with a softer economy.

The funds attribution as reported in Table 1 below clearly shows the benefit of our short sell ability. If we were a traditional fund the portfolio would have fallen by 6% (Long portfolio) slightly better than the fall in the market. We managed a small gain at the gross return level because the short portfolio fell by 11% over the period adding significant value for shareholders. Whilst we had spectacular success with our investment in Ainsworth Games Technology, the performance of our investment portfolio (long) was a little disappointing. We missed the peak in resource shares and suffered along with everyone else when the sector sold off in August last year.

Most of our positive attribution came from our short portfolio. We have been short a number of industrial companies under structural pressure as well as cyclical business struggling in a weaker environment. We did particularly well short selling a number of early stage mining projects with poor economics that had not been funded.

The attraction of a long/short fund in these difficult markets can be clearly appreciated with our current balance sheet settings. While we have a gross exposure to \$202 million of mispriced shares, \$110 million invested in companies that we believe are undervalued and \$92 million short in shares that are overvalued, our net exposure to the market is quite small at just \$18 million or 21% of shareholder's capital. This allows us to take advantage of the mispricing of Australian shares without having to take on the market risks that manifest from developments offshore.

TABLE 1 **Net Returns to 30 June 2012**

ALF	1 YEAR	3 YEARS	5 YEARS	SI (P.A.)
Long	-6.0%	13.2%	5.4%	-
Short	-11.1%	4.0%	-7.3%	-
Gross	0.3%	17.1%	11.8%	16.9%
Net	-2.3%	12.9%	7.6%	13.4%
Index	-7.0%	5.9%	-4.1%	7.2%
Outperformance	4.8%	7.1%	11.7%	6.2%

AUSTRALIAN LEADERS FUND LIMITED

A.B.N. 64 106 845 970

COMPANY PROFILE

Australian Leaders Fund Limited (ALF) is a listed investment company focusing on the largest 200 listed Australian companies. ALF has a long standing agreement with Watermark Funds Management Pty Ltd as the external manager of the investment portfolio. Watermark Funds Management Pty Ltd is wholly owned by Justin Braitling, a seasoned investment manager with over 20 years experience investing in Australian and International equities.

INVESTMENT OBJECTIVE

The investment objective of the manager is to deliver superior returns over the medium term within acceptable risk parameters while preserving the company's capital.

This objective is best achieved by maximising the embedded value of investments held in the fund and by accessing additional funds on attractive terms through short selling. If securities cannot be purchased below fair value, shareholder's funds will be retained in cash.

As the company employs an active funding structure, ALF is targeting superior returns to a traditional fund.

INVESTMENT PHILOSOPHY AND STRATEGY

The best investment opportunities are found in well managed companies with strong business fundamentals that can be purchased on attractive terms.

In assessing a potential investment the Manager seeks the following attributes:

- A history of superior returns on the capital employed in the business through the economic cycle;
- Management with a track record of creating and distributing value to shareholders; and
- Businesses with a capacity to grow.

Consistent with these basic principles, in selecting securities to short sell:

We are looking for **poorly** managed companies with **weak** fundamentals, where their securities can be sold for **more** than they are worth.

Investment Strategy

The Manager follows a disciplined investment process allowing the identification of leading Australian public companies that are undervalued by the market.

While the market is generally proficient at valuing companies, it is by no means perfect. From time to time mispricing of shares does occur providing opportunities to acquire good companies below their fair value.

The Manager's investment process looks to identify mispriced securities by taking advantage of some important shortcomings of the share market:

- **Investors are myopic** looking for short term rewards. The value of a business however should be considered in the context of its longer term potential;
- **Investors are unduly influenced by sentiment**, overreacting to good and bad news pushing the price of shares away from fair value;
- While the price of shares reflects the conventional thinking of investors generally, we know from experience that **conventional wisdom is often wrong**; and

The likelihood of **mispricing is greatest during periods of significant change** as investors are often slow to appreciate the full consequences of these events.

AUSTRALIAN LEADERS FUND LIMITED

A.B.N. 64 106 845 970

COMPANY PROFILE

INVESTMENT PROCESS

While the manager employs a similar method to other institutional investors in selecting securities to buy and sell, ALF is different to other funds in two principal ways:

- In addition to buying undervalued shares, ALF will also look to sell shares that the manager considers overvalued. These shares are borrowed and sold (shorting), with the proceeds either invested in the investment portfolio or retained as cash.
- While a traditional fund is fully exposed to movements in the market at all times, ALF will be more active in employing various hedging strategies to protect shareholders from adverse market movements.

The value in our investment process is in our ability to identify mispriced securities. This allows us to construct an investment portfolio of undervalued shares that we expect to outperform over time.

It also allows us to identify overvalued shares that can be borrowed and sold (short) raising additional funds that can be put to work in our investment portfolio.

If we cannot find undervalued shares to buy then the additional funds will be retained in cash providing a natural hedge for the company's assets if the market falls.

As the value of borrowed shares will naturally move up and down with the value of the company's assets, there is a natural hedge in this funding structure.

SECURITY SELECTION

The Manager employs a fundamental investment process, based on sound investment ideas taken from the investment universe of listed Australian Securities. Investment ideas come from monitoring economic and industry trends as well as extensive contact with company management and industry sources.

Once identified, investment opportunities are screened to ensure they are of an investment grade. A full qualitative assessment of the proposed investment is completed to establish whether the business is of a suitable quality and attractively priced. Investment ideas are ranked based on their qualitative score and the conviction with the investment case.

Investment Ideas and Opportunities

Investment opportunities emerge from close examination of industry trends. These may include economic, political or legislative changes that impact the structure and competitive environment in which a company operates. Investors in many instances are slow to identify and price these changes.

The best investment ideas present a unique view, are relevant to the value of the business and are not currently reflected in the share price.

Qualitative Review

Once a suitable investment opportunity has been identified, a full review of financial performance will be completed before meeting with management to further develop an understanding of the business and the management philosophy. Where possible, representatives of the Manager will also meet with suppliers, regulators, competitors and customers to gauge the competitive environment.

This due diligence process will allow the Manager to rank the investment opportunity based on the following four qualitative measures:

- *Business Quality*
- *Management*
- *Valuation*
- *Risk*

AUSTRALIAN LEADERS FUND LIMITED

A.B.N. 64 106 845 970

COMPANY PROFILE

Short Selling

We follow the same security selection and portfolio construction process as with our investment portfolio, except seek the opposite qualities in companies we would like to borrow and sell.

Security Selection

The Manager believes the best "**shorting**" opportunities are found in **poorly** managed companies with **weak** fundamentals that can be sold for **more** than they are worth.

When targeting companies to borrow and sell (short), we look for the following:

- A history of *inferior returns*
- Management with a *poor track record*
- Businesses that are *highly competitive* and *struggling to grow*
- Securities that are *expensive* on a range of valuation measure

The security selection themes in identifying shorting opportunities are similar to those pursued in identifying investment ideas for the portfolio. The attributes, however, are exactly the opposite. We look to sell:

- Companies that are performing well above trend. They are more likely to be fully valued.
- The most popular companies as the good news is more than likely already priced in.
- Industries that have benefited from speculative capital as they are more than likely overpriced.
- Companies that offer investors short term rewards at the expense of longer term value

Portfolio Construction

Investment ideas are "ranked" based on the strength of the investment case and each company's qualitative score. Individual security risk is evaluated separately.

The portfolio weighting of each investment is loosely correlated with the investment ideas ranking. Macroeconomic and sector research will influence the overall weighting of each investment in the final composition of the portfolio.

This process ensures we end up constructing portfolios around our best individual investment ideas, where we have the highest conviction, while retaining a bias in favour of good, well managed companies.

In constructing a portfolio of "short securities" the manager embraces the same process as employed in constructing the investment portfolio. A portfolio of the best individual short ideas is constructed from the investment universe of ASX 200 securities, with a bias toward shorting weaker businesses that we consider overvalued.

AUSTRALIAN LEADERS FUND LIMITED

A.B.N. 64 106 845 970

INVESTMENTS AT MARKET VALUE AS AT 30 JUNE 2012

Consumer Discretionary

Ainsworth Game Technology Ltd.	5,364,177	4.18%
Crown Ltd.	1,253,183	0.98%
Navitas Ltd.	871,633	0.68%
Tatts Group Ltd.	4,108,616	3.20%
	11,597,609	9.04%

Media

News Corp.	1,234,121	0.96%
	1,234,121	0.96%

Retailing

JB Hi-Fi Ltd.	1,289,130	1.00%
Jumbo Interactive Ltd.	1,830,455	1.43%
Super Retail Group Ltd.	1,790,310	1.40%
	4,909,895	3.83%

Consumer Staples

Wesfarmers Ltd.	4,223,674	3.29%
	4,223,674	3.29%

Corporate Bonds

Natl Australia Bk Stapled Fr Deb Prf	2,013,198	1.57%
Woolworths Ltd. Frn 24-nov-2036	4,192,485	3.27%
Origin Energy Ltd. Frn 20-dec-2071	1,653,335	1.29%
Tabcorp Holdings Ltd. Frn 01-may-2014	1,505,100	1.17%
Agl Energy Ltd. Frn 08-jun-2039	1,998,400	1.56%
Australia & New Zealand Banking Group Ltd. Frn 20-jun-2022	3,019,500	2.35%
Colonial Holding Co. Pty Ltd. Frn 31-mar-2037	1,990,000	1.55%
Tatts Group Ltd. Frn 05-jul-2019	2,000,000	1.56%
	18,372,018	14.32%

Energy

Central Petroleum Ltd.	172,029	0.13%
Cue Energy Resources Ltd.	420,480	0.33%
Drillsearch Energy Ltd.	252,000	0.20%
Origin Energy Ltd.	1,659,200	1.29%
Oil Search Ltd.	1,142,531	0.89%
Roc Oil Co. Ltd.	727,610	0.57%
Sundance Energy Australia Ltd.	214,012	0.17%
Whitehaven Coal Ltd.	1,462,547	1.14%
WorleyParsons Ltd.	865,950	0.68%
Woodside Petroleum Ltd.	2,760,780	2.15%
	9,677,139	7.55%

Banks

Australia & New Zealand Banking Group Ltd.	5,475,734	4.27%
Bank of Queensland Ltd.	1,321,941	1.03%
Westpac Banking Corp.	4,046,141	3.15%
	10,843,816	8.45%

Insurance

AMP Ltd.	2,239,391	1.74%
QBE Insurance Group Ltd.	1,356,130	1.06%
	3,595,521	2.80%

Real Estate

Lend Lease Group	2,019,470	1.57%
Westfield Retail Trust	1,523,302	1.19%
	3,542,772	2.76%

Utilities

DUET Group	2,323,000	1.81%
	2,323,000	1.81%

Health Care

Atcor Medical Holdings Ltd.	889,509	0.69%
CSL Limited	1,971,000	1.54%
ResMed Inc. (CDI-10CDI/1SHS)	1,903,400	1.48%
Mayne Pharma Group Ltd.	2,063,857	1.61%
	6,827,766	5.32%

Industrials

LogiCamms Ltd.	504,258	0.39%
Leighton Holdings Ltd.	1,355,730	1.06%
RCR Tomlinson Ltd.	1,094,265	0.85%
Reece Australia Ltd.	64,566	0.05%
Sedgman Ltd.	602,639	0.47%
Service Stream Ltd.	727,761	0.57%
Southern Cross Electrical Engineering Ltd.	836,215	0.65%
	5,185,434	4.04%

Commercial & Professional Services

Downer EDI Ltd.	1,235,295	0.96%
SAI Global Ltd.	1,485,528	1.16%
SEEK Ltd.	221,900	0.17%
Tox Free Solutions Ltd.	2,000,000	1.56%
	4,942,723	3.85%

Transportation

Australian Infrastructure Fund Ltd.	2,684,486	2.09%
Qantas Airways Ltd.	551,866	0.43%

QR National Ltd.	1,241,000	0.97%
Transurban Group	3,654,772	2.85%
	8,132,124	6.34%

Materials

Alacer Gold Corp.	793,410	0.62%
Astron Corporation Ltd.	1,260	0.00%
BHP Billiton Ltd.	3,764,565	2.93%
Base Resources Ltd.	1,318,970	1.03%
BlueScope Steel Ltd.	472,439	0.37%
Bassari Resources Ltd.	520,000	0.41%
Blackthorn Resources Ltd.	622,436	0.49%
Bathurst Resources Ltd.	836,000	0.65%
Imdex Ltd.	528,000	0.41%
James Hardie Industries SE	719,258	0.56%
Mirabela Nickel Ltd.	52,000	0.04%
Mount Gibson Iron Ltd.	860,879	0.67%
Newcrest Mining Ltd.	2,027,280	1.58%
Orica Ltd.	2,451,890	1.91%
PanAust Ltd	2,457,000	1.92%
Perseus Mining Ltd.	744,000	0.58%
Rio Tinto Ltd.	6,004,651	4.68%
Sandfire Resources N.L.	871,043	0.68%
Teranga Gold Corp Cdi	883,638	0.69%
Western Areas N.L.	527,800	0.41%
YTC Resources Ltd.	176,019	0.14%
	26,632,538	20.77%

Telecommunication Services

Amcom Telecommunications Ltd.	583,200	0.45%
iiNET Ltd.	455,532	0.36%
Telstra Corp. Ltd.	5,204,192	4.06%
	6,242,924	4.87%

TOTAL LONG PORTFOLIO	128,283,074	100.00%
TOTAL SHORT PORTFOLIO	-92,211,493	

AUSTRALIAN LEADERS FUND LIMITED

A.B.N. 64 106 845 970

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2012

This statement outlines the main corporate governance practices adopted by the Company, which comply with the ASX Corporate Governance Council Principles and Recommendations (2nd Edition, August 2007) recommendations unless otherwise stated.

Lay solid foundations for management and oversight

The Board's primary role is the protection and enhancement of long-term shareholder value. To fulfil this role the Board seeks to address:

- (a) the prudential control of the Company's operations;
- (b) the resourcing, review and monitoring of executive management;
- (c) the timeliness and accuracy of reporting to shareholders; and
- (d) the determination of the Company's broad objectives.

The Company's operations are conducted through Watermark Funds Management Pty Ltd (Investment Manager) and White Outsourcing Pty Limited (Administration Manager). These entities incorporate the specialist wholesale investment and administration personnel who have undertaken the Company's executive operations. The Company has contracted with Watermark Funds Management Pty Ltd and White Outsourcing Pty Limited to provide all investment management and administration services.

The Company's executive management arrangements have been structured to provide investors with a cost efficient investment vehicle and access to a significant depth of professional resources. Individual directors are subject to continuous review by the Chairman.

In order for a specific opportunity for performance matters to be discussed with each Director, each year the Chairman of the Board conducts a formal review process. The Chairman meets with each Director individually to discuss issues including performance and discusses with each Director the effectiveness of the Board as a whole, its Committees, individual Directors and the Chairman with the intention of providing mutual feedback. The Chairman reports on the general outcome of the meetings to the Board annually. Directors whose performance is unsatisfactory are asked to retire. In respect of the current financial year all assessments under this process have taken place in accordance with the process disclosed. Individual directors are subject to continuous review by the Chairman.

Recommendation 1.2 requires the disclosure of the process for evaluating the performance of senior executives. The Company does not comply with this recommendation as there are no senior executive officers of the Company.

Structure the Board to add value

The names of the directors of the Company in office at the date of this statement are set out in the directors' report on page 14.

The skills, experience and expertise relevant to the position of each director who is in office at the date of the annual report and their term of office are detailed on page 14 in the directors' report.

The term in office held by each director in office at the date of this report is as follows:

Name	Term in office
J. Braithling	8.5 years
G. Wilson	8.5 years
J. Abernethy	8.5 years
J. Gosse	8.5 years

On an annual basis and in accordance with the company's Constitution, the number nearest to one third of Directors are required to retire by rotation and being eligible, stand for re-election.

An independent director is considered to be a director:

- (a) who is not a member of management;
- (b) who has not within the last three years been employed in an executive capacity by the Company or been a principal of a professional adviser or consultant to the Company;

AUSTRALIAN LEADERS FUND LIMITED

A.B.N. 64 106 845 970

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2012

- (c) is not a significant supplier to the Company;
- (d) has no material contractual relationship with the Company other than as a director; and
- (e) is free from any interest or business or other relationship which could materially interfere with the director's ability to act in the best interests of the Company.

In the context of director independence, "materiality" is considered from both the company and individual director's perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal or less than 5% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors which point to the actual ability of the directors in question to shape the direction of the company's loyalty.

In accordance with the definition of independence above, and the materiality thresholds set, the following directors of Australian Leaders Fund Limited are considered to be independent:

Name	Position
J. Abernethy	Non-Executive Director
J. Gosse	Non-Executive Director

J. Braitling and G. Wilson are not considered independent directors.

Recommendation 2.1 requires that "A majority of the Board should be independent directors". The Company does not comply with this recommendation. The Board is 50% independent. Whilst the Company agrees with the benefits of a majority of independent Directors, it believes that it can better achieve the results of the Company with the current Board's level of expertise and without burdening shareholders with the additional costs associated with adding further independent directors.

Recommendation 2.2 requires that "The Chair should be an independent director". The Company does not comply with this recommendation. The Company believes that an independent Chairman does not necessarily improve the function of the Board. The Company believes that when the Chairman is a significant driver behind the business and is a shareholder, it adds value to the Company.

Recommendation 2.3 requires that "the role of the Chair and Chief Executive Officer of the Company should not be exercised by the same individual". The Company does not comply with this recommendation as there is no Chief Executive Officer of the Company.

Recommendation 2.4 states the board should establish a Nomination Committee. Due to the size of the Company it has not established a formal Nomination Committee and the functions of the Nomination Committee are undertaken by a full Board.

Each director has the right of access to all relevant Company information and to the Company's executives and subject to prior consultation with the Chairman, may seek independent professional advice at the company's expense. A copy of advice received by the director is made available to all other members of the Board.

The Board will hold four scheduled meetings each year plus any other strategic meetings as and when necessitated by the Company's operations. The agenda for meetings is prepared through the input of the Chairman and the Company Secretary. Standing items include matters of Compliance and Reporting, Financials, Shareholder Communications and Investment Strategy and Outcomes. Submissions are circulated in advance.

AUSTRALIAN LEADERS FUND LIMITED

A.B.N. 64 106 845 970

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2012

Promote ethical and responsible decision-making

The Board expects all executive and non-executive directors to act professionally in their conduct and with the utmost integrity and objectivity. All executive and non-executive directors must comply with the Company's Code of Conduct and Ethics. The directors in acting professionally in their conduct means that they will act with high standards of honesty, integrity and fairness, avoiding conflicts of interest, acting lawfully and ensuring confidential information is dealt with in accordance with the Company's Privacy Policy.

The Board monitors its outsourced service providers compliance with the Company's Code of Conduct and Ethics, which is accessible to outside parties via the Company's website.

Directors are not required to hold a minimum number of shares in the Company.

Subject to them not being in possession of undisclosed price sensitive information with adequate time being given for this to be reflected in the security's price, Directors may deal in shares of the Company when appropriate. As Australian Leaders Fund Limited is an investment company reporting results monthly, the Board believes the shareholders are generally fully informed.

The composition of the Board is monitored (both in respect of size, diversity and membership) to ensure that the Board has a balance of skill and experience appropriate to the needs of the Company. When a vacancy arises, the Board will identify candidates with appropriate expertise and experience and appoint the most suitable person taking into account the need for diversity in gender, age, ethnicity and cultural background.

Safeguard integrity in financial reporting

It is a requirement of the Board that White Outsourcing Pty Ltd sign-off on the content of the financial statements, and that these statements represent a true and fair view of the Company's operations and financial position of the Company.

White Outsourcing Pty Ltd provides a declaration to the Board twice annually, to certify that the Company's financial statements and notes present a true and fair view, in all material respects, of the Company's financial condition and operational results and that they have been prepared and maintained in accordance with relevant Accounting Standards and the Corporations Act 2001. In respect of the current financial year all necessary declarations have been submitted to the Board. In addition, White Outsourcing Pty Ltd (accounting and Company Secretarial) confirms in writing to the Board that the declaration provided above is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

The Company has an Audit Committee with a documented Charter, approved by the Board. All members must be non-executive directors and the majority be independent directors. The Chairman is not the Chairman of the Board. The Committee is responsible for considering the effectiveness of the systems and standards of internal control, financial reporting and any other matter at the request of the Board. The Audit Committee will meet at least two times per year.

The Audit Committee may have in attendance at their meeting such members of management as may be deemed necessary to provide information and explanations. The external auditors attend meetings by invitation to report to the Committee.

The members of the Audit Committee during the year were:

- J. Abernethy (Chairman)
- G. Wilson
- J. Gosse

The responsibilities of the Audit Committee are to ensure that:

1. Relevant, reliable and timely information is available to the Board to monitor the performance of the Company;
2. External reporting is consistent with committee members' information and knowledge and is adequate for shareholder needs;

AUSTRALIAN LEADERS FUND LIMITED

A.B.N. 64 106 845 970

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2012

3. Management process support external reporting in a format which facilitates ease of understanding by shareholders and institutions;
4. The external audit arrangements are adequate to ensure the maintenance of an effective and efficient external audit. This involves:
 - (a) reviewing the terms of engagement, scope and auditor's independence;
 - (b) recommendations as to the appointment, removal and remuneration of an auditor; and
 - (c) reviewing the provision of non-audit services provided by the external auditor ensuring they do not adversely impact on audit independence;
5. Review the Company's risk profile including material business risks and assess the operation of the Company's internal control system. The external auditor is required to attend the Annual General Meeting and is available to answer shareholder questions.

The Board as a whole monitor the performance of the annual & half-yearly audit performed by the External Auditor. If the Board consider that the external auditor of the Company should be changed, a special resolution will be put to shareholder vote at the following Annual General Meeting. External audit engagement partners are required by legislation to rotate their appointment every five years.

For details on the number of meetings of the audit committee held during the year and the attendees at those meetings, refer to page 18 of the Director's Report.

Make timely and balanced disclosure

The Board informs shareholders of all major developments affecting the Company's state of affairs as follows:

- All information lodged with the ASX is available on the Company's website at www.australianleaders.com.au
- Quarterly reports will be sent via email to shareholders who register their interest and by surface mail to all other shareholders;
- A hard copy Annual Report will be mailed to shareholders who have requested to receive one at the close of the financial year. An electronic version of the Annual Report will be available on the Company's website.
- Net asset backing per share is released to the ASX by the 14th day following each month-end and is sent via email to shareholders who register their interest.

The Company Secretary is responsible for ensuring Australian Leaders Fund Limited complies with its continuous disclosure obligations.

Watermark Funds Management Pty Ltd is made aware of these obligations and is required to report any price sensitive information to the Company Secretary immediately they become aware of it. The Company Secretary will decide, in conjunction with the Chairman whether the information should be disclosed to the ASX.

Where possible, all continuous disclosure releases to the ASX are approved by the Board, except the monthly net asset backing per share which is approved by the Chairman. Where time does not permit approval by the Board, the Chairman of directors must approve the release.

Any information of a material nature affecting the Company is disclosed to the market through release to the ASX as soon as the Company becomes aware of such information, in accordance with the ASX Continuous Disclosure requirement.

All ASX releases are available on the Company's website (www.australianleaders.com.au).

Respect the rights of shareholders

Shareholders are entitled to vote on significant matters impacting on the business, which include the elections and remuneration of directors, changes to the constitution and receipt of annual and interim financial statements. Shareholders are strongly encouraged to attend and participate in the Annual General

AUSTRALIAN LEADERS FUND LIMITED

A.B.N. 64 106 845 970

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2012

Meeting of Australian Leaders Fund Limited, to lodge questions to be responded by the Board and/or the CEO, and are able to appoint proxies.

Recognise and manage risk

The Board acknowledges that it is responsible for the overall system of internal control but recognises that no cost effective internal control system will preclude all errors and irregularities. The Board has delegated responsibility for reviewing the risk profile including material business risks and reporting on the operation of the internal control system to the Audit Committee.

The external auditor is required to attend the Annual General Meeting and is available to answer shareholder questions.

The Audit Committee (a) requires executive management to report annually on the operation of internal controls, (b) reviews the external audit of internal controls and liaises with the external auditor and (c) conducts any other investigations and obtains any other information it requires in order to report to the Board on the effectiveness of the internal control system. In respect of the current financial year all necessary declarations have been submitted to the Board.

The Board identifies the following business risks as having the potential to significantly or materially impact the company's performance (a) administrative risks including operational, compliance and financial reporting, and (b) market related risks and has established policies for the management of these material risks as follows:

Administrative Risks

The Company has outsourced its administrative functions to service providers, UBS (custody and prime broker), White Outsourcing Pty Limited (accounting and Company Secretarial) and Watermark Funds Management Pty Limited (investment management). Risk issues associated with these activities are handled in accordance with the service providers policies and procedures. White Outsourcing Pty Limited is responsible for recognising and managing administrative risks including (a) operational, (b) compliance and (c) financial reporting.

Market Risks

The Board is primarily responsible for recognising and managing market related risks. By its nature as a Listed Investment Company, the Company will always carry investment risk because it must invest its capital in securities which are not risk free. However, the Company seeks to reduce this investment risk by a policy of diversification of investments across industries and companies operating in various sectors of the market. Watermark Funds Management Pty Limited (Investment Manager) is required to act in accordance with the Board approved investment management agreement and reports to the Board quarterly on the portfolio's performance, material actions of the investment manager during that quarter and an explanation of the investment manager's material proposed actions for the upcoming quarter. In addition, the investment manager is required to report half-yearly that Watermark Funds Management Pty Limited have invested the Company's assets in accordance with the approved investment mandate and complied with the Investment Management Agreement requirements during the reporting period. In respect of the current financial year all necessary declarations have been submitted to the Board. In assessing the Company's risk tolerance level the Board considers any instance which materially affects the Company's monthly Net Tangible Asset backing announcement released to the ASX.

The Audit Committee and the Board perform a risk review on an annual basis to ensure that adequate controls are in place to mitigate risk associated with investment manager performance, market risk, fraud, transaction reporting errors, material reporting risks and compliance risk.

Remunerate fairly and responsibly

ASX Recommendation 8.1 states the board should establish a Remuneration Committee. Due to the size of the Company it has not established a formal Remuneration Committee and the functions of the Remuneration Committee are undertaken by the full Board.

AUSTRALIAN LEADERS FUND LIMITED

A.B.N. 64 106 845 970

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2012

Non-executive directors are remunerated by way of director fees and superannuation contributions.

The Chairman of Australian Leaders Fund Limited is the sole Director and an employee of Watermark Funds Management Pty Ltd and is further remunerated by that Company. Further detail is provided in the Directors' Report.

Recommendation 8.3 states that the Company should "clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives". The Company does not comply with this recommendation as there are no senior executives employed by the company.

AUSTRALIAN LEADERS FUND LIMITED

A.B.N. 64 106 845 970

DIRECTORS' REPORT TO SHAREHOLDERS FOR THE YEAR ENDED 30 JUNE 2012

The Directors present their report together with the financial report of Australian Leaders Fund Limited (the Company) for the financial year ended 30 June 2012.

PRINCIPAL ACTIVITY

The principal activity of the Company is making investments in listed and unlisted companies. No change in this activity took place during the year or is likely in the future.

OPERATING RESULTS

Investment operations over the year resulted in an operating loss before tax of \$3,389,407 (2011: \$18,996,254) and an operating loss after tax of \$1,296,975 (2011: \$14,176,932).

REVIEW OF OPERATIONS

Investments are valued continuously to market value. For the year ended 30 June 2012, investments were valued upwards/downwards by \$8,225,921 (2011: upwards by \$4,232,574), after an adjustment for deferred tax on unrealised gains, nil (2011: nil) was transferred to an Asset Revaluation Reserve.

Asset backing for each ordinary share as at 30 June 2012 (calculated on market value less realisation costs and all applicable taxes amounted to 125.2 cents per share (2011: 139.6 cents). The equivalent asset backing before tax was 130.2 cents per share (2011: 141.9 cents).

Further information on the operating and financial review of the Company is contained in the Chairman's Letter on page 1 and the Chief Investment Officer's Report on page 2 of the Annual Report.

FINANCIAL POSITION

The net asset value of the Company for the current financial year ended was \$86,354,621 (2011: \$90,159,808).

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

An on market buy-back commenced on 15 March 2011 for a twelve month duration. A total of 1,649,149 shares were bought back. No further buyback is in operation.

A share purchase plan was announced to the market on 19 August 2011, the offer period from 1 September 2011 to 30 September 2011. This offer to eligible shareholders was to apply for up to \$15,000 worth of ordinary shares. A total of 2,660,333 shares were issued.

There were no other significant changes in the state of affairs of the Company during the year ended 30 June 2012.

DIVIDENDS PAID OR RECOMMENDED

Dividends paid or declared are as follows:

	\$
Fully franked final dividend of 6.0c per share was paid on 28 October 2011	3,970,124
Fully franked interim dividend of 5.0c per share was paid on 20 April 2012	3,329,598

Since year end, the Directors have declared a final dividend of 6 cents a share fully franked to be paid on 31 October 2012.

AUSTRALIAN LEADERS FUND LIMITED

A.B.N. 64 106 845 970

DIRECTORS' REPORT TO SHAREHOLDERS FOR THE YEAR ENDED 30 JUNE 2012

DIRECTORS

The following persons were Directors of the Company during the whole of the financial year and up to the date of this report:

J Braitling
G Wilson
J Abernethy
J Gosse

INFORMATION ON DIRECTORS

Justin B. Braitling (Age 45)

Chairman

Experience and expertise

Justin Braitling has over 22 years experience in investing in Australian and international companies. He was an Investment Analyst and Portfolio Manager at Bankers Trust for 12 years from January 1991 to June 2002. He was a key member of the investment team at Bankers Trust that was consistently ranked in the top quartile of managers by InTech.

Justin Braitling has been a Director of the Company since October 2003 of which he became Chairman in February 2007.

Other current directorships

Justin Braitling is the sole Director of the investment management company, Watermark Funds Management Pty Ltd.

Former directorships in the last 3 years

Justin Braitling has not held any other directorships of listed companies within the last three years.

Special responsibilities

Chairman of the Board

Interests in shares of the Company

Details of Justin Braitling's interests in shares of the Company are included later in this report.

Interests in contracts

Details of Justin Braitling's interests in contracts of the Company are included later in this report.

Geoffrey Wilson (Age 54)

Non-Executive Director

Experience and expertise

Geoffrey Wilson has had 32 years experience in the Australian and international securities industry. He holds a Bachelor of Science Degree and a Graduate Management Qualification. He is also a Fellow of the Institute of Company Directors and a Senior Fellow of the Financial Services Institute of Australasia.

Geoffrey Wilson has been a Director of the Company since October 2003 and was Chairman from this time until February 2007.

Other current directorships

Geoffrey Wilson is the Chairman of WAM Capital Limited (appointed March 1999), WAM Research Limited (formerly Wilson Investment Fund Limited) (appointed June 2003), WAM Active Limited (appointed July 2007), the Australian Stockbrokers Foundation Limited and Ascham Foundation. He is a Director of Clime Capital Limited (appointed November 2003), Cadence Capital Limited (appointed February 2005), Vietnam Fund Limited (appointed October 2007) and Incubator Capital Limited (appointed February 2000), Sporting Chance Cancer Foundation, Australian Fund Managers Foundation, Australian Children's Music Foundation, Odyssey House McGrath Foundation and he is a Member of the Second Bite NSW Advisory Committee.. He is also a director of the investment management companies, Wilson Asset Management (International) Pty Ltd, Boutique Asset Management Pty Ltd, Boutique Investment Management Pty Ltd and MAM Pty Ltd.

AUSTRALIAN LEADERS FUND LIMITED

A.B.N. 64 106 845 970

DIRECTORS' REPORT TO SHAREHOLDERS FOR THE YEAR ENDED 30 JUNE 2012

Former directorships in the last 3 years

Geoff Wilson has not held any other directorships of listed companies within the last three years.

Special responsibilities

Member of the Audit Committee

Interests in shares of the Company

Details of Geoffrey Wilson's interests in shares of the Company are included later in this report.

Interests in contracts

Details of Geoffrey Wilson's interests in contracts of the Company are included later in this report.

John Abernethy (Age 53) *Non-Executive Director*

Experience and expertise

John Abernethy has over 29 years experience in funds management and corporate advisory. He holds a Bachelor of Commerce and Bachelor of Laws (BCom/LLB) from the University of New South Wales. He spent ten years at NRMA Investments as Head of Equities managing portfolios of approximately \$2 billion. In 1994 he joined Poynton Corporate Limited as an Executive Director before forming Clime Investment Management Limited in 1996.

John Abernethy has been a Director of the Company since November 2003.

Other current directorships

John Abernethy is the Chairman of Clime Capital Limited. He is a Director of Clime Investment Management Limited, Jasco Holdings Limited, Wilson Investment Fund Limited (appointed May 2002) and is a Director of WAM Active Limited (appointed November 2007).

Former directorships in the last 3 years

John Abernethy has not held any other directorships of listed companies within the last three years.

Special responsibilities

Chairman of the Audit Committee

Interests in shares of the Company

Details of John Abernethy's interests in shares of the Company are included later in this report.

Interests in contracts

John Abernethy has no interests in contracts of the Company.

Julian Gosse (Age 62) *Non-Executive Director*

Experience and expertise

Julian Gosse has extensive experience in banking and broking both in Australia and overseas having worked in London for Rowe and Pitman, in the United States for Janney Montgomery and Scott and in Canada for Wood Gundy. He has been involved in the establishment, operation and ownership of several small businesses.

Julian Gosse has been a Director of the Company since October 2003.

Other current directorships

Julian Gosse is a Director of ITL Limited (appointed September 2003). He is also a Director of WAM Research Limited (formerly Wilson Investment Fund Limited) (appointed June 2003) and Clime Capital Limited (appointed November 2003) and Iron Road Limited (appointed Chairman from April 2009).

Former directorships in the last 3 years

Julian Gosse has not held any other directorships of listed companies within the last three years.

AUSTRALIAN LEADERS FUND LIMITED

A.B.N. 64 106 845 970

DIRECTORS' REPORT TO SHAREHOLDERS FOR THE YEAR ENDED 30 JUNE 2012

Special responsibilities

Member of the Audit Committee

Interests in shares of the Company

Details of Julian Gosse's interests in shares of the Company are included later in this report.

Interests in contracts

Julian Gosse has no interests in contracts of the Company.

Peter Roberts

Company Secretary

Experience and expertise

Peter has over 20 years experience in the fields of chartered accountancy and specialised back office services to the funds management industry. Peter is a Director of White Outsourcing Pty Ltd and Company Secretary of Ironbark Capital Ltd, Whitefield Ltd and Century Australia Ltd. Peter holds a Bachelor of Business and is a Member of the Institute of Chartered Accountants.

REMUNERATION REPORT

This report details the nature and amount of remuneration for each director of Australian Leaders Fund Limited.

(a) Remuneration of Directors

The Board from time to time determines remuneration of Non-Executive Directors within the maximum amount approved by the shareholders. Non-Executive Directors are not entitled to any other remuneration.

Fees and payments to Non-Executive Directors reflect the demands that are made on and the responsibilities of, the Directors and are reviewed annually by the Board. The Company determines the remuneration levels and ensures they are competitively set to attract and retain appropriately qualified and experienced Directors.

Directors' base fees are set at a maximum of \$110,000 per annum. Non-Executive Directors do not receive bonuses nor are they issued options on securities. Directors' fees cover all main board activities and membership of committees. Under the ASX Listing Rules, the maximum fees paid to non-executive Directors may not be increased without approval from the Company at a general meeting. Directors will seek approval from time to time as appropriate.

Directors' remuneration received for the year ended 30 June 2012

Director	Position	Directors' Fees	Post-employment Superannuation	Total
		\$	\$	\$
J. Braithling	Chairman	9,174	826	10,000
G. Wilson	Non-Executive Director	9,174	826	10,000
J. Abernethy	Non-Executive Director	22,936	2,064	25,000
J. Gosse	Non-Executive Director	25,000	-	25,000
P. Roberts ¹	Company Secretary	-	-	-
		66,284	3,716	70,000

AUSTRALIAN LEADERS FUND LIMITED

A.B.N. 64 106 845 970

DIRECTORS' REPORT TO SHAREHOLDERS FOR THE YEAR ENDED 30 JUNE 2012

Directors' remuneration received for the year ended 30 June 2011

Director	Position	Directors' Fees \$	Post-employment Superannuation \$	Total \$
J. Braitling	Chairman	9,174	826	10,000
G. Wilson	Non-Executive Director	9,174	826	10,000
J. Abernethy	Non-Executive Director	19,936	5,064	25,000
J. Gosse	Non-Executive Director	25,000	-	25,000
P. Roberts ¹	Company Secretary	-	-	-
		63,284	6,716	70,000

¹ Peter Roberts is a shareholder and director of White Outsourcing Pty Ltd. During the 2012 financial year ended White Outsourcing Pty Ltd received \$133,055 in relation to Company Secretarial and accounting duties (2011: \$139,961).

The following table compares the company performance and non-executive directors' remuneration since listing:

	2012	2011	2010	2009	2008
Operating profit/(loss) after tax (\$)	(1,296,975)	14,176,932	12,806,245	8,629,987	(10,688,698)
Dividends paid (cents per share)	11.0	13.0	7.0	4.0	6.0
Net tangible asset (\$ per share)	1.30	1.42	1.33	1.22	1.08
Total Directors' remuneration (\$)	70,000	70,000	75,000	80,000	80,000

(b) Director Related Entity Remuneration

All transactions with related entities were made on normal commercial terms and conditions.

Justin Braitling is the sole Director and beneficial owner of Watermark Funds Management Pty Ltd, the entity appointed to manage the investment portfolio of Australian Leaders Fund Limited. In its capacity as manager, Watermark Funds Management Pty Ltd was paid a management fee of 1%p.a (plus GST) of gross assets amounting to \$911,030 (2011: \$1,052,104). As at 30 June 2012, the balance payable to the manager was \$77,800 (2011: \$90,484).

In addition, Watermark Funds Management Pty Ltd is to be paid, annually in arrears, a performance fee being 20% of:

- where the level of the All Ordinaries Accumulation Index has increased over that period, the amount by which the Value of the Portfolio exceeds this increase; or
- where the All Ordinaries Accumulation Index has decreased over that period, the amount of the increase in the Value of the Portfolio.

No performance fee is payable in respect of any performance period where the Portfolio has decreased in Value over that period. For the year ended 30 June 2012 no performance fee was payable to Watermark Funds Management Pty Ltd (2011: \$2,679,679).

Under an Investment Services Agreement, Watermark Funds Management Pty Ltd pays 25% of all management and performance fees to Boutique Asset Management, a company 80% owned by entities associated with Geoffrey Wilson.

These amounts are in addition to the above Directors remuneration.

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than those detailed above) by reason of a contract made by the Company or a related Company with the Director or with a firm of which he is a member or with a Company in which he has substantial financial interest.

AUSTRALIAN LEADERS FUND LIMITED

A.B.N. 64 106 845 970

DIRECTORS' REPORT TO SHAREHOLDERS FOR THE YEAR ENDED 30 JUNE 2012

(c) Remuneration of Executives

There are no executives that are paid by the Company. Watermark Funds Management Pty Ltd, the investment manager of the Company, remunerates Justin Braitling as an employee of the Company and also provides day to day management of the Company and is remunerated as outlined above.

(d) Equity Instrument Disclosures Relating to Directors

As at 30 June 2012, the Company's Directors and their related parties held the following interests in the Company:

Ordinary Shares Held

Director	Position	Balance at 30 June 2011	Acquisitions/ Options Exercised	Disposals	Balance at 30 June 2012
J. Braitling	Chairman	1,120,704	110,190	-	1,230,894
G. Wilson	Non-Executive Director	2,963,214	-	(45,000)	2,918,214
J. Abernethy	Non-Executive Director	60,000	-	-	60,000
J. Gosse	Non-Executive Director	-	-	-	-
		4,143,918	110,190	(45,000)	4,209,108

Directors and Director related entities disposed of and acquired ordinary shares in the Company on the same terms and conditions available to other shareholders.

The Directors have not, during or since the end of the financial year, been granted options over unissued shares or interests in shares of the Company as part of their remuneration.

DIRECTORS' MEETINGS

Director	No. eligible to attend	Attended
J. Braitling	4	4
G. Wilson	4	4
J. Abernethy	4	4
J. Gosse	4	3

AUDIT COMMITTEE MEETINGS

The main responsibilities of the Audit Committee are set out in the Corporate Governance section on page 9-12 of this Annual Report.

Director	No. eligible to attend	Attended
J. Abernethy	2	2
J. Gosse	2	1
G. Wilson	2	2

AUSTRALIAN LEADERS FUND LIMITED

A.B.N. 64 106 845 970

DIRECTORS' REPORT TO SHAREHOLDERS FOR THE YEAR ENDED 30 JUNE 2012

AFTER BALANCE DATE EVENTS

The Directors have declared a final dividend of 6 cents a share fully franked to be paid on 31 October 2012.

No other matters or circumstances have arisen since the end of the financial year which significantly affect or may significantly affect the operations of the economic entity, the results of those operations, or the state of affairs of the economic entity in subsequent financial years.

FUTURE DEVELOPMENTS

The Company will continue to pursue its policy of investment during the next financial year.

ENVIRONMENTAL ISSUES

The Company's operations are not regulated by any environmental regulation under a law of the Commonwealth or of a State or Territory.

INDEMNIFICATION AND INSURANCE OF OFFICERS OR AUDITORS

During the financial year the Company paid a premium in respect of a contract insuring the Directors of the Company, the Company Secretary and any related body corporate against liability incurred as such by a Director or Secretary to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

No indemnities have been given or insurance premiums paid during or since the end of the financial year, for any person who is or has been an auditor of the Company.

PROCEEDINGS ON BEHALF OF COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

NON AUDIT SERVICES


During the current year MNSA Pty Ltd, the Company's auditor, did not perform any other services in addition to their statutory duties for the Company.

Details of the amounts paid to the auditors and their related parties are disclosed in Note 6 to the financial statements.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration for the year ended 30 June 2012 has been received and can be found on page 20 of this Annual Report.

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



MR J. BRAITLING

Chairman

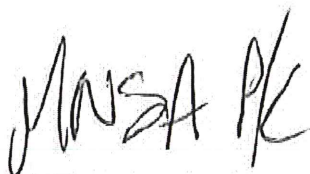
Dated at Sydney this 10th day of August 2012

AUSTRALIAN LEADERS FUND LIMITED
ABN 64 106 845 970

**AUDITOR'S INDEPENDENCE DECLARATION UNDER S 307C OF THE
CORPORATIONS ACT 2001
TO THE DIRECTORS OF AUSTRALIAN LEADERS FUND LIMITED**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2012 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.



MNSA PTY LTD



Phillip Miller
Director

Dated in Sydney this 10th day of August 2012

AUSTRALIAN LEADERS FUND LIMITED

A.B.N. 64 106 845 970

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2012

	Notes	June 2012 \$	June 2011 \$
Proceeds from sale of investments		1,006,619,445	1,096,822,875
Cost of investments sold		(1,018,419,821)	(1,080,231,023)
Unrealised gain on investments		8,225,921	4,232,574
Other revenue from ordinary activities	3	8,790,534	8,705,199
Management and performance fees		(848,914)	(3,477,344)
Directors fees		(70,000)	(70,000)
Brokerage expense on share purchases		(3,060,797)	(3,126,980)
Custody and stock lending fees		(3,967,000)	(3,306,393)
Other expenses from ordinary activities		<u>(658,774)</u>	<u>(552,654)</u>
(Loss)/profit before income tax expense		(3,389,406)	18,996,254
Income tax benefit/(expense)	4(a)	<u>2,092,431</u>	<u>(4,819,322)</u>
(Loss)/profit attributable to members of the Company		<u>(1,296,975)</u>	<u>14,176,932</u>
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive (loss)/income for the year attributable to members of the Company		<u>(1,296,975)</u>	<u>14,176,932</u>
Basic operating (loss)/earnings per share (including realised gains on investments)	15	<u>(2.00) cents</u>	<u>21.80 cents</u>
Diluted (loss)/earnings per share (including realised gains on investments)	15	<u>(2.00) cents</u>	<u>21.80 cents</u>

The Statement of Comprehensive Income should be read in conjunction with the accompanying notes to the financial statements.

AUSTRALIAN LEADERS FUND LIMITED

A.B.N. 64 106 845 970

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2012

	Notes	June 2012 \$	June 2011 \$
ASSETS			
Cash and cash equivalents	13	37,475,697	9,688,219
Trade and other receivables	7	11,995,979	2,755,274
Financial assets	8	128,283,073	161,722,452
Current tax assets	4(c)	923,332	-
Deferred tax assets	4(b)	4,098,056	17,739
TOTAL ASSETS		182,776,137	174,183,684
LIABILITIES			
Trade and other payables	9	92,845,814	77,947,087
Tax liabilities	4(c)	-	4,484,962
Deferred tax liabilities	4(d)	3,575,702	1,591,827
TOTAL LIABILITIES		96,421,516	84,023,876
NET ASSETS		86,354,621	90,159,808
EQUITY			
Issued capital	10	72,514,769	67,723,259
Reserves	11	13,839,852	-
Retained earnings	12	-	22,436,549
TOTAL EQUITY		86,354,621	90,159,808

The Statement of Financial Position should be read in conjunction with the accompanying notes to the financial statements.

AUSTRALIAN LEADERS FUND LIMITED

A.B.N. 64 106 845 970

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2012

	Notes	Issued Capital \$	Reserves \$	Retained Earnings \$	Total \$
Balance at 1 July 2010		68,829,334	-	16,692,226	85,521,560
Profit for the year attributable to members of the Company				14,176,932	14,176,932
Total comprehensive income for the year		-	-	14,176,932	14,176,932
Transactions with shareholders					
Shares issued under dividend reinvestment plan		1,231,006	-	-	1,231,006
On Market Buy Back		(2,343,756)	-	-	(2,343,756)
Dividends paid or provided for	5	-	-	(8,432,609)	(8,432,609)
Options exercised for \$1.25 per share		12,024	-	-	12,024
Costs of Issued Capital		(5,349)	-	-	(5,349)
Balance at 30 June 2011		67,723,259	-	22,436,549	90,159,808
Balance at 1 July 2011		67,723,259	-	22,436,549	90,159,808
(Loss) for the year attributable to members of the Company		-	-	(1,296,975)	(1,296,975)
Total comprehensive income for the year		-	-	(1,296,975)	(1,296,975)
Transactions with shareholders					
Shares issued under dividend reinvestment plan		2,923,020	-	-	2,923,020
Shares issued under share purchase plan		2,945,000	-	-	2,945,000
On Market Buy Back		(1,038,209)	-	-	(1,038,209)
Dividends paid or provided for	5	-	-	(7,299,722)	(7,299,722)
Transfer to reserves		-	13,839,852	(13,839,852)	-
Costs of Issued Capital		(38,301)	-	-	(38,301)
Balance at 30 June 2012		72,514,769	13,839,852	-	86,354,621

The Statement of Changes in Equity should be read in conjunction with the accompanying notes to the financial statements.

AUSTRALIAN LEADERS FUND LIMITED

A.B.N. 64 106 845 970

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2012

	Notes	June 2012 \$	June 2011 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Proceeds from sale of investments		(980,353,745)	1,079,201,950
Payments for purchase of investments		1,018,670,353	(1,065,584,555)
Dividends received		4,865,109	5,321,104
Interest received		3,744,197	3,499,070
Other Income received		-	-
Investment management fees		(860,734)	(975,142)
Investment performance fees		(2,496,974)	(1,778,156)
Brokerage expense on share purchases		(3,060,797)	(3,126,980)
Payments for administration expenses		(839,425)	(885,067)
Payments for custody expenses		(3,967,000)	(3,387,003)
Income tax paid		(5,388,880)	(4,173,183)
NET CASH PROVIDED BY OPERATING ACTIVITIES	14	30,312,104	8,112,038
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from options exercised		-	12,024
Proceeds from share purchase plan		2,945,000	-
Payments for shares bought back		(1,038,210)	(2,343,756)
Transaction costs from the issue of shares		(54,714)	(7,640)
Dividends paid		(4,376,702)	(7,201,603)
NET CASH (USED IN) FINANCING ACTIVITIES		(2,524,626)	(9,540,975)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS HELD		27,787,478	(1,428,937)
CASH AND CASH EQUIVALENTS AT 1 JULY 2011		9,688,219	11,117,156
CASH AND CASH EQUIVALENTS AT 30 JUNE 2012		37,475,697	9,688,219

The Statement of Cash Flows should be read in conjunction with the accompanying notes to the financial statements.

AUSTRALIAN LEADERS FUND LIMITED

A.B.N. 64 106 845 970

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

1. REPORTING ENTITY

Australian Leaders Fund Limited is a company domiciled in Australia. The address of Australian Leaders Fund Limited's registered office is Suite 4, Level 5 139 Macquarie Street Sydney NSW 2000. The financial statements of Australian Leaders Fund Limited as at and for the year ended 30 June 2012 follow. The company is primarily involved in the operations of the financial sector of Australia, making investments and deriving revenue and investment income from listed companies and unit trusts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of accounting

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Australian Accounting Interpretations, other authoritative pronouncement of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report covers Australian Leaders Fund Limited which is a listed public company, incorporated and domiciled in Australia. The financial report has been prepared on an accruals basis, with the exception of valuation of investments as described in Note 2(b) below.

Australian Accounting Standards set out accounting policies that the AASB have concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards.

The financial report has been prepared on an accrual basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

The following is a summary of the material accounting policies adopted by the Company in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

AUSTRALIAN LEADERS FUND LIMITED

A.B.N. 64 106 845 970

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Investments

Classification

Securities are classified as held for short-term profit taking. The purchase and the sale of securities are accounted for at the date of trade. Trade date accounting is adopted for financial assets that are delivered within timeframes established by market place conventions. Securities in the trading portfolio are classified as "assets measured at fair value through the profit and loss statement".

Recognition

Financial instruments incorporating financial assets and financial liabilities are initially measured at fair value on trade date, which excludes transaction costs on trade date, where the related contractual rights or obligations exist. Transaction costs are expensed to the profit and loss immediately. Trade date accounting is adopted for financial assets that are delivered within time frames established by market place conventions. Subsequent to initial recognition these instruments are measured as set out below.

Unrealised gains and losses arising from changes in the fair value of these assets are included in the Statement of Comprehensive Income in the period which they arise and are transferred to the asset revaluation reserve net of the potential tax charges that may arise from the future sale of the investments.

Determination of Fair Value

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

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

(c) Taxation

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

Current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities (assets) are measured at the amounts expected to be paid to/(recovered from) the relevant taxation authority.

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

Current and deferred income tax expense (income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

AUSTRALIAN LEADERS FUND LIMITED

A.B.N. 64 106 845 970

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Taxation (continued)

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

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

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

(d) Revenue from ordinary activities

Revenue from ordinary activities consists of dividends, interest, trust distributions, other income and gross proceeds from the sale of investments.

Interest and dividend revenue are recognised when earned.

(e) Revenue Recognition

- Trading Income - profits and losses realised from the sale of investments and unrealised gains and losses on securities held at fair value are included in the Statement of Comprehensive Income in the year they are incurred.
- Dividend Income - dividends and distributions are brought to account when the right to receive a dividend has been established.
- Interest Income - interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.
- Other Income - other revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and when the revenue can be reliably measured.

(f) Income to pay dividends

In accordance with the Corporations Act 2001, the Company may pay a dividend where the Company's assets exceed its liabilities, the payment of the dividend is fair and reasonable to the Company's shareholders as a whole and the payment of the dividend does not materially prejudice the Company's ability to pay its creditors.

It is the Directors' policy to only pay fully franked dividends and to distribute the majority of franking credits received each year. Franking credits are generated by receiving fully franked dividends from shares held in the Company's investment portfolio, and from the payment of corporate tax on its other investment income, unfranked income and net realised gains.

A provision for dividends payable is recognised in the reporting period in which dividends are declared, for the entire undistributed amount, regardless of the extent to which they will be paid in cash.

AUSTRALIAN LEADERS FUND LIMITED

A.B.N. 64 106 845 970

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with bank, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

For the purposes of the Statement of Cash Flows, cash includes deposits held at call with financial institutions net of bank overdrafts.

(h) Trade and other receivables

Receivables may include amounts for dividends, interest and securities sold. Dividends are receivable when they have been declared and are legally payable. Interest is accrued at the period end from the time of last payment. Amounts received for securities sold are recorded when a sale has occurred. Amounts are generally received within 30 days of being recorded as a receivable.

(i) Trade and other payables

Payables represent liabilities for goods and services provided to the Company prior to the end of the financial year which are unpaid at the reporting date. Payables are unsecured and are usually paid within 30 days of recognition.

(j) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the Statement of Financial Position are shown inclusive of GST.

Cash flows are presented in the Statement of Cash Flows on a gross basis.

(k) Earnings per share

Basic and diluted earnings per share including realised profits and losses on the investment portfolio are calculated by dividing profit attributable to members of the Company by the weighted average number of ordinary shares outstanding during the year, adjusted for any bonus element.

(l) Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(m) Profits Reserve

A profits reserve has been created representing an amount allocated from retained earnings that is preserved for future dividend payments.

(n) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2012 reporting periods. The Company's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 9 *Financial Instruments* and AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* (effective 1 January 2013)

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. AASB 9 permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not traded. The Directors do not expect this will have a significant impact on the Company's financial statements as the Company does not hold any available for sale investments.

AUSTRALIAN LEADERS FUND LIMITED

A.B.N. 64 106 845 970

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) New standards and interpretations not yet adopted (continued)

(ii) AASB 2010-6 *Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets* (effective for annual reporting periods beginning on or after 1 July 2011).

In November 2010, the AASB issued AASB 2010-6 *Disclosures on Transfers of Financial Assets* which amends AASB 1 *First-time Adoption of Australian Accounting* and AASB 7 *Financial Instruments*: Disclosures to introduce additional disclosures in respect of risk exposures arising from transferred financial assets. The amendments will affect particularly entities that sell, factor, securitise, lend or otherwise transfer financial assets to other parties. The amendments will not have any impact on the Company's disclosures. The Company applied the amendment from 1 July 2011.

(iii) AASB 2010-8 *Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets* (effective from 1 January 2012)

In December 2010, the AASB amended AASB 112 *Income Taxes* to provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model. AASB 112 requires the measurement of deferred tax assets or liabilities to reflect the tax consequences that would follow from the way management expects to recover or settle the carrying amount of the relevant assets or liabilities, that is through use or through sale. The amendment introduces a rebuttable presumption that investment property which is measured at fair value is recovered entirely by sale. The Company will apply the amendment from 1 July 2012. It is currently evaluating the impact of the amendment.

(iv) AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB13* (effective 1 January 2013).

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. Application of the new standard will impact the type of information disclosed in the notes to the financial statements. The Company does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.

There are no other standards that are not yet effective that are expected to have a material impact on the Company in the current or future reporting periods and on foreseeable future transactions.

AUSTRALIAN LEADERS FUND LIMITED

A.B.N. 64 106 845 970

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Functional and presentation currency

The functional and presentation currency of the Company is Australian Dollars.

(p) Operating segments

The company operated in Australia only and the principal activity is investment.

(q) Fair Value of Financial Assets and Liabilities

The fair value of cash and cash equivalents, and non-interest bearing monetary financial assets and liabilities of the Company approximates their carrying value. The fair value for assets that are actively traded on market is defined by AASB 139 as 'last bid price'.

(r) Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

	June 2012 \$	June 2011 \$
3. OTHER REVENUE FROM ORDINARY ACTIVITIES		
Australian sourced dividends	4,170,251	3,816,023
Foreign sourced dividends	515,629	866,346
Interest	3,711,909	3,436,795
Trust distributions	392,745	586,035
	<u>8,790,534</u>	<u>8,705,199</u>

4. TAXATION

(a) Income Tax expense

The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax expense as follows:

Prima facie tax payable on profit from ordinary activities before income tax at 30% (2011:

30%)	(1,016,822)	5,698,876
Imputation credit gross up	345,192	366,889
Franking credit offset	(1,150,639)	(1,222,960)
Temporary differences	(257,757)	9,132
Over provision in prior year	(12,405)	(32,615)
	<u>(2,092,431)</u>	<u>4,819,322</u>

Total income tax expense results in a:

Current tax liability	-	5,378,597
Deferred tax liability	1,983,875	(523,200)
Deferred tax asset	(4,095,812)	(13,944)
Share-issue expenses	31,911	10,484
Over provision in prior year	(12,405)	(32,615)
	<u>(2,092,431)</u>	<u>4,819,322</u>

AUSTRALIAN LEADERS FUND LIMITED

A.B.N. 64 106 845 970

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

	June 2012 \$	June 2011 \$
4. TAXATION (CONTINUED)		
(b) Deferred Tax Assets		
Provisions	4,066,147	2,244
Capitalised share issue costs	31,909	15,495
	<u>4,098,056</u>	<u>17,739</u>
Movement in deferred tax assets		
Balance at the beginning of the year	17,739	34,194
Charged to Equity	16,414	-
Charged to the Statement of Comprehensive Income	4,063,903	(16,455)
At reporting date	<u>4,098,056</u>	<u>17,739</u>
Based on Company's history of realised capital gains the directors believe that Company will realise taxable capital gains in the future against which the current year realised capital losses can be utilised.		
(c) Tax (Assets)/Liabilities		
Movement in Tax liabilities		
Balance at the beginning of the year	4,484,962	3,334,370
Overprovision in prior year	(12,405)	(32,615)
Income tax paid	(916,322)	(4,173,183)
Income tax provision	(4,479,567)	5,356,390
At reporting date	<u>(923,332)</u>	<u>4,484,962</u>
(d) Deferred Tax Liabilities		
Fair value adjustments	3,437,172	1,490,445
Income provisions	138,530	101,382
At reporting date	<u>3,575,702</u>	<u>1,591,827</u>
Movement in deferred tax liabilities		
Balance at the beginning of the year	1,591,827	2,115,027
Charged to the Statement of Comprehensive Income	1,983,875	(523,200)
At reporting date	<u>3,575,702</u>	<u>1,591,827</u>

AUSTRALIAN LEADERS FUND LIMITED

A.B.N. 64 106 845 970

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

5. DIVIDENDS

(a) Ordinary dividends recognised in the current year

Dividends paid by the Company

Dividends paid or payable by the Company for the year ended 30 June 2012

	Cents per share	Total amount \$	Date of payment	Tax rate for franking credit	Percentage franked
Final 2011 - ordinary	6.0	3,970,124	28-Oct-11	30%	100%
Interim 2012 - ordinary	5.0	3,329,598	20-Apr-12	30%	100%
	<u>11.0</u>	<u>7,299,722</u>			

Dividends paid or payable by the Company for the year ended 30 June 2011

	Cents per share	Total amount \$	Date of payment	Tax rate for franking credit	Percentage franked
Final 2010 - ordinary	4.0	2,604,997	10-Sep-10	30%	100%
Special 2010 - ordinary	4.0	2,604,997	10-Sep-10	30%	100%
Interim 2011 - ordinary	5.0	3,222,615	21-Apr-11	30%	100%
	<u>13.0</u>	<u>8,432,609</u>			

(b) Dividends not recognised at year end

In addition to the above dividends, since the end of the year, the Directors have recommended the payment of a final dividend of:

	Cents per share	Total amount \$	Date of payment	Tax rate for franking credit	Percentage franked
Final 2012 - ordinary	6.0	4,117,137	31-Oct-12	30%	100%

The final dividend has not been brought to account in the financial statements for the year ended 30 June 2012 but will be recognised in subsequent financial reports.

AUSTRALIAN LEADERS FUND LIMITED

A.B.N. 64 106 845 970

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

5. DIVIDENDS (CONTINUED)

(c) Dividend Franking Account

The franked portion of the final dividend recommended after 30 June 2012 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 30 June 2012.

	June 2012 \$	June 2011 \$
Opening balance of franking account	3,136,751	1,350,080
Franking credits on dividends received	1,428,276	1,524,998
Tax paid during the year	5,388,880	4,173,183
Franking credits paid on ordinary dividends paid	(3,128,452)	(3,609,472)
Loss of franking credits under 45 day rule	(277,636)	(302,038)
Closing balance of franking account	<u>6,547,819</u>	<u>3,136,751</u>
Adjustments for tax payable/refundable in respect of the current year's profits and the receipt of dividends	<u>(744,917)</u>	<u>4,635,290</u>
Adjusted franking account balance	<u>5,802,902</u>	<u>7,772,041</u>
Impact on the franking account of dividends proposed or declared before the financial report authorised for issue but not recognised as a distribution to equity holders during the period	<u>(1,764,487)</u>	<u>(1,639,501)</u>
	<u>4,038,415</u>	<u>6,132,540</u>

The Company's ability to continue to pay franked dividends is dependent upon the receipt of franked dividends from investments and the Company paying tax.

The balance of the franking account does not include the tax to be paid on unrealised investment gains and accrued income currently recognised as a deferred tax liability of \$3,575,702 (2011: \$1,591,827).

6. AUDITORS REMUNERATION

Remuneration of the auditor of the Company for:

Auditing or reviewing the financial report	28,105	24,200
	<u>28,105</u>	<u>24,200</u>

The Company's Audit Committee oversees the relationship with the Company's External Auditors. The Audit Committee reviews the scope of the audit and the proposed fee. It also reviews the cost and scope of other audit-related tax compliance services provided by the audit firm, to ensure that they do not compromise independence.

7. TRADE AND OTHER RECEIVABLES

Unsettled trades	10,775,944	1,554,340
Accrued interest and dividends	1,040,587	866,369
GST receivable	123,860	315,675
Prepayments	55,588	18,890
	<u>11,995,979</u>	<u>2,755,274</u>

Receivables are non-interest bearing and unsecured. Outstanding settlements are on the terms operating in the securities industry, which usually require settlement within three days of the date of a transaction. The credit risk exposure of the company in relation to receivables is the carrying amount.

AUSTRALIAN LEADERS FUND LIMITED

A.B.N. 64 106 845 970

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

	June 2012 \$	June 2011 \$
8. FINANCIAL ASSETS		
Listed investments at fair value	<u>128,283,073</u>	<u>161,722,452</u>

The market values of all investments as at 30 June 2012 are disclosed on page 6 of the Annual Report.
Listed securities are readily saleable with no fixed terms.

9. TRADE AND OTHER PAYABLES

Borrowed stock	92,211,493	74,538,206
Sundry creditors	634,321	3,408,881
	<u>92,845,814</u>	<u>77,947,087</u>

Payables are non interest bearing and unsecured. Outstanding settlements are on terms operating in the securities industry which usually require settlement within three days of the date of a transaction.

When the Company sells securities it does not possess, it has to cover this short position by acquiring securities at a later date and is therefore exposed to price risk of those securities sold short. The sales agreement is usually settled by delivering borrowed securities. However, the Company is required to return those borrowed securities at a later date.

10. ISSUED CAPITAL

(a) Paid-up Capital

68,618,942 ordinary shares fully paid
(2011: 64,248,384)

	<u>72,514,769</u>	<u>67,723,259</u>
--	-------------------	-------------------

(b) Movement in Ordinary Share Capital

	\$	No. of shares 2012	\$	No. of shares 2011
Balance at the beginning of the year	67,723,259	64,248,384	68,829,334	65,121,304
- On-market buy back commencing 14 March 2010	-	-	(1,377,716)	(1,215,890)
- On-market buy back commencing 15 March 2011	(1,038,209)	(897,840)	(966,040)	(751,309)
- DRP shares issued for dividend payment	2,923,020	2,608,065	1,231,006	1,084,660
- SPP shares issued for \$1.107	2,945,000	2,660,333	-	-
- Options exercised for 1.25 per share	-	-	12,024	9,619
- Cost of Issued Capital	(38,301)	-	(5,349)	-
At reporting date	<u>72,514,769</u>	<u>68,618,942</u>	<u>67,723,259</u>	<u>64,248,384</u>

Holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at shareholder meetings, otherwise each member present at a meeting or by proxy has one vote on a show of hands. In the event of the winding up of the Company, ordinary shareholders rank after creditors and share in any proceeds on winding up in proportion to the number of shares held.

On 21 August 2009 the Company announced a 1 for 1 bonus issue in the capital of the company. A total of 67,140,581 options were issued at no cost on 11 September 2009. The options had an exercise price of \$1.25 and expired on 30 November 2010.

AUSTRALIAN LEADERS FUND LIMITED

A.B.N. 64 106 845 970

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

10. ISSUED CAPITAL (CONTINUED)

(c) Capital Management

The Board's policy is to maintain a strong capital base so as to maintain investor and market confidence.

To achieve this the Board of Directors monitor the monthly NTA results, investment performance, the Company's management expense ratio (MER) and share price movements.

The Board is focused on maximising returns to shareholders with active capital management a key objective of the company. The Board has introduced an on market share buy back the aim of the buy-back is to add value to the remaining shares on issue and increase the NTA of the company.

An on market buy-back commenced on 15 March 2011 for a twelve month duration. A total of 1,649,149 shares were bought back. No further buyback is in operation.

A share purchase plan was announced to the market on 19th August 2011, the offer period from 1 September 2011 to 30 September 2011. This offer to eligible shareholders was to apply for up to \$15,000 worth of ordinary shares. A total of 2,660,333 shares were issued.

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

	June 2012 \$	June 2011 \$
11. RESERVES		
Profits Reserve		
Profits Reserve	<u>13,839,852</u>	<u>-</u>
This reserve details an amount preserved for future dividend payments as outlined in accounting policy Note 2(m).		
Movement in Profit Reserve		
Balance at the beginning of the year	-	-
Transfer from/to retained earnings	<u>13,839,852</u>	<u>-</u>
At reporting date	<u>13,839,852</u>	<u>-</u>

12. RETAINED EARNINGS

Balance at the beginning of the year	22,436,549	16,692,226
Profit for the year attributable to members of the Company	(1,296,975)	14,176,932
Transfer to profits reserve	(13,839,852)	-
Dividends paid (refer Note 5)	<u>(7,299,722)</u>	<u>(8,432,609)</u>
At reporting date	<u>-</u>	<u>22,436,549</u>

AUSTRALIAN LEADERS FUND LIMITED

A.B.N. 64 106 845 970

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

	June 2012 \$	June 2011 \$
13. CASH AND CASH EQUIVALENTS		
Cash as at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:		
Cash at bank and on hand	<u>37,475,697</u>	<u>9,688,219</u>
The credit risk exposure of the Company in relation to cash is the carrying amount and any accrued unpaid interest. Cash investments are made with UBS AG Investment Bank which is rated A+ by Standard and Poors.		
The weighted average interest rate for cash and fixed interest securities as at 30 June 2012 is 2.68% (2011: 3.06%).		
14. CASH FLOW INFORMATION		
Reconciliation of Operating Profit after Income Tax		
Operating profit after income tax	(1,296,975)	14,176,932
Less non cash items:		
Net changes in the net fair value of trading portfolio	51,112,665	(7,675,873)
Net cash provided by Operating Activities before changes in assets and liabilities:		
(Increase)/decrease in receivables	(9,247,714)	564,929
(Increase)/decrease in deferred tax assets	(4,063,904)	18,747
(Decrease)/increase in payables	(2,774,560)	399,911
Increase/(decrease) in deferred tax liabilities	1,983,876	(523,200)
(Increase)/decrease in current tax liabilities	<u>(5,401,284)</u>	<u>1,150,592</u>
Net cash provided by Operating Activities	<u>30,312,104</u>	<u>8,112,038</u>

AUSTRALIAN LEADERS FUND LIMITED

A.B.N. 64 106 845 970

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

	June 2012 \$	June 2011 \$
15. EARNINGS PER SHARE		
Basic earnings per share	<u>(2.00) cents</u>	<u>21.80 cents</u>
Diluted earnings per share	<u>(2.00) cents</u>	<u>21.80 cents</u>
	No.	No.
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share	<u>64,607,309</u>	<u>65,044,094</u>
Weighted average number of ordinary shares outstanding during the year used in the calculation of dilutive earnings per share	<u>64,607,309</u>	<u>65,044,094</u>

Diluted earnings per share is the same as basic earnings per share. The Company has no securities outstanding which have the potential to convert to ordinary shares and dilute basic earnings per share.

16. FINANCIAL RISK MANAGEMENT

The Company's financial instruments consist mainly of deposits with banks, trading portfolios, accounts receivable and payable.

The Company's activities expose it to a variety of financial risks: market risk (including interest rate risk), credit risk and liquidity risk.

(i) Credit Risk

The standard defines this as the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the Statement of Financial Position and notes to the financial statements.

There are no other material amounts of collateral held as security at 30 June 2012.

Credit risk is managed as noted in Note 13 with respect to cash and cash equivalents and Note 7 for trade and other receivables. None of these assets are over-due or considered to be impaired.

(ii) Liquidity Risk

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

The Investment Manager monitors its cash-flow requirements daily in relation to the trading account taking into account upcoming dividends, tax payments and trading activity.

The Company's inward cash-flows depend upon the level of dividend and distribution revenue received. Should these decrease by a material amount, the Company would amend its outward cash-flows accordingly. As the Company's major cash outflows are the purchase of securities and dividends paid to shareholders, the level of both of these is managed by the Board and Investment Manager.

Furthermore, the assets of the Company are largely in the form of readily tradeable securities which can be sold on-market if necessary.

AUSTRALIAN LEADERS FUND LIMITED

A.B.N. 64 106 845 970

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

16. FINANCIAL RISK MANAGEMENT (CONTINUED)

(ii) Liquidity Risk (continued)

The table below analyses the Company's financial liabilities in relevant maturity groupings based on the remaining period to the earliest possible contractual maturity date at the year end date. The amounts in the table are contractual undiscounted cash flows.

	Less than 1 month \$	More than 1 month \$	Total \$
At 30 June 2012			
Trade and other payables	92,845,814	-	92,845,814
Deferred tax liabilities	-	3,575,702	3,575,702
Total financial liabilities	<u>92,845,814</u>	<u>3,575,702</u>	<u>96,421,516</u>
At 30 June 2011			
Trade and other payables	77,947,087	-	77,947,087
Current tax liabilities	-	6,076,789	6,076,789
Total financial liabilities	<u>77,947,087</u>	<u>6,076,789</u>	<u>84,023,876</u>

(iii) Market Risk

The standard defines this as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

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

A general fall in market prices of 5 per cent and 10 per cent, if spread equally over all assets in the investment portfolio would lead to a reduction in the Company's equity of \$1.2 million and \$2.5 million respectively (2011: \$3 million and \$6 million respectively), assuming a flat tax-rate of 30 per cent.

The Company seeks to manage and constrain market risk by diversification of the investment portfolio across multiple stocks and industry sectors. The portfolio is maintained by the Investment Manager within a range of parameters governing the levels of acceptable exposure to stocks and industry sectors. The relative weightings of the individual securities and relevant market sectors are reviewed normally weekly and risk can be managed by reducing exposure where necessary.

AUSTRALIAN LEADERS FUND LIMITED

A.B.N. 64 106 845 970

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

16. FINANCIAL RISK MANAGEMENT (CONTINUED)

(iii) Market Risk (continued)

The Company's investment sector as at 30 June is as below:

	2012 (%)	2011 (%)
Consumer Discretionary	6.17	10.37
Consumer Staple	-	3.11
Energy	0.30	7.38
Financials	17.20	49.70
Floating Rate Notes	37.37	-
Healthcare	(14.93)	3.31
Industrials	17.11	8.13
Information Technology	(5.63)	(0.53)
Materials	22.28	12.29
Telecommunications Services	2.91	2.15
Utilities	2.35	3.55
Tourism and Leisure	14.87	0.54
	<u>100.00</u>	<u>100.00</u>

As at 30 June 2012 no securities represented over 5 per cent of the long investment portfolio.

Securities representing over 5 per cent of the long investment portfolio at 30 June 2011 were:

	2011 (%)
Westpac Banking Corporation	5.30%
TOTAL	<u>5.30%</u>

As at 30 June 2012 no securities represented over 5 per cent of the short investment portfolio.

Securities representing over 5 per cent of the short investment portfolio at 30 June 2011 were:

	2011 (%)
General Property Trust	7.63%
Ansell Ltd	6.13%
Amcor Limited	6.04%
Dexus Property Group	5.67%
TOTAL	<u>25.47%</u>

The Company is not directly exposed to currency risk as all its investments are quoted in Australian dollars. The Company has no hedges or hedging investments.

AUSTRALIAN LEADERS FUND LIMITED

A.B.N. 64 106 845 970

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

16. FINANCIAL RISK MANAGEMENT (CONTINUED)

(iv) Interest Rate Risk

The Company's interest bearing financial assets expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

Sensitivity analysis - interest rate risk

An increase of 75 basis points in interest rates as at the reporting date (assuming a flat tax rate of 30 per cent) would have increased the Company's equity and revenue from trading portfolio by \$196,747 (2011: \$50,863). A decrease of 75 basis points would have an equal but opposite effect.

As at 30 June 2012, the Company's exposure to interest rate risk and the effective weighted average interest rate for each class of financial asset and financial liability is set out in the table below:

	Weighted average interest rate (% pa)	Floating interest rate \$'000	Non- interest bearing \$'000	Total \$'000
Financial assets				
Cash assets	2.68%	37,476	-	37,476
Trade and other receivables		-	11,996	11,996
Tax assets		-	5,021	5,021
Trading portfolio		-	128,284	128,284
		37,476	145,301	182,777
Financial liabilities				
Tax liabilities		-	3,577	3,577
Trade and other payables		-	92,846	92,846
		-	96,423	96,423
Net financial assets		37,476	48,878	86,354

As at 30 June 2011, the Company's exposure to interest rate risk and the effective weighted average interest rate for each class of financial asset and financial liability is set out in the table below:

	Weighted average interest rate (% pa)	Floating interest rate \$'000	Non- interest bearing \$'000	Total \$'000
Financial assets				
Cash assets	3.06%	9,688	-	9,688
Trade and other receivables		-	2,755	2,755
Tax assets		-	18	18
Trading portfolio		-	161,723	161,723
		9,688	164,496	174,184
Financial liabilities				
Tax liabilities		-	6,077	6,077
Trade and other payables		-	77,947	77,947
		-	84,024	84,024
Net financial assets		9,688	80,472	90,160

The majority of the Company's financial assets are non-interest bearing. As a result, the Company is subject to limited exposure to interest rate risk due to fluctuations in the prevailing levels of market interest rates.

AUSTRALIAN LEADERS FUND LIMITED

A.B.N. 64 106 845 970

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

16. FINANCIAL RISK MANAGEMENT (CONTINUED)

(v) Fair value hierarchy

The Company classifies fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)

Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement by the Directors. The Directors consider observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The table below sets out the Company's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 30 June.

30 June 2012	Level 1 \$	Level 2 \$	Level 3 \$	TOTAL \$'000
Financial assets				
Listed equities	36,071,580	-	-	36,071,580
Total	36,071,580	-	-	36,071,580
30 June 2011	Level 1 \$	Level 2 \$	Level 3 \$	TOTAL \$'000
Financial assets				
Listed equities	87,184,246	-	-	87,184,246
Total	87,184,246	-	-	87,184,246

Investments whose values are based on quoted market prices in active markets, and therefore classified within level 1, include active listed equities, certain unlisted unit trusts and exchange traded derivatives.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. The Company has no investments that are classified within level 2.

Investments classified within level 3 have significant unobservable inputs, as they are infrequently traded. The Company has no investments that are classified within level 3.

AUSTRALIAN LEADERS FUND LIMITED

A.B.N. 64 106 845 970

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

17. EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

The final dividend as recommended by the Directors will be paid subsequent to balance date and is not provided for in the Statement of Financial Position. Refer to Note 5 of this report.

There has not arisen in the interval between the end of the financial period and the date of this report any item, transaction or event of material and unusual nature likely, in the opinion of the Company, to significantly affect the operations of the entity, the results of those operations, or the state of affairs of the entity, in future financial years.

18. INVESTMENT TRANSACTIONS

The total number of contract notes that were issued for transactions in securities during the financial year was 3,982 (2011: 3,191). Each contract note would involve multiple transactions. The total brokerage paid on these contract notes was \$6,515,672 (2011: \$6,997,723).

19. KEY MANAGEMENT PERSONNEL COMPENSATION

The names and position held of the Company's key management personnel (including Directors) in office at any time during the financial year are:

J.Braitling	Chairman
G. Wilson	Non-Executive Director
J. Abernethy	Non-Executive Director
J. Gosse	Non-Executive Director

a) Remuneration

There are no executives that are paid by the Company. Watermark Funds Management Pty Ltd, the investment manager of the Company, remunerates Justin Braitling as an employee of the Company and also provides day to day management of the Company and is remunerated as outlined in the Directors' Report.

	Directors' Fees	Post-employment Superannuation	Total
	\$	\$	\$
Total Directors remuneration paid by the Company for the year ended 30 June 2012	66,284	3,716	70,000
Total Directors remuneration paid by the Company for the year ended 30 June 2011	63,284	6,716	70,000

AUSTRALIAN LEADERS FUND LIMITED

A.B.N. 64 106 845 970

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

19. KEY MANAGEMENT PERSONNEL COMPENSATION (CONTINUED)

b) Share and option holdings

As at 30 June 2012, the Company's key management personnel held the following interests in the Company:

Ordinary Shares held

Director	Position	Balance at 30 June 2011	Acquisitions/ Options Exercised	Disposals	Balance at 30 June 2012
J. Braitling	Chairman	1,120,704	110,190	-	1,230,894
G. Wilson	Non-Executive Director	2,963,214	-	(45,000)	2,918,214
J. Abernethy	Non-Executive Director	60,000	-	-	60,000
J. Gosse	Non-Executive Director	-	-	-	-
		4,143,918	110,190	(45,000)	4,209,108

Director	Position	Balance at 30 June 2010	Acquisitions/ Options Exercised	Disposals	Balance at 30 June 2011
J. Braitling	Chairman	988,362	132,342	-	1,120,704
G. Wilson	Non-Executive Director	2,963,214	-	-	2,963,214
J. Abernethy	Non-Executive Director	60,000	-	-	60,000
J. Gosse	Non-Executive Director	-	-	-	-
		4,011,576	132,342	-	4,143,918

Directors were issued the following options under a prospectus dated 21 August 2009. These options were not issued as part of the directors remuneration.

Options held

Director	Position	Balance at 30 June 2010	Options Acquired/ Exercised	Options expired	Balance at 30 June 2011
J. Braitling	Chairman	1,878,362	8,867,063	(10,745,425)	-
G. Wilson	Non-Executive Director	2,963,214	2,955,687	(5,918,901)	-
J. Abernethy	Non-Executive Director	60,000	-	(60,000)	-
J. Gosse	Non-Executive Director	-	-	-	-
		4,901,576	11,822,750	(16,724,326)	-

AUSTRALIAN LEADERS FUND LIMITED

A.B.N. 64 106 845 970

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

20. RELATED PARTY TRANSACTIONS

All transactions with related entities were made on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Justin Braitling is a Director and owner of Watermark Funds Management Pty Ltd, the entity appointed to manage the investment portfolio of Australian Leaders Fund Limited. In its capacity as manager, Watermark Funds Management Pty Ltd was paid a management fee of 1% p.a. (plus GST) of gross assets amounting to \$911,030 (2011: \$1,052,104). As at 30 June 2012, the balance payable to the manager was \$77,800 (2011: \$90,484).

In addition, Watermark Funds Management Pty Ltd is to be paid, annually in arrears, a performance fee being 20% of:

- where the level of the All Ordinaries Accumulation Index has increased over that period, the amount by which the Value of the Portfolio exceeds this increase; or
- where the All Ordinaries Accumulation Index has decreased over that period, the amount of the increase in the Value of the Portfolio.

No performance fee is payable in respect of any performance period where the Portfolio has decreased in Value over that period. As at 30 June 2012 no performance fee is payable to Watermark Funds Management Pty Ltd (2011: \$2,679,679).

Under an Investment Services Agreement, Watermark Funds Management Pty Ltd pays 25% of all management and performance fees to Boutique Asset Management, a company owned 80% by entities associated with Geoffrey Wilson.

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than those detailed above) by reason of a contract made by the Company or a related Company with the Director or with a firm of which he is a member or with a Company in which he has substantial financial interest.

21. SEGMENT INFORMATION

The Company has only one reportable segment. The Company operates in Australia and in one industry being the securities investment industry, deriving revenue from dividend income, interest income and from the sale of its portfolio. Segments identified in accordance with the first time application of AASB 8: *Operating Segments* have not differed from those disclosed under AASB 114: *Segment Reporting* in the annual financial report for the year ended 30 June 2012.

22. CONTINGENT LIABILITIES

There are no outstanding contingent liabilities or commitments as at 30 June 2012.

AUSTRALIAN LEADERS FUND LIMITED

A.B.N. 64 106 845 970

DIRECTORS' DECLARATION

The Directors of Australian Leaders Fund Limited declare that:

1. The financial statements and notes, as set out on pages 21 to 44 are in accordance with the *Corporations Act 2001*, and:
 - (a) comply with Accounting Standards; which as stated in accounting policy Note 2 to the financial statements, constitutes explicit and unreserved compliance with International Financial Reporting Standards (IFRS); and
 - (b) give a true and fair view of the financial position of the Company as at 30 June 2012 and of the performance for the year ended on that date;
2. On behalf of the managers of Watermark Funds Management Pty Ltd, and Peter Roberts as persons who performs the Chief Executive and Chief Finance Officer functions respectively for the purposes of this Act have each declared that:
 - (a) the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
 - (b) the financial statements and notes for the financial year comply with the Accounting Standards; and
 - (c) the financial statements and notes for the financial year give a true and fair view.
3. At the date of this declaration, in the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



J.B. BRAITLING
Chairman

Dated at Sydney this 10th day of August 2012



**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
AUSTRALIAN LEADERS FUND LIMITED
ABN 64 106 845 970**

Report on the Financial Report

We have audited the accompanying financial report of Australian Leaders Fund Limited (the company), which comprises the statement of financial position as at 30 June 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the company.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards (IFRS).

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

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

Independence

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

Auditor's Opinion

In our opinion:

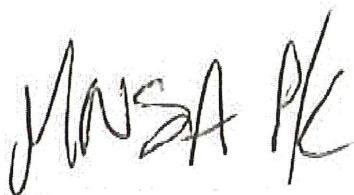
- a. the financial report of Australian Leaders Fund Limited is in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the company's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 16 to 18 of the directors report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the remuneration report of Australian Leaders Fund Limited for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.



MNSA PTY LTD



Phillip Miller
Director

Dated in Sydney this 10th day of August 2012

AUSTRALIAN LEADERS FUND LIMITED

A.B.N. 64 106 845 970

ASX ADDITIONAL INFORMATION

Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this report.

SHAREHOLDINGS

Distribution of shareholders (as at 8 August 2012)

Holdings Ranges	Holders	Total Units	%
1-1,000	108	53,558	0.08
1,001-5,000	369	1,175,627	1.71
5,001-10,000	347	2,773,271	4.04
10,001-100,000	1,062	32,851,194	47.88
100,001-9,999,999,999	103	31,765,292	46.29
Totals	1,989	68,618,942	100.00

The number of shareholdings held in less than marketable parcels is 46.

Twenty largest shareholders - Ordinary shares (as at 8 August 2012)

	Number of ordinary shares held	Percentage of issued capital held
Mr Victor John Plummer	2,500,000	3.64
GW Holdings Pty Ltd <Edwina A/C>	2,207,014	3.22
Mrs Fay Cleo Martin-Weber	2,000,000	2.92
Ms Thelma Joan Martin-Weber	1,500,000	2.19
Mrs Jean Plummer	1,000,000	1.46
Mrs Helen Marjorie Seabrook	921,563	1.34
Mr Stephen Gubbins & Mrs Bridget Gubbins <Dunluce Super Fund A/C>	873,421	1.27
Mr Allan Bevan	800,000	1.17
Dynasty Peak Pty Ltd <The Avoca Super Fund A/C>	711,200	1.04
First Covenant Pty Ltd <Braitling Super Fund A/C>	654,895	0.95
Ubs Wealth Management Australia Nominees Pty Ltd	601,250	0.88
Mrs Janet Helen Bevan	525,222	0.77
Allison Valley Pty Ltd	500,000	0.73
Mr Allan Bevan	500,000	0.73
Trophy Components Distributors Pty Ltd	475,000	0.69
Mr Justin Boyd Braitling	452,639	0.66
Neville Ward Super Pty Limited <The Nw Ward Super Fund A/C>	441,235	0.64
Mr Arthur John Nions & Dr Patricia Percival <An & Pp Super Fund A/C>	420,337	0.61
Austymca Nominees Pty Ltd <Aust Ymca Super Fund A/C>	399,509	0.58
Pjgsmithsuper Pty Ltd <Pj Gordon-Smith S/F A/C>	392,000	0.57

AUSTRALIAN LEADERS FUND LIMITED

A.B.N. 64 106 845 970

ASX ADDITIONAL INFORMATION

VOTING RIGHTS

Each share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this report.

On-market buy back

An on market buy-back was announced to the market on 24 February 2011, which commenced on 15 March 2011 for a twelve month duration. The buy-back will be for up to 6,461,392 shares or 10% of issued capital. A total of 1,649,149 shares were bought back. No further buyback is in operation.

STOCK EXCHANGE LISTING

Quotation has been granted for all of the ordinary shares and options of the Company on all Member Exchanges of the ASX Limited.

AUSTRALIAN LEADERS FUND LIMITED

A.B.N. 64 106 845 970

ASX ADDITIONAL INFORMATION

COMPANY INFORMATION

The name of the Company secretary is Mr Peter Roberts.

The registered office and principal place of business of the Company is:

Suite 4,
Level 5, 139 Macquarie Street
Sydney NSW 2000
Telephone: (02) 9252 0225
Fax: (02) 9252 1220

Mailing Address

Suite 4
Level 5, 139 Macquarie Street
Sydney NSW 2000

Share registry functions are maintained by Boardroom Pty Limited (previously Registries Limited) and their details are as follows:

Boardroom Pty Limited
Level 7, 207 Kent Street
Sydney NSW 2000
Telephone:(02) 9290 9600
Fax:(02) 9279 0664

For all enquiries relating to shareholdings, dividends (including participation in the Dividend Reinvestment Plan) and related matters, please contact the share registrar.

The Company has used cash and assets in a form readily convertible to cash that it had at the time of admission consistent with its business objectives.

The total number of contract notes that were issued for transactions in securities during the financial year was 3,982 (2011: 3,191). Each contract note would involve multiple transactions. The total brokerage paid on these contract notes was \$6,515,672 (2011: \$6,997,273).

Justin Braitling is a Director and owner of Watermark Funds Management Pty Ltd, the entity appointed to manage the investment portfolio of Australian Leaders Fund Limited. In its capacity as manager, Watermark Funds Management Pty Ltd was paid a management fee of 1% p.a (plus GST) of gross assets.

In addition, Watermark Funds Management Pty Ltd is to be paid, annually in arrears, a performance fee being 20% of:

- where the level of the All Ordinaries Accumulation Index has increased over that period, the amount of the increase in the Value of the Portfolio exceeds this increase; or
- where the All Ordinaries Accumulation Index has decreased over that period, the amount of the increase in the Value of the Portfolio.

Under an Investment Services Agreement, Watermark Funds Management Pty Ltd pays 25% of all management and performance fees to Boutique Asset Management, a company 80% owned by entities associated with Geoffrey Wilson.