Appendix 4E

Preliminary Final Report to the Australian Stock Exchange

Name of Entity	Fat Prophets Australia Fund Limited
ABN	62 111 772 359
Financial Year Ended	30 June 2010
Previous Corresponding Reporting Period	30 June 2009

Results for Announcement to the Market

	2010 $ '000	**Percentage increase /(decrease) over previous corresponding period #**
Revenue from ordinary activities	1,418	6%
Profit/(loss) from ordinary activities after tax attributable to members (excluding realised capital gains/(losses))	877	Prior year loss
Profit / (loss) for the period attributable to members (including realised capital gains /(losses)	3,789	Prior year loss

Dividends (distributions)	**Amount per security**	**Franked amount per security**
Final Dividend	Nil	n/a
Previous corresponding period	3.00 cents	100%
Record date for determining entitlements to the dividends (if any)	n/a	

Dividends

Date the dividend is payable	n/a
Record date to determine entitlement to the dividend	n/a
Amount per security	Nil
Total dividend	3.00 cents
Amount per security of foreign sourced dividend or distribution	n/a

Details of any dividend reinvestment plans in operation	n/a
The last date for receipt of an election notice for participation in any dividend reinvestment plans	n/a

NTA Backing

	Current Period To 30/06/10	Previous corresponding period
Net tangible asset backing per ordinary security – pre deferred capital gains tax	$1.0885	$0.9144

Other Significant Information Needed by an Investor to Make an Informed Assessment of the Entity's Financial Performance and Financial Position:

See attached Annual Report

The earnings per security and the nature of any dilution aspects:
Refer Annual Report

Returns to shareholders including distributions and buy backs:
Refer Annual Report

Significant features of operating performance:
Refer Annual Report

The results of segments that are significant to an understanding of the business as a whole:
Refer Annual Report

Discussion of trends in performance:
Refer Annual Report

Any other factor which has affected the results in the period or which are likely to affect results in the future, including those where the effect could not be quantified:
Refer Annual Report

Audit/Review Status

This report is based on accounts to which one of the following applies: (Tick one)			
The accounts have been audited	☑	The accounts have been subject to review	
The accounts are in the process of being audited or subject to review		The accounts have not yet been audited or reviewed	

If the accounts have not yet been audited or subject to review and are likely to be subject to dispute or qualification, a description of the likely dispute or qualification:
Refer Annual Report
If the accounts have been audited or subject to review and are subject to dispute or qualification, a description of the dispute or qualification:
Refer Annual Report

Attachments Forming Part of Appendix 4E

Attachment #	Details
1	Annual Report

Signed By Director	
Print Name	Andrew Brown
Date	26th August 2010

FAT PROPHETS AUSTRALIA FUND LIMITED

ABN 62 111 772 359

ANNUAL REPORT

For the year ended
30 June 2010

1. Directory

Investment Manager
Merricks Capital Pty Limited
AFSL 319477
ACN 126 528 005
ABN 45 126 528 005
Level 1
600 Chapel Street
SOUTH YARRA VIC 3141
Telephone: 03 8319 8111

Directors
Andrew Brown (Chairman)
John Reynolds
Adrian Redlich
Adam Lindell

Company Secretary
Michael Bastin (appointed 13 August 2010)
Richard Fabricius (resigned 13 August 2010)

Accounting & Administration
White Outsourcing Pty Limited
ACN 074 709 210
ABN 76 074 709 210
Level 7
20 Hunter Street
Sydney NSW 2000
Telephone: (02) 8236 7700
Fax: (02) 9221 1194

Auditors
MNSA Pty Ltd
ABN 59 133 605 400
Level 2
333 George Street
Sydney NSW 2000
Telephone: (02) 9299 0901
Fax: (02) 9299 8104

Registered Office
Level 1
600 Chapel Street
SOUTH YARRA VIC 3141

Share Registry
Registries Limited
ACN 003 209 836
ABN 14 003 209 836
Level 7
207 Kent Street
Sydney NSW 2000

Shareholder Enquiries
Telephone: (02) 9290 9600

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Fat Prophets Australia Fund Limited
ABN 62 111 772 359

2. Chairman's Report

Fellow Shareholders,

This is a rather unique annual report for an externally managed listed investment company. Normally the investment manager opines on their results for the past year, proffers their opinions for the period ahead, and postulate how this analysis might be reflected in the management of your money. At present, for Fat Prophets Australia Fund ("**the Fund**"), it is neither fair nor reasonable to expect this.

On 1 August 2010, the incumbent manager Fat Prophets Funds Management Australia Pty. Limited ("**FPFMA**") assigned the management rights to the Fund – after due consent from the board of Directors – to Merricks Capital Pty. Limited ("**Merricks**"). I will discuss the implications of the change later in this piece. However, as they are no longer the manager, we don't expect FPFMA to pen the report, since their views on the future, however accurate, will not be reflected in the funds positioning beyond the very short term. Equally, as the mandate of the Fund may also change, it would be unfair to Merricks to ask them to comment on the investment outlook since they will be also be unable to provide assessments which have any relevance beyond the very short term.

As a consequence, I will provide the sole report to shareholders for the 2010 financial year. In doing so, it is rather tempting to be indulgent, for 2010 was an excellent year for Fund shareholders at the portfolio level.

Portfolio performance

Pre tax net tangible asset backing per share ("**pre tax NTA**") rose from \$0.9144 to \$1.0885 over the year; adjusting for the payment of a \$0.03 per share fully franked dividend in the March 2010 quarter, the change in pre tax NTA was 22.05%, a full 9% above the 13.05% return of the S&P/ASX 300 Accumulation index benchmark. This exceptional outcome, which builds on the track record of the previous two years, reflected consistent above-benchmark returns in all four quarters of the year:

	Change in pre tax NTA	Change in S&P/ASX 300 Accumulation	Difference
1 July – 30 September 2009	+25.77%	+21.64%	+4.13%
1 October – 31 December 2009	+4.37%	+3.37%	+1.00%
1 January – 31 March 2010†	+1.41%	+1.25%	+0.16%
1 April – 30 June 2010	-8.31%	-11.20%	+2.89%

† adjusted for payment of \$0.03 per share fully franked dividend on 26 March 2010

The basic building blocks of this outcome were the maintenance of a fully invested portfolio in the strongly performing September quarter, which included the benefits of a large overweight position in financial securities. At the time, such securities were very cheap, and provided significant exposure to the "financial" world, which with equity market recovery and recapitalisation, was clearly running ahead of the "economic" world. As the 2009 calendar year drew to a close, the manager believed shares had advanced too rapidly, and took a more cautionary stance, increasingly liquidity, including rationalising the portfolio to divest a number of smaller company positions which had rallied sharply. In addition, a number of new positions in the gold sector were purchased. These positions were of major benefit in the final quarter of the year.

Aside from the beneficial increases in precious metals and resources exposure, the portfolio was also assisted by a gradual shift from "asset" type investments to "annuity" style companies over the course of the year. Increased exposure to the healthcare sector was astutely timed, as were material increases in weightings towards businesses with robust strategic positions within their industry. This more "defensive" positioning, allied to gold exposure, was a key contributor to performance over the June quarter.

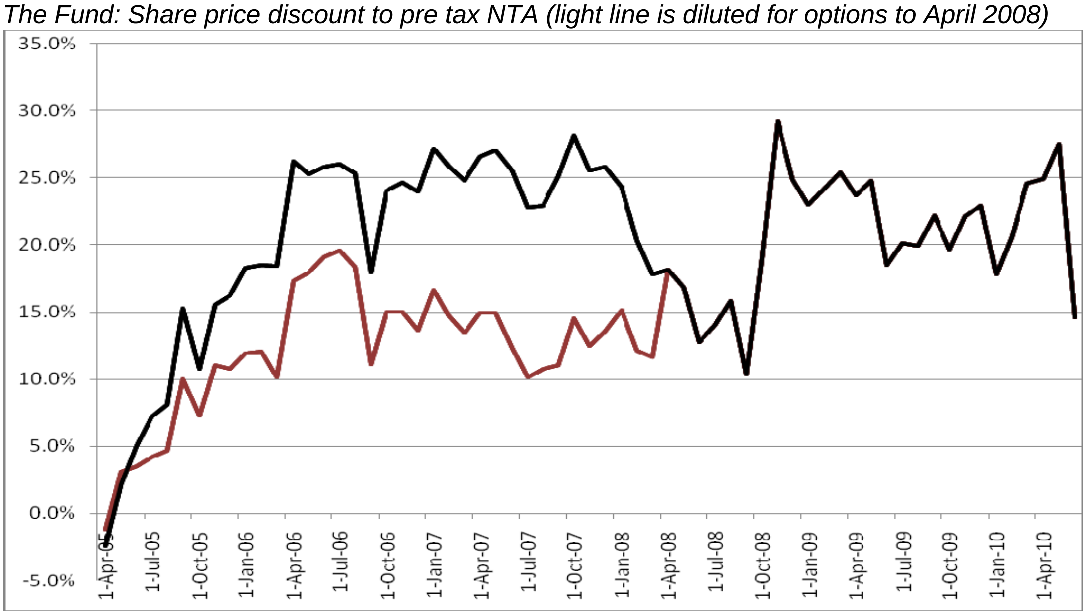
Whilst the current Chairman and Steve O'Hanna managed the portfolio from July through October 2009, the last eight months returns have been the responsibility of Steve and Angus Geddes of FPFMA. They are to be commended for their efforts.

Capital management and share price performance

Over the course of the year to 30 June 2010, the Fund acquired 2,120,818 shares through the on market buyback at an average cost of $0.88 per share. This represents an approximate 19% discount to the year-end pre tax NTA, and accounts for 6.89% of the outstanding shares as at 30 June 2009. If the shares were acquired at an average discount of (say) 20% to the prevailing NTA, this activity would have contributed about 1.4% to the Fund's outperformance of its benchmark.

The board also restored dividend payments in light of the Funds franking balance and available profits, prior to the changes to Section 245T of the Corporations Act which are dealt with below. An interim dividend of $0.03 per share fully franked was paid on 26 March 2010. The Fund has significant scope for future capital management given the current pool of franking credits, which would enable fully franked dividends of up to 13.3cents per share to be paid in the future subject to the solvency tests within the relevant sections of the Corporation Act.

The Fund: Share price discount to pre tax NTA (light line is diluted for options to April 2008)



Despite all these optimistic aspects, the Fund's share price performance was relatively disappointing, reflecting a further widening of the discount to pre tax NTA. From a price of $0.745 at 30 June 2009 – an effective discount of 18.5% to pre tax NTA - the Fund's shares were trading in the $0.80 - $0.85 area for most of June 2010, until the largest shareholder block changed hands on the last day of the financial year at a premium to the previously prevailing market. In the $0.80 - $0.85 range, the discount to pre tax NTA had widened out to around 24%, well above the undiluted average for the Fund since inception of 20.7% (measured as month end share price relative to month end pre tax NTA).

The listed investment company environment

Whilst disappointing, the Fund's experience was by no means unique within the listed investment company ("LIC") marketplace. The middle of 2008 saw something of a "tipping point" in respect of the Australian LIC arena. From that time, the prevailing discounts to NTA of the externally managed vehicles commenced a further upward spiral (seen clearly in the chart of the Fund above) which exacerbated the negative returns to investors as asset prices also fell sharply. It is fair to note that these discounts have not really closed, and that most of the shareholder returns within the externally managed sector since that time have merely come from the underlying performance of the portfolios, aided by equity retirement measures.

There are several possible reasons to explain this phenomenon, but four stand most scrutiny:

- externally managed LIC's are expensive relative to their larger internally managed counterparts, and there is no <u>consistent</u> pattern of external outperformance;
- a number of externally managed LIC's are expensive relative to unit trust vehicles, although the latter suffer from front-end loads, platform fees and various other distributor imposed charges;
- some of the LIC's are often illiquid leading to very high friction costs which can be exacerbated by changes in NTA-discount patterns; and
- in the past few years, a new breed of low cost funds replicating specific equity or asset benchmarks are perceived as being more attractive than funds which are benchmark aware (such as the Fund in the past) rather than benchmark replicating or unaware.

It is not a question of portfolio return; many highly performed closed-end funds which put their unit trust counterparts to shame, trade at significant prevailing discounts to NTA. There are, however, forces afoot, of which your board is particularly cognisant, which could start to alter this pattern.

On 28 June 2010, amendments to Section 254T of the Corporations Act were granted Royal Assent. In highly simplified terms, the amendments enable companies pay dividends providing the company's assets exceed its liabilities immediately before the dividend is declared and the excess is sufficient for the payment of the dividend, 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. For most ungeared investment companies, this will mean that they are able to pay dividends, even in years where there is no accounting profit - such as 2008 and 2009 for the Fund.

A number of investment companies will use this as an opportunity to pay regular half yearly – or even quarterly – dividends at “fixed” rates, providing a fully franked yield backing to their securities. In itself, this should act to reduce discounts to NTA since any fund with a “bank” of franking credits will be able to pay higher dividend than the cash flow generated by the underlying portfolio. It means these funds will be paying dividends out of capital, which could lessen their pool of assets in a humdrum market environment. However, unless financially geared, these funds won’t suffer the consequences of the REIT or infrastructure sectors in 2008 where capital returns disguised as dividends merely served to increase gearing to unsustainable levels on inflated asset values.

Further, in more recent times, we have started to see corporate activity within the LIC sector. Some of this has taken place in the more esoteric “fund of hedge fund” area, where two managers have been replaced. Corporate activity is now starting to spread to the more mainstream arena of Australian equities, where a group of activist investors secured board control of one particular company and enacted the return of a substantial component of the LIC’s capital. This manoeuvre does not result in the removal of the manager, merely leaving the incumbent with a potentially uneconomic level of assets to oversee.

How does this impact on the Fund?

The Fund has performed moderately well over the past three years, and especially well in the past two, when its performance at the pre tax NTA level has outstripped the benchmark by over 6% per annum. For the record, pre tax NTA has grown 1.37% per annum dividend adjusted against a 5.1% decline per annum in the benchmark. However, there has been no tangible sign, until the end of June 2010 when the largest shareholding block in the Fund changed hands, of any narrowing of the share price discount to NTA.

Logic suggests that a “benchmark aware” Australian equity portfolio does not need to be of a closed end nature; whilst the new dividend payment laws may marginally weaken this opinion, this factor is far outweighed by the general lack of capability for such externally managed funds to achieve the pass through of the 50% capital gains tax discount, and the high liquidity of the underlying portfolio which doesn’t demand permanent capital.

It became clear to the board of Directors – and the incumbent manager – that a closed end benchmark aware Australian equity LIC was unlikely to gain “traction” in the marketplace, and would tend to continually trade at large discounts to NTA. Since FPFMA’s skills are arguably better suited to open-ended funds such as unit trusts, or individually managed accounts, they decided to assign the management rights of the Fund to a new manager, who has a skill-set in alternative management styles and asset classes. This will mean that a resolution will be put before the annual general meeting this year to change the name of the fund to reflect the cessation of the relationship with “Fat Prophets”.

The new manager, Merricks, is a Melbourne-based funds manager, focused on the developed markets of Asia. Merricks was established in 2007 by Adrian Redlich (Chief Investment Officer) and Adam Lindell (Chief Operating Officer). Merricks’ investment ideas are generated through detailed bottom up fundamental research by analysts who have specialised industry and sector knowledge and experience. In all market conditions since inception, Merricks has produced positive annual returns for investors by being able to take advantage of outstanding opportunities in shares, bonds and commodities. Merricks has built a robust institutional grade platform to assist in generating positive returns whilst mitigating operational risk, and currently run a number of funds on behalf of both high net worth and institutional investors.

Merricks have a vested interest in ensuring the Fund's portfolio and capital are managed effectively – they are the largest owner of Fund securities with over 19% of the issued capital. The board believe that Merricks have the capability, together with the board itself, to put in place an appropriate mandate which will ensure that three key factors come together: Merricks particular skill-set at managing money, the relevance and use of a closed-end vehicle and the capacity to manage the capital of the Fund to ensure that the shares of the Fund trade closer to NTA than was previously the case.

The future

Merricks will be managing the portfolio in accordance with its current Australian equity mandate until board deliberations regarding any changes are concluded. In this respect, we hope to be able to make a further announcement by the end of September 2010. I should stress that the whole board is conscious of the moderate size of the Fund over which fixed administration costs are required to be amortised.

In the light of these deliberations, and to preserve the maximum flexibility, the Board of Directors has decided to defer the declaration of any dividend until this assessment is completed. Given the changes to Section 254T of the Corporations Act discussed earlier, and whilst the current strong financial position of the Fund is maintained, we will have far greater flexibility in respect of future dividend decisions.

I thank you for your ongoing support of the Fund. You can be assured that the board are highly cognisant of their role as fiduciaries, but also have a belief in supporting their own efforts; somewhat unusually in the LIC area, over a quarter of the Fund's shares are held by relevant interests of the Directors. I clearly believe this aligns the interests of the board members very directly with your own. Let's hope we can all prosper a little more in the 2011 financial year.

Sincerely,

Andrew J. Brown

Andrew Brown
Chairman

3. Portfolio and Sector Allocation as at 30 June 2010

We provide a breakdown of the investment portfolio by value and sector as a means of highlighting the main areas of the economy we have exposure to:

Security	Market Value	Percentage (%)
Consumer Discretionary		
Austar United Communications Ltd	$351,500	1.20%
Carsales.Com Limited	$166,600	0.57%
Consumer Staples		
Wesfarmers Limited	$1,017,075	3.48%
Woolworths Limited	$1,017,303	3.48%
Energy		
Santos Ltd	$554,400	1.89%
Woodside Petroleum Limited	$625,508	2.14%
Financials		
ANZ Banking Group Limited	$2,180,017	7.45%
BT Investment Management Ltd	$334,989	1.14%
Commonwealth Bank Of Australia	$2,149,888	7.35%
Charter Hall Office Reit	$225,000	0.77%
Dexus Property Group	$385,000	1.32%
Galileo Japan Trust	$17,748	0.06%
Magellan Financial Group	$618,713	2.11%
Mirvac Group	$421,195	1.44%
National Australia Bank Limited	$1,736,688	5.94%
Premier Investments Limited	$433,978	1.48%
Qbe Insurance Group Limited	$1,064,700	3.64%
Westpac Banking Corporation	$2,023,113	6.91%
Westfield Group	$487,200	1.67%
Health Care		
CSL Limited	$801,468	2.74%
Healthscope Limited	$404,721	1.38%
Sonic Healthcare Limited	$349,405	1.19%
Industrials		
Sedgman Limited	$349,770	1.20%
Transurban Group	$284,080	0.97%
Materials		
Atlas Iron Limited	$238,430	0.81%
BHP Billiton Limited	$3,795,760	12.97%
Catalpa Resources Limited	$320,101	1.09%
Coeur D'Alene Mines Corporation	$164,680	0.56%
Kingsgate Consolidated Limited	$527,668	1.80%
Lihir Gold Limited	$1,224,040	4.18%
Macarthur Coal Limited	$315,120	1.08%
Newcrest Mining Limited	$895,050	3.06%
Platinum Australia Limited	$108,000	0.37%
Rio Tinto Limited	$1,058,627	3.62%
Ramelius Resources Limited	$124,155	0.42%
South Boulder Mines Ltd	$118,320	0.40%

Telecommunication Services		
M2 Telecommunications Group Ltd	$299,441	1.02%
Telstra Limited	$991,250	3.39%
Cash	$870,469	2.97%
Accrued Dividends Due	$209,738	0.72%
Total Portfolio Value	**$29,260,908**	

4. Corporate Governance Statement

CORPORATE GOVERNANCE

In March 2003, the ASX Corporate Governance Council ("**ASXCGC**") issued the Principles of Good Corporate Governance and Best Practice Recommendations ("**ASX Recommendations**") as a guide to the top 500 ASX listed companies. The guidelines were reviewed as at 31 March 2004 by the Implementation Review Group and some relaxations agreed particularly in respect to non top 300 ASX listed companies. The ASX recommendations were extensively revised in August 2007 as a "Second Edition".

Corporate Governance is the framework by which Fat Prophets Australia Fund Limited ("**the Fund**" or "**the Company**") is effectively managed, in respect of its ethics and honest approach to doing business, the accountability of the board of Directors to shareholders of the Company for financial performance and growth, and the management of the inevitable risks which are encountered in running a company reliant upon the performance of financial assets and investments.

The Company is a small company with a strong commitment to containing costs. This commitment, when related to the size and outsourced nature of operations of the Company, makes it difficult to fully attain all of the recommended principles; indeed, many of the principles have limited relevance to the operation of the Company, and as a consequence, the corporate governance framework has been adapted to the operation of a smaller entity. In any event, shareholders are significantly advantaged by the fact that the board of Directors of the Company hold a relevant interest in approximately 25% of the equity in the Company.

Further, all of the Board and staff are experienced company officers and are well aware of their responsibilities to the Company, to the security holders and to all other stakeholders, and some fulfil similar roles in other corporations. As a consequence, the Company looks to attract Directors who exhibit the requisite innate characteristics of honesty and integrity, rather than simply adopt a series of boilerplate documents, and attempt to justify divergence from them.

The Fat Fund Board largely supports and is largely, though not totally, in compliance with the ASX Recommendations published by the ASXCGC. The Company's constitution and various charters and statements in relation of corporate governance discussed in this section are available from the Company upon request in writing.

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

A. THE ROLE OF THE BOARD AND MANAGEMENT

The Board does not have a formal Board Charter given the extensive use of outsourced partners to operate the Company resulting in a clear division between the role of the Board and that of the Investment Manager: The Board believes its primary functions are:

- Acting as an interface between the Company and its shareholders;
- Setting the goals of the Company including short, medium and longer term objectives;
- Providing the overall strategic direction of the Company;

- Interfacing with the Investment manager in respect of capital management;
- Approving all mergers and acquisitions and the establishment of controlled entities;
- Approving investments where a potential conflict of interest may arise or where the investment may breach internally set benchmarks in respect of size of exposure; and
- Ensuring the Investment Manager manages the Company's investment portfolio in the prescribed manner, with respect to style, exposure limits and other facets which will govern the overall performance of the portfolio.

The Board specifically delegates the day to day management of the Company's affairs to three external parties:

- Management of the investment portfolio, via Merricks Capital Pty. Limited ("**Merricks**") pursuant to a management agreement effective 20 April 2005 which was assigned to Merricks by the original manager, Fat Prophets Fund Management Pty. Limited ("**FPFMA**") with the consent of the board of Directors, effective from 1 August 2010;
- back office functions, such as trade settlement and accounting via White Outsourcing Pty Limited; and
- share registry services via Registries Limited.

B. LETTERS OF APPOINTMENT

Letters of appointment are prepared for non-executive directors covering duties, time commitments, induction and company policies and corporate governance. Given the small number of these individuals, their remuneration structure and main elements of terms of employment are reproduced in the Remuneration Report section of this Annual Report.

C. INDUCTION OF SENIOR EXECUTIVES

The Company has no executives with all functions being outsourced, and it is not planned to hire such individuals in the near future.

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D. PERFORMANCE EVALUATION OF SENIOR EXECUTIVES

There is no specific performance appraisal of senior executives. Every six months, the Investment Manager formally presents to the Board and certifies that it has acted in accordance with the Management Agreement.

During the period from 1 July 2009 to 31 October 2009, the Fund comprised a Non Executive Chairman, a Non Executive Director, two Executive Directors and an alternate Director who also acted as the Company Secretary. From 1 November 2009 to 30 June 2010, the Fund comprised a Non Executive Chairman, a Non Executive Director, an Executive Director and an alternate Director who also acted as the Company Secretary The Company also utilises the services of the outsource partners noted above. From 1 August 2010, the Fund now comprises a Non Executive Chairman, a Non Executive Director and two Executive Directors.

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

A. SIZE AND COMPOSITION OF THE BOARD

The composition of the Board is determined in accordance with the following principles and guidelines:

- The Board shall comprise not less than three Directors nor more than such number as the Directors may determine at any time.
- The Chairman should preferably be an Independent or Non-Executive Director.
- The Board shall comprise Directors with a diverse and appropriate range of qualifications and expertise and in the event of retirement of a Director with particular expertise, the Board will appoint a Director with skills and experience to balance the needs of the Board in the operations of the Company.
- The Board shall meet at least quarterly and follow meeting guidelines established to ensure that all Directors are made aware of, and have available all necessary information in a timely manner, to participate in an informed discussion of all agenda items.

At the date of this report, the Board of the Company comprises a Non Executive Chairman, a Non Executive Director and two Executive Directors. The Directors' Report provides the details of the Directors in office during the year together with their experience, expertise and qualifications.

The Directors in office at the date of this Statement are:

Non Executive Chairman:	Andrew Brown
Independent Non Executive Director:	John Reynolds
Executive Director:	Adrian Redlich
Executive Director:	Adam Lindell

B. DIRECTORS' INDEPENDENCE

Independent Directors are independent of management, do not have a substantial shareholding (i.e. less than 5%) and are free from any business or other relationship which could materially interfere with the exercise of their judgement. The Company presently has one Independent Director. In light of the size and activities of the Company, the Directors do not see any advantage in appointing additional directors.

CONFLICT OF INTEREST

The Board has in place a process to ensure that conflicts of interest are managed appropriately. If a potential conflict of interest arises, the director concerned does not receive the relevant Board papers and/or leaves the Board meeting while the matter is considered. Directors must advise the Board immediately of any interests that could potentially conflict with those of the Fund.

C. ELECTION OF DIRECTORS

The Directors of the Company are elected or re-elected (on a rotational basis) at the Company's Annual General Meeting. Details of the members of the Board, their experience, expertise and qualifications are set out in the Director's Report. It is the Board's policy to determine the terms and conditions relating to the appointment and retirement of Non Executive Directors on a case by case basis and in conformity with the requirements of the Listing Rules and the Corporations Act.

D. BOARD COMMITTEES

Establishment of Board committees is commensurate with the size of the Company and is as follows:

Audit Committee
At the date of this statement, the members of the Audit Committee are John Reynolds and Andrew Brown (Chairman of the Audit Committee).

Having regard to the small size of the Company, the duties of a Remuneration Committee and Nomination Committee are handled by the full Board.

E. DIRECTOR'S ACCESS TO INFORMATION AND ADVICE

Directors receive a monthly report from the Investment Manager – whether or not a Board meeting is scheduled – and have unrestricted access to company records and information.

Directors may obtain independent professional advice at the Fund's expense on matters arising in the course of their Board and Committee duties, after obtaining the Chairman's approval. The Board requires that all directors be provided with a copy of such advice and be notified if the chairman's approval is withheld.

It is the Board's policy that any committees established by the Board should:

- Be entitled to obtain independent professional or other advice at the cost of the Company, unless the Board determines otherwise.
- Be entitled to obtain such resources and information from the Company including direct access to employees of and advisers to the Company as they might require.
- Operate in accordance with terms of reference established by the Board.

The Board appoints and removes the Company Secretary. All directors have direct access to the Company Secretary and, through the Chairman, to the Board on all governance matters.

F. BOARD EVALUATION

Since the Company is small in nature, the Board does not undertake a formal annual evaluation process.

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

A. BUSINESS CONDUCT AND ETHICS

The Directors have adopted a Code of Conduct ("**Code**") of which the following is a summary:

- Directors must act honestly, in good faith and in the best interests of the Company as a whole at all times.
- Directors have a duty to use due care and diligence in fulfilling the functions of the office and exercising the powers attached to that office.
- Directors must always use the powers of the office for a proper purpose.
- Directors must recognise that their primary responsibility is to the Company's security holders as a whole but should, where appropriate, have regard for the interests of all stakeholders of the Company.
- Directors must not make improper use of information acquired as a Director.
- Directors must not allow personal interests, or the interests of any Associated Person, to conflict with the interests of the Company.
- Directors have an obligation to be independent in judgement and actions and to take all reasonable steps to be satisfied as to the soundness of all decisions taken by the Board.
- Confidential information received by a Director in the course of the exercise of Directors duties remains the property of the company from which it was obtained and it is improper to disclose it, or allow it to be disclosed, unless that disclosure has been authorised by that company, or required by law.
- Directors should not engage in conduct likely to bring discredit upon the Company.
- Directors have an obligation, at all times, to comply with the spirit, as well as the letter of the law and with the principles of this Code.
- Directors have an obligation to ensure that the continuous and periodic disclosure requirements as set out in the ASX Listing Rules are adhered to at all times.

The policy also includes detailed guidelines for interpretation of the principles of the Code.

B. TRADING IN COMPANY SECURITIES

Directors and executives are not permitted to buy or sell the Company's shares other than in the five days after release of the monthly net tangible assets statement to the ASX, unless there is additional price sensitive information known to Directors. Trading at other times is only permitted with the express permission of the Chairman.

PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

A. AUDIT COMMITTEE FUNCTION

Detailed terms of reference for the Audit Committee in the form of an Audit Committee Charter have been adopted. At present, the Audit Committee does not meet the requirements of the ASX Recommendations, since whilst it contains only non-executive directors and is chaired by an Independent Director, it only has two rather than three members. The board believes that due to the small scale of the Company and clear transparency and simplicity of accounts that the Audit Committee can function adequately in its current composition.

The Audit Committee responsibilities are:

- to review the adequacy of systems and standards of internal control with emphasis on risk management, financial reporting procedures and compliance;
- to review proposed announcements of financial results, financial statements, management questionnaires and external audit reports in advance of the Board;
- to receive any information it requires from the Investment Manager;
- to report its findings and recommendations directly to the Board; and
- to provide a direct link from the Board to the external auditor; the nomination of the external auditor and reviewing the adequacy of the scope and quality of the annual statutory audit and half year audit review.

The Audit Committee meets separately with the auditors as required from time to time to discuss the audit reviews and reports, to ensure that there are no outstanding issues and to assess the auditor's continuing independence.

At the date of this statement, the members of the Audit Committee are John Reynolds (Chairman of the Audit Committee) and Andrew Brown.

Full compliance with the ASX Recommendations (requires three members including an independent Chairman) will not be achieved unless the Board resolves to appoint an independent Director/Chairman. The Directors do not believe there is any advantage in appointing additional directors at this time. Current members of the Audit Committee have adequate qualifications and are financially literate.

The Audit Committee seeks to ensure the independence of the external auditor. The policy on auditor independence applies to services supplied by the external auditor and their related firms to the Company. Under the policy on auditor independence, the external auditor is not to provide non-audit services under which the auditor assumes the role of management, becomes an advocate for the group, or audits its own professional expertise. The Fund has a very limited number and scope of permissible non-audit assignments. In addition, the external audit engagement partner and review partner must be rotated every five years.

The external auditor annually confirms its independence within the meaning of applicable legislation and professional standards.

B. FINANCIAL REPORT ACCOUNTABILITY

The Company has no full time staff, no CEO and no CFO. In light of his continuity throughout the year, Andrew Brown has given a declaration to the Board in writing that the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards.

Accounting functions and back office functions have been outsourced to an independent party, White Outsourcing Pty Limited.

The Board considers that the independence of the external providers of accounting and back office services ensures that no collusion can occur within the ranks of senior management (if it existed) or the Board of the Company with the outcome that the financial accounts received by the Board are not likely to be significantly flawed.

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

The Board has always been very conscious of its disclosure obligations and has adopted a detailed continuous and periodic disclosure policy.

All Directors and the Company Secretary are responsible to ensure that disclosure policy is adhered to. The Investment Manager and Sub-contract Manager works with the Chairman in dealing with media contact and any external communications.

Current and archived news items announced by the Company are available free of charge at the ASX website.

Fat Fund provides a review of operations and financial performance in the 2010 Annual Report which includes the company's financial report. Results announcements to the ASX, analyst presentations and the full text of the Chairman's address at the Company's Annual General Meeting are lodged with ASX and available at the ASX website.

PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

The Board is committed to ensuring that the security holders are at all times provided with information sufficient to allow effective monitoring of the Company's performance by means of:

- the Annual Report which is distributed to security holders (at their election);
- the Half Yearly Report;
- periodic reports and special reports when matters of material interest arise;
- the Annual General Meeting and other meetings called to obtain approval of any Board action as required; and
- Continuous disclosure.

The Directors' Code of Conduct supports this principle.

The Company's auditor is required to attend the Annual General Meeting and be available to answer any questions the Security holders may care to ask in respect to the audit of the financial statements of the Company.

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

A. OVERSIGHT OF RISK

The Board of Directors is the ultimate sponsor of risk oversight within the Company, but does so in a manner which reflects the transparent nature of the Company's systems. The Company pays significant attention to risk as a consequence of its activities which involve dealing in financial assets. As a consequence of the core equity investing activities of the Company, the Fund deliberately assumes a level of risk of capital loss, the quantum of which is regularly discussed and debated by the Board.

Through the reporting of the Investment Manager, the Board is able to monitor various measurements of absolute and relative risk. Relative risk has historically assessed the level of risk being taken by the Investment Manager relative to the construction of the benchmark return index for the Fat Fund, the S&P/ASX 300 Accumulation index ("Benchmark").

The Audit Committee Terms of Reference include a requirement for the Committee to review and monitor the risk management practices and activities of the Company.

B. IMPLEMENTATION OF RISK MANAGEMENT SYSTEMS

The Company has access to a series of internal and external controls through the Investment Manager which govern the Company's material business risks. These controls include, but are not restricted to:

- external providers of accounting services to the Company; and
- regular reporting by the Investment Manager to the Board of Directors.

The Company has not appointed a specific internal auditor. The Company does not have a Risk Management Committee due to its small size and scale of activities, but the Audit Committee has a mandate to review and monitor the risk management practices and activities of the Company.

The Investment Manager is highly cognisant of the risks being run at any given time relative to the Benchmark, as well as the overall risk that equity prices may be over-valued in the opinion of the Investment Manager, which may result in the Investment Manager moving a greater percentage of the Company's assets into cash. Risk relative to the benchmark is governed by:

- weighting in an individual security relative to its weighting in the Benchmark;
- the volatility of an individual security included in the Benchmark (whether held or not in the portfolio); and
- the correlation between and volatility of securities held within the portfolio e.g. a high correlation between securities of companies in the same industry, and the nature of volatility of securities in that industry.

The Investment Manager is required to be cognisant of securities not held by the Fund if such securities have share price patterns which are more volatile than the overall market, and such securities represent a significant weighting in the Benchmark. The Investment Manager utilises specialist software to measure the overall expected deviation of return of the Fund portfolio at any given moment in time, with that of the Benchmark.

C. ACCOUNTABILITY

In the 2010 financial year, Andrew Brown acted as the Key Person of FPFMA, which was the Investment Manager throughout the period from 1 July 2009 to 30 June 2010. Andrew Brown has provided a statement to the Board in writing in respect to the integrity of the financial statements and the efficient and effective operation of the risk management and internal compliance and control systems.

As part of the process of approving the financial statements, at each reporting date the Investment Manager provides a statement in writing to the Board on the quality and effectiveness of the Company's risk management and internal compliance and control systems.

The Board has also received statements from Andrew Brown certifying that, having made all reasonable enquiries and to the best of his knowledge and belief:

- the statements made in relation to the financial integrity of the financial reports are founded on a sound system of risk management and internal compliance and control;
- the system of risk management in operation at 30 June 2010 implements the policies adopted and delegated by the Board and was operating effectively; and
- the systems relating to financial reporting were operating effectively in all material respects.

Further, the Board received the relevant declarations required under section 295A of the Corporations Act 2001 and the relevant assurances required under recommendation 7.3 of the Second Edition of the ASX Recommendations.

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

The duties and responsibilities of a Remuneration Committee are handled by the full Board, to ensure that the remuneration practices of the Company are fair and reasonable and structured to encourage enhanced performance. Full details of the remuneration quantum and structure for key personnel is contained in the Remuneration Report within this Annual Report.

Directors Remuneration

If an Executive Director is appointed, suitable remuneration will be approved by the Board. Such an appointment is not currently envisaged.

The maximum aggregate amount of Non Executive Director's fees must be approved by the company in a General Meeting. Non Executive Directors are not granted options over unissued shares in the Company, and receive no bonus payments nor retirement entitlements other than superannuation.

The Board does not currently offer equity based remuneration for Executive or Non Executive Directors and it is not intended to do so.

5. Directors' Report

The Directors present their report on the Company for the financial year ended 30 June 2010.

A. Directors

The names and details of the Directors of the Company who held office during the year and at the date of this report are :

Andrew Brown *(Appointed 22 December 2005)*
Executive Director
Bachelor of Arts (Economics) Honours
Age 51

Andrew Brown has 30 years experience in the Australian equity market as a stockbroker, corporate investor and funds manager. Andrew has an honours degree majoring in economics and econometrics from the University of Manchester, England, and completed the National Association of Securities Dealers (USA) Series 7 Examination (1983).
During the past three years, Andrew has served as a Director of the following other public companies:

- Adelaide Resources Limited (Chairman – ongoing)
- Aequs Capital Limited (appointed 14/4/2005; resigned 18/12/2008)
- Cheviot Bridge Limited (non-executive Director – ongoing)
- Cheviot Kirribilly Vineyard Property Group (executive Director – ongoing)
- Enerji Limited (appointed 20/8/2007; resigned 8/7/2008)
- Equities and Freeholds Limited (appointed 2/10/2007; resigned 16/3/2010)
- Snowball Group Limited (appointed 25/6/2003; resigned 9/10/2007)
- Tidewater Investments Limited (Managing Director – ongoing)

Andrew became a Director of the Company in December 2005, is a Non Executive Director and member of the Audit Commiteee.

John Reynolds (Appointed 30 June 2008)
Independent Non-Executive Director
FFin
Age 42

John Reynolds is a Senior client advisor with Bell Potter Securities. Bell Potter is one of the largest retail brokers in Australia with close to 300 securities advisors. John has over 18 years experience in the securities industry. He has worked for the last 6 years at Bell Potter having previous experience at the securities firms JB Were, Credit Suisse and Challenger. He is an accredited securities dealer in Australian and International equities, derivatives and numerous equity and non-equity related products.

John has completed a Diploma in Applied Finance and Investment through FINSIA, specialising in portfolio construction and portfolio management. The majority of his advisory work is focused on the Top 50 stocks listed on the ASX. John is also a regular contributor to CNBC and Boardroom Radio.

John became a director of the company on 30 June 2008. He is the Chairman of the Audit Committee.

Adrian Redlich (Appointed 2 August 2010)
Executive Director
B Econ
Age 37

Adrian is the co-Founder and Chief Investment Officer of Merricks Capital. From 2005 to 2007 Adrian worked at Citadel Investment Group in Chicago as the Head of Quantitative Alpha Generation, Global Equities. This team was primarily responsible for the evolution and refinement of the investment process of Citadel's Global Equities & Derivative Portfolio, which ran the world's largest fundamental long/short market neutral portfolio. During this time Adrian was also directly responsible for an Asian focussed derivative portfolio.

Between 2000 and 2005, Adrian was a Director at Merrill Lynch (New York & Hong Kong), where he was Head of the Global Valuation and Analytics Group. Prior to this, Adrian was a Vice President at Merrill Lynch (Melbourne, Australia) where he worked as a commodities and mining analyst from 1993 to 2000. Adrian holds a Bachelor of Economics from Monash University, Melbourne, Australia (1994). He also completed the Quantum Financial Services (Australia) Diploma of Financial Services (2007) and the National Association of Securities Dealers (USA) Series 7 Examination (2000).

Adam Lindell (Appointed 2 August 2010)
Executive Director
BA (Hons); LLB (Hons)
Age 38

Adam is the co-Founder and Chief Operating Officer of Merricks Capital. Prior to joining Merricks in 2007, Adam was a Partner of a national Australian Law Firm, where he specialised in mergers & acquisitions, funds management, capital raisings, initial public offerings, private equity and leveraged buy-outs.

Adam holds a Bachelor of Arts (Honours) and a Bachelor of Law (Honours) from Monash University.

Angus Geddes
Non-Executive Director (Appointed 12 September 2006; resigned 30 July 2010)
Bachelor of Commerce, FFin
Age 41

Angus has 20 years experience in the international and domestic financial markets in stockbroking, investment banking and research.

In 2000, Angus co-founded Fat Prophets Group - which trades as Fat Prophets - and currently holds the position of Chief Executive Officer for Fat Prophets Pty Limited.

Angus has a Commerce Degree (Otago University, New Zealand) and a Graduate Diploma in Applied Finance and Investment.

Angus was appointed as a Director of the Company on 12 September 2006, resigning on 30 July 2010. He was previously a Director of the Company from November 2004 to February 2005 and an Alternative Director from March 2005 until October 2005.

Robert Bolton *(Appointed 19 January 2005; resigned 31 October 2009)*
Independent Non-Executive Chairman
Bachelor of Engineering (civil), MBA, GAICD
Age 50

Robert has over 24 years of executive management and project management experience in the construction, mining, IT, financial services and consulting sectors. In 1996 Robert founded "Probative Solutions" to provide innovative constraint management solutions. More recently he has led a number of business development teams in start-up environments in roles encompassing innovative business and project turnarounds, often in an interim executive and director capacity. Robert is a leading Australian advocate of the Theory of Constraints (TOC) approach to management.

He holds a B. Engineering (Civil) from the University of Sydney, an MBA from Ashridge Management College (United Kingdom) and is a graduate member of the Australian Institute of Company Directors (AICD).

Robert became a Non-Executive Director and Chairman of the Company in January 2005, resigning on 31 October 2009.

Mr Richard Fabricius *(Appointed 19 September 2008; resigned 30 July 2010)*
(Alternate Director for Angus Geddes)
Bachelor of Science (Combined Honours in Business Administration and Political Studies)
Age 53

Richard has worked in financial markets for almost 31 years, the last seven of which have been in Australia. During his career he has spent time as both an investment and business manager working for a number of financial services companies that include such names as Robert Fleming and Aberdeen Asset Management. Throughout much of this period he has been actively involved in Listed Investment Companies and has previously served as a Director on the Boards of the Aberdeen New Thai Investment Company, Aberdeen Leaders Limited and Equity ELink Limited.

All of the Directors have been in office from the commencement of the 2010 financial year until the date of this report unless otherwise stated.

B. Company Secretary

Richard Fabricius held the position of Company Secretary during the financial year, but resigned as at 13 August 2010:

Michael Bastin was appointed Company Secretary as at 13 August 2010

Michael is the Chief Financial Officer of Merricks Capital. Prior to joining Merricks Capital, between 1997 and 2008 Michael worked for Merrill Lynch in various management roles in both Melbourne and Hong Kong. His most recent role was the Director and Head of Australian GMIS (Global Markets and Investment Banking Services) for Merrill Lynch Equities Australia Ltd. where he was responsible for all of the operational functions for Merrill Lynch Australia. Prior to Merrill Lynch Michael held roles with Deutsche Morgan Grenfell in London in their Money Market Operations division and at National Australia Bank in FX Treasury Operations. Michael holds a Degree of Bachelor of Commerce (Finance & Economics) from Deakin University

C. Interests in the Securities of the Company

The relevant interests of each Director in the securities of the Company shown in the Register of Directors' Shareholdings as at the date of this report is:

Director	Ordinary Shares
Andrew Brown (Chairman)	1,850,346
Adam Lindell (appointed 30/07/10)	5,507,028
Adrian Redlich (appointed 30/07/10)	5,507,028
John Reynolds	-
Robert Bolton (resigned 31/10/09)	-
Angus Geddes (resigned 30/7/10)	-
Richard Fabricius (Alternate Director – resigned 30/7/10)	-

Directors are not required under the Company's constitution to hold any Shares, Options or any other Securities in the Company.

D. Interests in Contracts or Proposed Contracts with the Company

Fat Prophets Funds Management Pty Limited, of which Angus Geddes is a Director, held a contract to manage the Fat Prophets Australia Fund Limited until 1 August 2010, which is disclosed in the Remuneration Report of this Directors' Report (on page 24). From 1 August 2010, Merricks Capital Pty. Limited, of which Adam Lindell and Adrian Redlich are both Directors, holds a contract to manage the Fat Prophets Australia Fund Limited.

E. Principal Activities

The principal activity of the Company during the year was investment in securities listed on the Australian Stock Exchange.

There were no changes in the nature of the Company's principal activity during the financial year.

F. Operating Results

The profit of the Company after providing for income tax and before capital gains is $877,625 (2009: $805,644).

G. Dividends

No final dividend has been declared for the financial year ended 30 June 2010 (2009: nil). For further details in respect of the dividends paid or recommended, refer to Note 18 of the financial statements.

H. Review of operations

	2010 $	2009 $
Profit from ordinary activities before income tax benefit and capital gains	690,757	718,593
Income tax benefit	186,868	87,051
Profit from ordinary activities before capital gains	877,625	805,644

The net tangible asset backing of the Company as at 30 June 2010 was $1.0885 per share before tax ($1.0591 after tax). 2009: 0.9144 per share before tax ($0.9555 after tax).

I. Significant changes in state of affairs

The Company commenced an on-market share buy-back in November 2008 for a twelve month period. During this time 1,547,702 ordinary shares were bought back. The Company announced a further on-market share buy-back in November 2009 for a twelve month period. During this time 1,033,022 ordinary shares were bought back as at 30 June 2010.

Refer to Note 8 of the Financial Report for further details.

J. Earnings per share

Basic and diluted earnings (excluding net realised gains/losses on investment portfolio) were 2.96 cents per share (2.57 cents per share in 2009). Basic and Diluted earnings (including net realised gains/losses on investment portfolio) were (5.93) cents per share ((7.20) cents per share in 2009).

K. Environmental regulation

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

To the extent that any environmental regulations may have an incidental impact on the Company's operations, the Directors of the Company are not aware of any breach by the Company of those regulations.

L. Future Developments

The Company will continue to pursue its investment objectives for the long term benefit of the members. This will require continual review of the investment strategies that are currently in place and may require changes to these strategies to maximise returns.

Further information on likely developments in the operations of the Company and the expected results of operations have not been included in this report because the Directors believe it would be likely to result in unreasonable prejudice to the Company.

M. Events Subsequent to Balance Date

On 29 July 2010, the Company announced that the Directors had consented to the assignment of the management rights to the Fund from the incumbent manager, Fat Prophets Funds Management Australia Pty. Limited (“FPFMA”) to Merricks Capital Pty. Limited (“Merricks”). As a result of this change, a resolution will be put to shareholders in due course, to change the name of the Company to recognise the cessation of the relationship with “Fat Prophets”.

As part of the same announcement, the Directors noted that whilst the Fund will continue to be managed with an Australian equities mandate for the time being, the Directors of the Company are likely to examine other alternatives, within the Fund’s Constitution, and that it is anticipated this review will be completed and communicated to shareholders by 30 September 2010.

On 30 July 2010, Angus Geddes and Richard Fabricius resigned as a Director and Alternate Director respectively; on 2 August 2010, Adam Lindell and Adrian Redlich, Directors of Merricks, were both appointed to the board of Directors of the Fund.

N. Meetings of Directors

The number of Directors' Meetings (including Meetings of committees of Directors) and number of Meetings attended by each of the Directors of the Company during the 2010 financial year were:

	Directors' Meetings		Audit Committee Meetings	
	Meetings eligible to attend	**Meetings attended**	**Meetings eligible to attend**	**Meetings attended**
Andrew Brown (Chairman)	6	6	2	2
Adam Lindell (appointed 30/07/10)	-	-	-	-
Adrian Redlich (appointed 30/07/10)	-	-	-	-
John Reynolds	6	6	4	4
Robert Bolton (resigned 31/10/09)	2	2	2	2
Angus Geddes (resigned 30/7/10)	6	6	-	-
Richard Fabricius (Alternate Director – resigned 30/7/10)	-	-	-	-

The number of Directors' Meetings and Audit Committee Meetings has been adjusted for each member to reflect the number of Meetings held during their tenure.

O. Remuneration Report

The Company has no employees other than its Directors. The Company's policy is to offer a sufficient level of remuneration to attract employees (Directors) who are financially literate and knowledgeable of investment management best practice. All Directors must have a deep understanding and commitment to good corporate governance.

As the Company has a performance fee scheme in place with the Manager, the Company has effectively linked performance with compensation in relation to the management of the Company's assets. With regard to Directors, no performance-based compensation exists nor is planned. This is because the primary role of the Directors is to ensure adherence to good governance and oversight of the Manager. In this capacity, performance based compensation schemes are not deemed to be appropriate by the Board.

Under the Company's constitution, each Director (other than a Managing Director or an Executive Director) may be paid out remuneration for ordinary services performed as a Director. Salary is the only form of compensation. No option or bonus plans are in place.

Under ASX Listing Rules, the maximum fees payable to directors may not be increased without prior approval from the Company at a general meeting. Directors will seek approval from time to time as deemed appropriate.

The Directors will be entitled to receive the following benefits:

(a) the maximum total remuneration of the Directors of the Company has been set at $135,000 per annum to be divided amongst them in such proportions as they agree. The Board is not required to allocate the entire amount.

(b) Adam Lindell and Adrian Redlich are Directors of the Manager. The Manager will receive a management fee and performance fee (where relevant) for managing the Portfolio.

(c) Entities associated with Adam Lindell and Adrian Redlich are shareholders of the Manager. The Manager will receive a management fee and performance fee (where relevant) for managing the Portfolio.

The Directors' remuneration for the year ended 30 June 2010 is detailed in the following table:

Name of Director	Base fee $	Superannuation $	Total $
Andrew Brown (Chairman)	26,667	Nil	26,667
Robert Bolton	13,333	1,200	14,533
Angus Geddes	Nil	Nil	Nil
Richard Fabricius (Alternative Director)	Nil	Nil	Nil
John Reynolds	30,000	2,700	32,700
TOTAL	**70,000**	**3,900**	**73,900**

The Directors' remuneration for the year ended 30 June 2009 is detailed in the following table:

Name of Director	Base fee $	Superannuation $	Total $
Andrew Brown (Chairman)	Nil	Nil	Nil
Robert Bolton	40,000	3,600	43,600
Angus Geddes	Nil	Nil	Nil
Richard Fabricius (Alternative Director)	Nil	Nil	Nil
John Reynolds	30,000	2,700	32,700
TOTAL	**70,000**	**6,300**	**76,300**

Angus Geddes, who is also a Director of the previous Manager and a shareholder in the ultimate holding company of the previous Manager, is not entitled to be paid Directors' fees.

No Director of the Company has received or become entitled to receive a benefit, other than a remuneration benefit as disclosed in note 12(b) to the financial statements, by reason of a contract made by the Company or a related entity with the Director or with a firm of which they are a member, or with a Company in which they have a substantial interest.

P. Insurance of Directors

During the financial year, the Company has given indemnity and paid insurance premiums to insure Directors against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of Directors of the Company, other than conduct involving a wilful breach of duty in relation to the Company. During the year, premiums were paid in respect of the key management personnel liability and legal expenses insurance contract. Details of the nature of the liabilities covered and the amount of premiums paid have not been disclosed as disclosure is prohibited under the terms of the contract.

Q. Proceedings on behalf of the Company

There are no legal or other proceedings being made on behalf of the Company or against the Company as at the date of this report.

R. Non-Audit Services

No non-audit services have been provided by the Auditor or by another person on the Auditor's behalf during the year. This statement has been made in accordance with advice provided by the Company's audit committee and has been endorsed by a resolution of that committee.

S. Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2010 has been received and can be found on page 27.

Signed in accordance with a resolution of the Board of Directors.

Andrew J. Brown

Andrew Brown
Chairman
Dated this 26th day of August 2010 at Sydney

6. Auditor's Independence Declaration under s307c of the Corporations Act 2001 to the Directors of Fat Prophets Australia Fund Limited

FAT PROPHETS AUSTRALIA FUND LIMITED
ABN 62 111 772 359

6. AUDITOR'S INDEPENDENCE DECLARATION UNDER S 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF FAT PROPHETS AUSTRALIA FUND LIMITED

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2010 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

MNSA PTY LTD

Phillip Miller
Director

Dated in Sydney, this 26th day of August 2010

MNSA
ABN 59 133 605 400

Level 2, 333 George St
Sydney NSW 2000
GPO Box 2943 Sydney 2001

Tel (02) 9299 0901
Fax (02) 9299 8104
Email admin@mnsa.com.au

7. Statement of Comprehensive Income
For the year ended 30 June 2010

	Notes	2010 $	2009 $
Investment Revenue from ordinary activities	3 (a)	1,418,302	1,337,075
Income from trading portfolio			
Revenue from trading portfolio	3 (b)	-	13,050
Net realised gains/(losses) on disposal		-	(186,764)
Net unrealised gains/(losses)		-	230,182
Expenses			
Administrative expenses		(64,498)	(64,460)
Management fees		(405,879)	(342,920)
Audit fees	11	(38,504)	(30,800)
Share registry fees		(35,937)	(43,333)
Directors' fees		(74,567)	(76,300)
Company secretarial fees		(20,500)	(20,500)
ASX listing fees		(23,908)	(23,754)
Legal Fees		-	(14,860)
Other		(63,752)	(58,023)
Total expenses from ordinary activities		(727,545)	(674,950)
Operating profit before income tax benefit and realised gains on investments		690,757	718,593
Income tax benefit relating to ordinary activities	5 (c)	186,868	87,051
Operating profit for the period		877,625	805,644
Impairment losses on investment portfolio, net of tax		-	(1,610,525)
Net profit/(loss) for the period		877,625	(804,881)
Other comprehensive income			
Net realised losses on investment portfolio		(1,108,062)	(2,297,795)
Income tax benefit on investment portfolio		85,070	845,653
Net unrealised gains/(losses) on investment portfolio		5,620,474	(5,787,914)
Tax on unrealised (gains)/losses on investment portfolio		(1,686,142)	1,736,375
Impairment losses on investment portfolio		-	2,300,754
Income Tax benefit on impairment losses		-	(690,226)
Other comprehensive income/(loss) for the period, net of tax		2,911,340	(3,893,153)
Total comprehensive income/(loss) for the year		3,788,965	(4,698,034)
Profit attributable to members of the company		877,625	805,644
Total comprehensive profit/(loss) attributable to members of the company		3,788,965	(4,698,034)

		2010 Cents	2009 Cents
Basic and diluted earnings per share (excluding net realised capital profits/losses on investment portfolio)	17	2.96	2.57
Basic and diluted earnings/(loss) per share (including net realised capital profits/losses on investment portfolio)	17	(5.93)	(7.20)

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

8. Statement of Financial Position
As at 30 June 2010

	Notes	2010 $	2009 $
Current assets			
Cash and cash equivalents	15 (b)	870,469	839,995
Trade and other receivables	4	391,779	839,094
Prepayments		8,296	7,297
Total current assets		1,270,544	1,686,386
Non-current assets			
Available for sale portfolio	6	28,180,702	25,820,645
Deferred tax assets	5 (d)	2,023,865	2,318,436
Total non-current assets		30,204,567	28,139,081
Total assets		31,475,111	29,825,467
Current liabilities			
Trade and other payables	7	184,022	422,549
Current tax liabilities	5 (e)	-	-
Total current liabilities		184,022	422,549
Non-current liabilities			
Deferred tax liabilities	5 (f)	843,811	751
Total non-current liabilities		843,811	751
Total liabilities		1,027,833	423,300
Net assets		30,447,278	29,402,167
Equity			
Share capital	8	28,690,067	30,554,273
Investment portfolio revaluation reserve	9 (a)	682,995	(3,251,337)
Realised capital profits reserve	9 (b)	825,795	3,459,315
Retained earnings	10	248,421	(1,360,084)
Total equity		30,447,278	29,402,167

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

Fat Prophets Australia Fund Limited
ABN 62 111 772 359

9. Statement of Changes in Equity
For the year ended 30 June 2010

	Notes	Share Capital $	Investment Portfolio Revaluation Reserve/ Realised Capital Profits Reserve $	Retained Earnings $	Total $
Total equity as at 1 July 2008		**31,877,583**	**4,101,134**	**332,137**	**36,310,854**
Dividends paid from retained earnings	18	-	-	(887,337)	(887,337)
Shares bought back		(1,323,310)	-	-	(1,323,310)
Total Transactions with shareholders		(1,323,310)	-	(887,337)	(2,210,647)
Total comprehensive income/(loss) for the period		-	-	(2,257,026)	(2,257,026)
Other comprehensive income					
Net unrealised losses on investment portfolio		-	(5,787,914)	-	(5,787,914)
Tax on unrealised losses on investment portfolio		-	1,736,375	-	1,736,375
Tax effected Impairment loss recognised in income statement		-	1,610,525	-	1,610,525
Net realised losses on investment portfolio		-	(2,297,795)	2,297,795	-
Income tax benefit on investment portfolio		-	845,653	(845,653)	-
Total other comprehensive income		-	(3,893,156)	1,452,142	(2,441,014)
Total equity as at 1 July 2009		**30,554,273**	**207,978**	**(1,360,084)**	**29,402,167**
Dividends paid from retained earnings	18	-	-	(879,648)	(879,648)
Shares bought back		(1,864,206)	-	-	(1,864,206)
Total Transactions with shareholders		(1,864,206)	-	(879,648)	(2,743,854)
Total comprehensive income/(loss) for the period		-	-	(145,367)	(145,367)
Other comprehensive income					
Net unrealised gains on investment portfolio		-	5,620,474	-	5,620,474
Tax on unrealised gains on investment portfolio		-	(1,686,142)	-	(1,686,142)
Net realised gain on impaired investments		-	(2,300,754)	2,300,754	-
Tax on realised gain on impaired investments			690,226	(690,226)	-
Net realised losses on investment portfolio		-	(1,108,062)	1,108,062	-
Income tax benefit on investment portfolio		-	85,070	(85,070)	-
Total other comprehensive income		-	1,300,812	2,633,520	3,934,332
Total equity as at 30 June 2010		**28,690,067**	**1,508,790**	**248,421**	**30,447,278**

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

10. Statement of Cash Flows
For the year ended 30 June 2010

	Notes	2010 $	2009 $
Cash flows from operating activities			
Proceeds from sale of trading portfolio		-	546,568
Interest received		36,703	57,826
Dividends received		1,067,576	1,321,062
Trust distributions		291,961	130,282
Investment manager's fees paid		(433,010)	(378,596)
Other expenses paid		(289,969)	(298,267)
Net cash provided by operating activities	15	673,261	1,378,875
Cash flows from investing activities			
Proceeds from sale of investments portfolio		14,444,556	7,693,949
Purchase of investments portfolio		(12,343,489)	(8,043,346)
Net cash provided by/(used in) investing activities		2,101,067	(349,397)
Cash flows from financing activities			
On market buyback of shares		(1,864,206)	(1,323,309)
Dividends paid		(879,648)	(887,337)
Net cash used in financing activities		(2,743,854)	(2,210,646)
Net (decrease)/increase in cash held		30,474	(1,181,168)
Cash at the beginning of the financial year		839,995	2,021,163
Cash at the end of the financial year		870,469	839,995

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

11. Notes to the financial statements
For the year ended 30 June 2010

1 Reporting Entity

Fat Prophets Australia Fund Limited is a company domiciled in Australia. The financial statements of Fat Prophets Australia Fund Limited are for the year ended 30 June 2010. The Company is primarily involved in making investments and deriving revenue and investment income from listed securities and unit trusts in Australia.

2 Summary of significant accounting policies

(a) Basis of Preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

Australian Accounting Standards set out accounting policies that the AASB has 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 covers Fat Prophets Australia Fund Limited which is a listed public company, incorporated and domiciled in Australia. The financial report has been prepared on an accruals basis, and is based on historical cost, with the exception of valuation of investments as described in Note 2(b) below.

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.

Adoption of new and revised Accounting Standards

The Company has adopted the following amendments issued by Australian Accounting Standards Board, which are effective for annual reporting periods beginning on or after 1 January 2009.

(i) AASB 8: *Operating Segments* and AASB 2007-3: *Amendments to Australian Accounting Standards* arising from AASB 8.

AASB 8 and *AASB 2007-3* are effective for annual reporting periods beginning on or after 1 January 2009. Application of these standards has not effected any of the amounts recognised in the financial statements, but has effected the segment disclosures provided in Note 13.

(ii) Revised AASB 101: *Presentation of Financial Statements* and AASB 2007-8: *Amendments to Australian Accounting Standards arising from* AASB 101 (effective from 1 January 2009).

AASB 101 prescribes the contents and structure of the financial statements. Changes reflected in this financial report include:

- the replacement of Income Statement with Statement of Comprehensive Income. Items of income and expense not recognised in profit or loss are now disclosed as components of 'other comprehensive income'.
- the adoption of the single statement approach to the presentation of the Statement of Comprehensive Income.
- other financial statements are renamed in accordance with the Standard.

(iii) *AASB 7/AASB 2009-2 Amendments to AASB 7 Financial Instruments Disclosures* - Improving Disclosures about Financial Instruments

The amendments to AASB 7 expand the disclosures required in respect of fair value measurements and liquidity risk. The Company has elected not to provide comparative information for these expanded disclosures in the current year in accordance with the transitional reliefs offered in these amendments.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

(b) Investments

Classification

Securities are classified into either the investment portfolio (long term) or trading portfolio (short term) at acquisition.

Recognition

Financial instruments are initially measured at fair value on trade date, which includes transaction costs on trade date, for the investment portfolio where the related contractual rights or obligations exist. Transaction costs related to instruments designated as trading portfolio are expensed to the profit and loss immediately. Subsequent to initial recognition these instruments are measured as set out below.

Trade date accounting is adopted for financial assets that are delivered within time frames established by market place conventions.

Investment portfolio

Securities are classified as available-for-sale. After initial recognition as per above, securities are measured at fair value.

Gains or losses on available-for-sale securities are recognised as a separate component of equity until the securities are sold, collected or otherwise disposed of, or until the securities are determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the Statement of Comprehensive Income.

Trading portfolio

Securities are classified as held for trading financial assets if acquired principally for the purposes of selling in the short term or if so designated by management and within the requirements of AASB139: recognition and measurement of financial instruments.

Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period which they arise.

Determination of fair value

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

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

Impairment

The Company assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. A prolonged decline is assessed in terms of the company's investments strategy. [Significant is assessed in terms of the security, the company's investment portfolio and market volatility]. If any such evidence exists the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the Statement of Comprehensive Income. Impairment losses recognised in the Statement of Comprehensive Income on equity instruments classified as available-for-sale are not reversed through the Statement of Comprehensive Income.

(c) Income Tax

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

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using the applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

2 Summary of significant accounting policies (continued)

(c) Income Tax (continued)

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

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

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

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

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

Trading portfolio

A tax provision is made for the unrealised gain or loss on securities valued at fair value through the Statement of Comprehensive Income.

Where the Company disposes of such securities, tax is calculated on gains made according to the particular parcels allocated to the sale for tax purposes offset against any losses carried forward.

Investment portfolio

A tax provision is made for the unrealised gain or loss on securities valued at fair value through the investment portfolio revaluation reserve.

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

(d) Revenue Recognition

- Trading Income - profit 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.

(e) Income to pay dividends

The Company may pay dividends from the profit, dividend and interest income it receives from its investments to the extent permitted by law and prudent business practices. Dividends will be franked to the extent that available imputation credits permit. Dividends that are paid from the realisation of a capital gain may be passed on to shareholders.

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

(f) 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 cash flow statement, cash includes deposits held at call with financial institutions net of bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the Statement of Financial Position.

(g) 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.

(h) 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.

(i) Goods and services tax (GST)

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 cash flow statement on a gross basis, except the GST component of investing and financing activities, which are disclosed as operating cash flows.

(j) 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.

(k) 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.

(l) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2010 reporting periods. The Directors' assessment of the impact of these new standards (to the extent relevant to the Company) 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 and measurement of financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not traded. Fair value gains and losses on available-for-sale debt investment, for example, will therefore have to be recognised directly in profit or loss. The Company has not yet decided how it would classify its financial assets under this new standard.

(ii) AASB 2009-5 *Further Amendments to Australian Accounting Standard arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 and 139]*

In May 2009 the AASB issued a number of improvements to AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* , AASB 8 *Operating Segments* , AASB 101 *Presentation of Financial Statements* , AASB 107 *Statement of Cash Flows* , AASB 117 *Leases* , AASB 118 *Revenue* , AASB 136 *Impairment of Assets* and AASB 139 *Financial Instruments, Recognition and Measurement* . The Company will apply the revised Standards from 1 July 2010. The Company does not expect that any adjustments will be necessary as a result of applying the revised rules.

(iii) Revised AASB 124 *Related Party Disclosures* and AASB 2009-12 *Amendments to Australian Accounting Standards* (effective 1 January 2011)

In December 2009 the AASB issued a revised AASB 124 Related Party Disclosures. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities and clarifies and simplifies the definition of a related party. The Company will apply the amended standard from 1 July 2011. When the amendments are applied, the Company would need to disclose any transactions between its subsidiaries and its associates. However, as the Company does not have any subsidiaries and associates, the amendment will not have any effect on the Company's financial statements.

(m) Functional and presentation currency

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

(n) 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'.

(o) 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.

The Company follows the guidance of AASB 139 Financial Instruments: Recognition and Measurement on determining when an available-for-sale financial asset is impaired. This determination requires significant judgement. In making this judgement the Company evaluates among other factors, the duration and extent to which the fair value of an investment is less than its cost and the financial health of the near term business outlook for investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

The Company has recognised deferred tax assets relating to carried forward tax losses on the basis that it expects to derive future capital gains sufficient to utilise the current losses within a 3 to 5 year time period. However, utilisation of the tax losses also depends on the ability of the entity to satisfy certain tests at the time the losses are recouped. The entity may fail to satisfy the continuity of ownership test and therefore has to rely on the same business test. If the entity fails to satisfy that test, carried forward losses that are currently recognised as deferred tax asset of $1,104,554 would have to be written off to income tax expense.

11. Notes to the financial statements
For the year ended 30 June 2010

		2010 $	2009 $
3	**Revenue**		
(a)	**Revenue from investment portfolio**		
	Dividends received	1,085,610	1,153,735
	Trust distributions	291,961	130,282
	Interest received	40,731	53,058
	Total	1,418,302	1,337,075
(b)	**Revenue from trading portfolio**		
	Dividends received	-	13,050
	Total	-	13,050
4	**Trade and other receivables**		
	Current		
	Accrued interest and dividends	215,949	193,887
	Unsettled sales	160,156	633,593
	GST receivable	15,674	11,614
		391,779	839,094

Receivables are non-interest bearing and unsecured. Outstanding settlements are on the terms operating in the securities industry,

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

		2010 $	2009 $
5	**Income tax benefit**		
(a)	**Income tax benefit recognised in the Income Statement**		
	The components of income tax benefit		
	Current income tax benefit	185,340	148,065
	Deferred tax income	1,528	(61,014)
	relating to the origination and reversal of temporary differences		
	Total income tax benefit (excluding realised gains/losses on investment portfolio)	186,868	87,051
(b)	**Income tax recognised directly in equity**		
	The following current and deferred amounts were charged directly to equity during the period:		
	Current tax (benefit)		
	Share-issue expenses	-	-
	Deferred tax		
	Revaluation of investment portfolio	(2,099,776)	1,065,243
		(2,099,776)	1,065,243
(c)	**Income tax benefit**		
	The prima facie income tax benefit on accounting profit (before realised gains/losses on investment portfolio) reconciles to income tax benefit as follows:		
	Prima facie income tax benefit calculated at 30% (2009: 30%) on the operating profit before realised gains/(losses) on the investment portfolio	(207,227)	(215,578)
	Add/(Less) effect of:		
	Imputation gross up on dividends received	(123,949)	(139,007)
	Franking credits on dividends received	413,162	463,358
	Under provision of tax in prior year	48,257	-
	Timing differences	56,625	(21,722)
	Income tax benefit (before realised gains/(losses) on investment portfolio)	186,868	87,051
	The applicable weighted average effective tax benefit rates are as follows:	27.05%	12.11%

The weighted average effective rate for 2010 is as a result of significant imputation credits received and utilisation of prior year losses.

11. Notes to the financial statements
For the year ended 30 June 2010

5 Income tax benefit (continued)

		2010 $	2009 $
(d)	**Deferred tax assets**		
	Deferred tax assets comprises the estimated expenses at current income tax rates on the following items:		
	Temporary differences	6,600	4,000
	Tax losses	2,017,265	1,056,588
	Provision for unrealised losses on investments	-	1,257,848
	Total provision	2,023,865	2,318,436
(e)	**Income tax liability**		
	Income tax payable	-	-
(f)	**Deferred tax liabilities**		
	Provision for deferred income tax comprises the estimated expense at current income tax rates of 30% on the following items:		
	Provision for capital gains tax on unrealised investments	841,948	-
	Temporary differences	1,863	751
		843,811	751
(g)	**Reconciliations**		
	The overall movement in the deferred tax account is as follows:		
	Opening balance	2,317,685	(65,477)
	(Charge)/credit to Statement of Comprehensive Income	962,165	1,003,038
	Charge to Equity	(2,099,796)	1,380,124
	Closing balance	1,180,054	2,317,685

6 Other Financial Assets

	2010 $	2009 $
Non-Current		
Investment portfolio - at fair value		
Shares & equities in listed companies	26,644,559	24,288,649
Listed property trusts	1,536,143	1,531,996
	28,180,702	25,820,645

Listed securities are readily saleable with no fixed terms.

7 Trade and other payables

	2010 $	2009 $
Current		
Trade creditors	54,527	47,471
Unsettled purchases	96,115	344,266
Management fees	33,380	30,812
	184,022	422,549

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

11. Notes to the financial statements
For the year ended 30 June 2010

8 Share capital

Ordinary shares			28,690,067	30,554,273

	2010 No.	2010 $	2009 No.	2009 $
Opening balance	30,724,489	30,554,273	32,546,814	31,877,583
Share buy backs during the year	(2,120,818)	(1,864,206)	(1,822,325)	(1,323,310)
Closing balance	28,603,671	28,690,067	30,724,489	30,554,273

(a) Terms and conditions

The Company has ordinary shares on issue. 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.

In the event of winding up the Company, ordinary shareholders rank after creditors and are fully entitled to any proceeds of liquidation.

(b) 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 Company commenced an on-market share buy-back in November 2008 for a twelve month period. During this time 1,547,702 ordinary shares were bought back. The Company announced a further on-market share buy-back in November 2009 for a twelve month period. During this time 2,120,818 ordinary shares were bought back as at 30 June 2010.

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

9	2010 $	2009 $
(a) Investment portfolio revaluation reserve		
Balance at the beginning of the financial year	(3,251,337)	(810,323)
Unrealised gains/(losses) during the year	5,620,474	(5,787,914)
Deferred income tax on movement in the year	(1,686,142)	1,736,375
Tax effected Impairment loss recognised in income statement	-	1,610,525
Transfer to the income statement		-
Balance at the end of the financial year	682,995	(3,251,337)
(b) Realised capital profits reserve		
Balance at the beginning of the financial year	3,459,315	4,911,457
Transfer from the income statement	(2,633,520)	(1,452,142)
Balance at the end of the financial year	825,795	3,459,315

The investment portfolio revaluation reserve and realised capital profits reserve are used to record increments and decrements on the continuous revaluation of investments to fair value and on the revaluation of investments disposed during the year respectively, as described in accounting policy note 2(b).

11. Notes to the financial statements
For the year ended 30 June 2010

	2010 $	2009 $
10 Retained earnings		
Opening balance	(1,360,084)	332,137
Profit attributable to members of the Company (including net realised gains on the investment portfolio)	(145,367)	(2,257,026)
Dividends provided for or paid	(879,648)	(887,337)
Transfer of net gains to realised capital profits reserve on realisation	2,633,520	1,452,142
	248,421	(1,360,084)
11 Auditor's remuneration		
Auditing and reviewing the financial reports	38,504	30,800
	38,504	30,800

12 Related party information

(a) Key management personnel

The names of the persons who were key management personnel of the Company during the financial year were:

Andrew Brown (Chairman)
Robert Bolton (Resigned 31/10/2009)
Angus Geddes (Director)
John Reynolds (Director)
Richard Fabricius (Alternate Director for Angus Geddes)

(b) Key management personnel remuneration

Income paid to key management personnel by the Company and related parties in connection with the management of affairs of the Company were:

	Short-term Employee Benefit Cash salary & Fees	Post-Employment Benefit Superannuation	Total
2010	70,000	3,900	73,900
2009	70,000	6,300	76,300

The directors' remuneration excludes insurance premiums paid and payable by the Company in respect of directors' liability insurance.

Apart from the details disclosed in this note, no key management personnel have entered into a material contract with the Company during the financial year.

The Board of Directors of Fat Prophets Australia Fund Ltd is responsible for determining and reviewing compensation arrangements for the Directors. The Board of Directors assess the appropriateness of the nature and amount of emoluments of each Director on a periodic basis by reference to workload and market conditions. The overall objective is to ensure maximum stakeholder benefit from the retention of a high quality Board whilst constraining costs.

Key management personnel remuneration has been included in the remuneration report section of the Directors Report.

12 Related party information (continued)

(c) Shareholdings of key management personnel (and their related entities)

For the year ended 30 June 2010

Ordinary Shares	Balance at 1 July 2009	Shares held on appointment	Shares acquired / (disposed)	Shares issued upon option exercise	Balance at 30 June 2010
Andrew Brown (Chairman)	1,825,346	-	25,000	-	1,850,346
Angus Geddes	1,317,020	-	149,863	-	1,466,883
John Reynolds	-	-	-	-	-
Adam Lindell (appointed 30/07/10)	-	-	-	-	-
Adrian Redlich (appointed 30/07/10)	-	-	-	-	-
Richard Fabricius (alternate to Angus Geddes)	-	-	-	-	-
Robert Bolton (resigned 31/10/2009)	40,600	-	(40,600)	-	-
	3,182,966	-	134,263	-	3,317,229

For the year ended 30 June 2009

Ordinary Shares	Balance at 1 July 2008	Shares held on appointment	Shares acquired / (disposed)	Shares issued upon option exercise	Balance at 30 June 2009
Andrew Brown (Chairman)	1,808,346	-	17,000	-	1,825,346
Angus Geddes	1,592,019	-	(274,999)	-	1,317,020
John Reynolds	-	-	-	-	-
Richard Fabricius (alternate to Angus Geddes)	-	-	-	-	-
Robert Bolton (resigned 31/10/2009)	40,600	-	-	-	40,600
	3,440,965	-	(257,999)	-	3,182,966

Key management personnel transactions concerning dividends and ordinary shares are on the same terms and conditions applicable to ordinary members.

On 28 July 2010, Angus Geddes sold 1,466,882 shares for a value of $1,510,888.

On 30 June 2010, Adrian Redlich and Adam Lindell each held a relevant interest in 4,770,076 shares but were not Directors of the Company at that time. On 30 July 2010, being the date of appointment, Adrian Redlich and Adam Lindell each held a relevant interest in 5,507,028 shares.

12 Related party information (continued)

(d) Transactions with related parties

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Andrew Brown is a Director of Tidewater Investments Limited ("Tidewater"). A controlled entity of Tidewater held a sub-contract arrangement with Fat Prophets Funds Management Australia Pty. Limited ("FPFMA"), the entity appointed to manage the investment portfolio of the Company. This contract was terminated on 31 October 2009. Tidewater received no direct remuneration from the Company for those services, but received $70,719 (2009: $180,446) in fees from FPFMA . FPFMA received $20,500 (2009: $20,500) for company secretarial services to the Fat Prophets Australia Fund Limited. In its capacity as manager, FPFMA received $405,879 (2009: $342,920) in management fees.

In addition, FPFMA may receive a performance fee monthly of 15% of the gross return of the Portfolio that it is in excess of the ASX 300 Accumulation Index. In its capacity as manager, Fat Prophets Funds Management Australia Pty Limited was not entitled to performance fees for the year ended 30 June 2010 (2009: Nil).

Effective from 1 August 2010, FPFMA's entitlements under these management contracts were assigned to Merricks Capital Pty. Limited, an entity of which Adam Lindell and Adrian Redlich hold relevant interests and are Directors.

13 Segment information

The Company has only one reportable segment. The Company is engaged solely in investment activities conducted in Australia, deriving revenue from dividend income, interest income and from the sale of its trading 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 2009.

14 Financial risk management

The company's financial instruments consist mainly of deposits with banks, held for trading and available for sale investment portfolios, accounts receivable and payable.

AASB 7 Financial Instruments: Disclosures identify three types of risk associated with financial instruments (i.e. the Company's investments, receivables and payables):

(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 balance sheet and notes to the financial statements.

There are no other material amounts of collateral held as security at 30 June 2010.

Credit risk is managed as shown in Note 4 and with respect to cash and receivables and Note 15(a) for cash and cash equivalents. None of these assets are over-due or considered to be impaired.

14 Financial risk management (continued)

(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 or readily tradeable securities which can be sold on-market if necessary.

The table below analyses the Company's non-derivative 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 $000	More than 1 month $000	Total
At 30 June 2010			
Trade and other payables	184,022	-	184,022
Current tax liabilities	-	-	-
Total financial liabilities	184,022	-	184,022
At 30 June 2009			
Trade and other payables	422,549	-	422,549
Current tax liabilities	-	-	-
Total financial liabilities	422,549	-	422,549

14 Financial risk management (continued)

(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 million and $2 million respectively (2009: 1.0 million and 2.0 million respectively), assuming a flat tax-rate of 30 per cent.

The Available for sale financial assets investment revaluation reserve increased by $3,934,332 during the financial year ended 30 June 2010 (2009: $4,051,539) . In accordance with Accounting Standards, any further falls in value of the investment portfolio would continue to be recognised in equity as unrealised losses, thereby impacting the shareholders' equity of the Company. However in case of prolonged decline in the value of instrument and if determined to be impaired; impairment losses will be recognised in the Statement of Comprehensive Income. For the year ended 30 June 2010 the Company transferred an impairment loss of nil (2009:$2,300,754) before tax from the Available for sale financial assets investment revaluation reserve to the Income Statement. When identifying impaired stocks the company considered factors discussed in Note 2 (o).

The Company seeks to manage and constrain market risk by diversification of the investment portfolio across multiple stocks and industry sectors. The Manager of the investment portfolio has been granted specific risk tolerance boundaries and compliance with these are monitored at monthly Board meetings. As such positions held that are within the fund stated benchmark, (ASX 300 Accum) are monitored and managed within set limits away from the benchmark whilst positions outside the index are strictly limited to 2% of the portfolio.

The Company's investment sectors as at 30 June are as below:	2010	2009
	%	%
Consumer discretionary	1.84	2.56
Consumer staple	7.22	8.36
Energy	4.19	4.29
Financials	42.86	52.46
Healthcare	5.52	3.42
Industrials	2.25	1.68
Information technology	-	2.22
Materials	31.54	23.09
Telecommunications services	4.58	1.92
	100.00	100.00

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

	2010	2009
	%	%
ANZ Banking Group Limited	7.74	5.59
BHP Billiton Limited	13.47	14.04
Commonwealth Bank of Australia	7.63	8.08
National Australia Bank Limited	6.16	7.87
Westpac Banking Corporation	7.18	10.97
	42.18	46.55

No other security represents over 5 per cent of the Company's investment and trading portfolios.

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

14 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 $4,570 (2009: $4,410). A decrease of 75 basis points would have an equal but opposite effect.

As at 30 June 2010, 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	4.60%	870,469	-	870,469
Trade and other receivables		-	400,075	400,075
Held for trading portfolio & Available for sale portfolios		-	28,180,702	28,180,702
Tax assets		-	2,023,865	2,023,865
		870,469	30,604,642	31,475,111
Financial liabilities				
Tax liabilities		-	843,811	843,811
Trade and other payables		-	184,022	184,022
		-	1,027,833	1,027,833
Net financial assets		870,469	29,576,809	30,447,278

As at 30 June 2009, 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	5.81%	839,995	-	839,995
Trade and other receivables		-	839,094	839,094
Held for trading portfolio & Available for sale portfolios		-	25,820,645	25,820,645
Tax assets		-	2,325,733	2,325,733
		839,995	28,985,472	29,825,467
Financial liabilities				
Tax liabilities		-	751	751
Trade and other payables		-	422,549	422,549
		-	423,300	423,300
Net financial assets		839,995	28,562,172	29,402,167

14 Financial risk management (continued)

(v) Fair value hierarchy

The Company has adopted the amendments to AASB 7, effective 1 July 2009. This requires the Company to classify 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 2010. Comparative information has not been provided as permitted by the transitional provisions of the new rules.

	Level 1 $'000	Level 2 $'000	Level 3 $'000	TOTAL $'000
Financial assets				
Available for sale investments	28,180,702	-	-	-
Total	28,180,702	-	-	-

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.

15 Cash Flow Statement

(a) Reconciliation of net profit from ordinary activities after income tax to net cash utilised in operating activities

	2010 $	2009 $
Operating profit before capital gains	877,625	805,644
Unrealised and realised changes in the trading portfolio	-	(43,418)
Change in operating assets and liabilities:		
Decrease / (increase) in trading portfolio	-	546,568
(Increase)/decrease in trade and other receivables	(26,122)	164,025
(Increase)/decrease in prepayments	(998)	(1,501)
Increase/(decrease) in trade and other payables	9,624	(5,392)
Increase/(decrease) in tax liabilities	(186,868)	(87,051)
Net cash inflow/(outflow) from operating activities	673,261	1,378,875

The effective interest rate on bank deposits was 4.60% (2009:5.81%).

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 ANZ which is rated AA by Standard and Poor's.

(b) Reconciliation of Cash

Cash at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:

	2010 $	2009 $
Cash on hand	1	1
Cash at bank	870,468	839,994
	870,469	839,995

16 Events occurring after reporting date

On 29 July 2010, the Company announced that the Directors had consented to the assignment of the management rights to the Fund from the incumbent manager, Fat Prophets Funds Management Australia Pty. Limited ("FPFMA") to Merricks Capital Pty. Limited ("Merricks"). As a result of this change, a resolution will be put to shareholders in due course, to change the name of the Company to recognise the cessation of the relationship with "Fat Prophets".

As part of the same announcement, the Directors noted that whilst the Fund will continue to be managed with an Australian equities mandate for the time being, the Directors of the Company are likely to examine other alternatives, within the Fund's Constitution, and that it is anticipated this review will be completed and communicated to shareholders by 30 September 2010.

On 30 July 2010, Angus Geddes and Richard Fabricius resigned as a Director and Alternate Director respectively; on 2 August 2010, Adam Lindell and Adrian Redlich, Directors of Merricks, were both appointed to the board of Directors of the Fund.

17 Earnings per share

	2010 cents	2009 cents
Basic and diluted earnings per share (cents per share) (excluding net realised gains/losses on investment portfolio)	2.96	2.57
Basic and diluted earnings per share (cents per share) (including net realised gains/losses on investment portfolio)	(5.93)	(7.20)
Weighted average number of ordinary shares outstanding during the year used in calculating basic and diluted earnings per share	29,607,126	31,352,202

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 the basic earnings per share.

11. Notes to the financial statements
For the year ended 30 June 2010

18 Dividends

	2010 $	2009 $
Final 2008 - Ordinary Shares	-	887,337
Interim 2010 - Ordinary Shares	879,648	-
Total Dividends for financial year	879,648	887,337

2010

	Dividend rate	Total Amount $	Date of payment	Franking %
Ordinary Shares				
Interim	3 cps	879,648	26/03/2010	100%

2009

No Interim dividend was declared during the year ended 30 June 2009.

19 Franking account

	2010 $	2009 $
Opening balance of franking account	1,531,313	1,448,217
Franking credits on dividends received	413,162	463,383
Tax paid/(refunded) during the year	-	-
Franking credits paid on ordinary dividends paid	(376,992)	(380,287)
Loss of franking credits under 45 day rule	-	-
Closing balance of franking account	1,567,483	1,531,313
Adjustments for tax payable/refundable in respect of the current year's profits and the receipt of dividends	76,567	75,743
Adjusted franking account balance	1,644,050	1,607,056
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	-	-
	1,644,050	1,607,056

20 Contingent liabilities

The Investment Management Agreement entered into by the company with Fat Prophets Funds Management Australia Pty Limited, and assigned to Merricks Capital Pty. Limited from 1 August 2010, is for an initial period of twenty five years, commencing from the date of listing (16 April 2005). There are no other contingent liabilities as at 30 June 2010.

21 Company details

The registered office and principal place of business of the Company is:
Level 1, 600 Chapel Street
South Yarra VIC 3141

12. Directors' declaration

The Directors of Fat Prophets Australia Fund Limited declare that

1 The financial statements and notes as set out on pages 28 to 48, are in accordance with the Corporations Act 2001, and:

(a) comply with Accounting Standards and the Corporations Regulations 2001; and

(b) give a true and fair view of the financial position of the company as at 30 June 2010 and of its performance for the year ended on that date.

2 Andrew Brown as a person who performs the "Chief Executive Officer" and "Chief Finance Officer" functions for the purposes of the Act 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.

Signed in accordance with a resolution of the Board of Directors.

Andrew J. Brown

Andrew Brown
Chairman

Dated this 26th day of August 2010 at Sydney

13. Independent Auditor's Report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FAT PROPHETS AUSTRALIA FUND LIMITED ABN 62 111 772 359

Report on the Financial Report

We have audited the accompanying financial report of Fat Prophets Australia Fund Limited, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of Fat Prophets Australia Fund Limited.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with 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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's 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 and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

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

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

MNSA
ABN 59 133 605 400
Level 2, 333 George St
Sydney NSW 2000
GPO Box 2943 Sydney 2001
Tel (02) 9299 0901
Fax (02) 9299 8104
Email admin@mnsa.com.au

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 Fat Prophets Australia 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 2010 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*;

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 24 to 25 of the report of the directors for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with s 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 Fat Prophets Australia Fund Limited for the year ended 30 June 2010, complies with s 300A of the Corporations Act 2001.

MNSA Pty Ltd

MNSA PTY LTD

Phillip Miller
Director
Sydney
Dated this 26th day of August 2010

14. Additional ASX Information – Year Ended 30 June 2010

Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this Annual Report is set out below.

The security holder information set out below was applicable as at 25 August 2010.

A. Distribution of shareholders

As at 25 August 2010, there were 28,626,936 shares held by 1,428 shareholders, all of which were quoted on the ASX. There are no restricted shares on issue. There are no unquoted shares on issue.

Category (size of holding)	Number of shareholders	Shares	Percentage
1-1,000	58	42,623	0.15
1,001-5,000	513	2,307,219	8.06
5,001-10,000	408	3,535,977	12.35
10,001-100,000	434	12,369,114	43.21
100,001 and over	15	10,372,003	36.23
	1,428	**28,626,936**	**100.00**

The number of shareholders holding less than a marketable parcel of ordinary shares is 20.

B. Top 20 Shareholders as at 25 August 2010

Holder Name	No of shares held	%
Merrill Lynch (Australia) Nominees Pty Limited	5,507,028	19.24
Rowe Street Investments Pty Ltd	1,833,346	6.40
Lorigan Holdings Limited	1,000,000	3.49
Dr Stephanie Phillips	305,877	1.07
Somoke Pty Limited <Pulman Super Fund A/C>	270,000	0.94
Mon Nominees Pty Ltd <Glass Superannuation A/C>	200,000	0.70
Mr Robert Bruce Ralston & Mrs Deborah Eileen Ralston	195,000	0.68
Mr Alan Udell & Mrs Rosemary Udell <The Udell Super Fund A/C>	178,000	0.62
Mr Robert Iain Horden & Mrs Frances Dorothy Horden <Horden Family Super A/C>	175,000	0.61
Ms Deborah Elizabeth Kneebone & Prof Alexander Cowell Mcfarlane <Debbie Kneebone S/F A/C>	167,107	0.58
Mr Terrence Clifford Jorgensen	140,000	0.49
Paderne Holdings Pty Ltd <Paderne Holdings S/F A/C>	132,000	0.46
Innovative Solutions Pty Ltd <Super A/C>	127,200	0.44
Mr Leigh Andrew Mcgarvie & Mrs Elaine Mcgarvie <Comfortplus Super Fund A/C>	123,500	0.43
Mr Rohan John Armstrong & Mrs Laura Armstrong <Super Fund A/C>	109,945	0.38
Raymond Broderick	100,000	0.35
Mr Randall Brophy	100,000	0.35
Di Iulio Homes Pty Limited <Di Iulio Super Fund A/C>	100,000	0.35
Mr James Joseph Gray	100,000	0.35
Anthony David Parnell & Marie Parnell <Parnell & Parnell S/Fund Ac>	100,000	0.35
	10,964,003	**38.28**

14. Additional ASX Information – Year Ended 30 June 2010 (Continued)

C. Voting rights

At a general meeting, Shareholders are entitled to one vote for each share held. On a show of hands, every shareholder present in person or by proxy shall have one vote and upon a poll, every shareholder so present shall have one vote for every share held.

D. Substantial Shareholders

The Company has been notified of two shareholders who hold relevant interests of in excess of 5% of the Company's ordinary shares as at 25 August 2010:

Entity	**No of shares held**	**%**
Merricks Capital Pty. Limited	5,287,028	18.47
Tidewater Investments Limited	1,850,346	6.46
	28,626,936	

E. Buy-back

There is a current on-market buy back program in effect.

F. Security Transactions

The Company conducted 306 (2009: 296) security transactions during the financial year. Brokerage paid during the year including GST was $74,970.27 (2009: $1,809.23) for the trading portfolio and nil (2009: $42,738.34) for the available for sale portfolio.

G. Company Secretary

The company secretary is Michael Bastin.

H. Registered Address and Principal Place of Business

The registered office and principal place of business of the Company is:
Level 1
600 Chapel Stret
South Yarra VIC 3141

I. Registry

Share registry functions are maintained by Registries Limited and their details are as follows:

Registries Limited
ACN 003 209 836
ABN 14 003 209 836
Level 7
207 Kent Street
Sydney NSW 2000

J. Stock Exchange Listing

Quotation has been granted for all the ordinary shares of the Company on all Member Exchanges of the Australian Stock Exchange Limited.

K. Corporate Governance

The Company has followed all applicable best practice recommendations set by ASX Corporate Governance Council during the reporting period, unless otherwise stated.

L. Management Agreement

The Manager is entitled to receive a management fee payable monthly in arrears equivalent to 0.1035746% of the value of the portfolio calculated on the last business day of each month.

In addition, the Manager may receive a performance fee monthly of 15% of the gross return of the Portfolio that it is in excess of the ASX 300 Accumulation Index. The Manager was not entitled to performance fees for the year ended 30 June 2010 (2009: Nil).