Capricorn Diversified Investment Fund

ARSN 139 774 646

ANNUAL REPORT 2013

For year ended 30 June 2013

RESPONSIBLE ENTITY
Capricorn Investment Partners Limited
ACN 095 998 771 AFSL No. 237435

AUDITOR
HLB Mann Judd

LEGAL ADVISORS
Carter Newell Lawyers

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OPERATIONAL REVIEW FOR YEAR ENDED 30 JUNE 2013

The Capricorn Diversified Investment Fund ("CDIF") is now in its third year of public operation, and as at the time of writing manages assets of approximately $8 million.

Since inception, the fund has outperformed the All-Ordinaries Index. As at 30 June 2013, the All Ordinaries Index was trading at a level of 4,775, an increase of 1 per cent over the value of 4,724 reported for May 2011. Over the same period the value of CDIF including the value of the capital returns (discussed below), increased by 2.01 per cent.

Over the year to 30 June 2013, the assets of the fund comprised cash, high interest bank accounts, shares in Telstra Corporation Limited (ASX:TLS), Units in Max Trust (ASX: MXQ), an investment in bonds issued by Wide Bay Limited, shares in Capricorn Investment Partners Limited, other shares in small capitalisation stocks listed on the ASX, and the land, buildings and work in progress related to the redevelopment of The New Grand.

In January 2013 the fund sold its entire holding in Max Trust, for a net value of $337,508. The decision to sell was based on concerns regarding impending changes in the nature of MXQ, driven by the progress of its winding up. CDIF realised a gain of 49 per cent on the sale.

Half of the holding in Telstra Corporation was sold in July 2012, and the other half in July 2013. The decision to sell was based on considerations of the longer-term financial impact on TLS from its sale of its asset base to NBN Co. Effectively it is the manager's view that Telstra will face an increasingly competitive market, where the company will find it more difficult to compete without the protection of an infrastructure monopoly. In addition to dividends received, the sale realised a return of 39.5 per cent.

Shares in Capricorn Investment Partners Limited comprise about 4.9 per cent of the fund. The company achieved many milestones over the year. Following the sale of The Tamworth Operations, the company purchased Eaton Capital Partners, a corporate advisory business servicing clients in Australia and internationally. CIPL undertook a capital return of units it held in CDIF, which impacted positively on the net tangible assets of CDIF. In September 2013, CIPL simultaneously acquired assets of The Pentad Group (a financial Advisory business based in Melbourne), and was acquired by ILH Group Limited. CDIF received proceeds from sale of its CIPL shares that were equivalent to the carrying value of its investment in CIPL.

Very late in Financial Year 2013 the fund began to acquire a number of holdings in small capitalisation stocks, which are notoriously difficult to manage in individual portfolios. Currently the fund has holdings in Cromwell Property Group (ASX:CMW), IRESS Market Technology (ASX:IRE), NIB Holdings (ASX:NIB) and Washington H Soul Pattinson (ASX:SOL) with a total value of around $700,000.

The fund retains an investment in a Wide Bay Australia Floating rate note, which is yielding about 7.1 per cent, even allowing for cash rates having fallen to 2.5 per cent.

Construction of The New Grand was commenced early in the Calendar Year under a contract with J Hutchinson Pty Ltd. The building comprises two stories on a highly visible 3 street frontage covering 1,700m2. The property is approximately 2/3 let, with Suncorp Bank and Capricorn Investment Partners Limited as key tenants. The manager has received ongoing enquiry for the remaining two lettable areas, one area being set aside for a licenced bar and bistro frontage.

At the time of writing, cash and near cash assets totalled $2.1 million. Liquid assets account for approximately 42 per cent of the value of the fund.

CDIF has paid distributions to unitholders each quarter since March 2012. The total value of the distributions made is $292,826, or 6 cents per unit. These distributions are not taxable, being made by way of a capital return. Managed in this way, profits generated within the fund can be used to offset accumulated losses incurred during start-up, leading to a superior tax outcome for unitholders.

Earnings are expected to increase gradually as The New Grand begins contributing revenue from November 2013. Cash reserves are sufficient to complete the building and to continue to pay distributions. The manager has implemented a plan to further diversify into assets which it believes have attractive prospects, but which are difficult or not practical for individuals to own independently. The effect of implementing this plan will become more obvious with the progression of the 2014 calendar year.

DIRECTORS' REPORT

The Directors of Capricorn Investment Partners Limited ("CIPL"), the Responsible Entity for the Capricorn Diversified Investment Fund, ("the Fund") submit the following statutory report for the Fund for the financial year ended 30 June 2013. CIPL is an unlisted public company incorporated under the Corporations Act 2001, and holds an Australian Financial Services Licence.In order the comply with the provisions of the Corporations Act 2001, the Directors report as follows.

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1 : Directors

The names of the Directors of the Responsible Entity who held office at any time during the year and up to the date of this report are as follows.

Stephen J Moss
Michael J Cranny
David M French
Mark A Hayes (resigned 16 November 2012)

All directors were in office for the entire financial year unless otherwise stated.

2 : Principal Activities

The principal activities of the Fund during the year were those of a managed investment scheme.

3 : Operating and Financial Review

The result of the operations of the Fund during the year was a profit of $38,950 (2012 - profit of $3,054).

Expenditure was also incurred in various compliance costs, management fees, and insurance.

4 : Investment Strategy

The investment strategy of the Fund is to;

- only invest in financial assets, which may include companies or other unit trusts that invest in asset classes such as equities (Australian and international), property, and fixed interest.
- be a 'long-only' fund, comprising a balanced portfolio of primarily ASX listed investments and complementary unlisted investments; and
- where appropriate, take positions in unlisted infrastructure and property related entities.

The weightings for each asset class will be determined by the Fund's investment committee from time to time.

5 : Distributions

During the 2013 year, 4 distributions, each of 1.00 cents per issued unit, were made (2012 : 2 distributions of 1.00 cents per unit). No distributions have been declared post year-end.

All distributions for the 2013 year comprised 100% capital (2012 : 100% capital).

6 : Significant Changes in the State of Affairs

During the 2013 year, the Fund (via its subsidiary, CB Grand Pty Ltd) continued its redevelopment of The Grand Hotel site, and commenced construction of the new building. This redevelopment represents the Fund's largest asset.

7 : Significant Events After Balance Date

There were no significant events after balance date.

8 : Likely Developments

The Fund will complete the redevelopment of its investment property and lease it. It may also raise further unit-holder funds to seek out new investments. The aim is to provide steady long-term returns to unitholders in accordance with the Product Disclosure Statement.

DIRECTORS' REPORT (continued)

9 : Indemnification of Directors and Officers

During the financial year, the Responsible Entity paid a premium in respect of a contract insuring the Directors of the Responsible Entity (as named above) against a liability incurred as such a director, secretary, or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Responsible Entity has not otherwise, during or since the end of the financial year, except the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Responsible Entity or any related body corporate against a liability incurred as such an officer or auditor.

10 : Environmental Regulation

The Fund's operations are not subject to any particular and significant environmental regulation under a law of the Commonwealth or of a State or Territory.

11 : Proceedings on behalf of the Fund

There were no proceedings either by the Fund or against the Fund during the year, or at the date of this report.

12 : Scheme information to be included in the Directors' Report

The Responsible Entity received $67,463 (2012 - $50,429) in fees from the Fund during the financial year.

The Responsible Entity and the Directors of the Responsible Entity held the following interests in the Fund at the end of the financial year.

Beneficial owner	Units	Proportionate holding
David French	270,935	3.7%
Michael Cranny	277,840	3.8%
Stephen Moss	157,885	2.1%

Note - Capricorn Investment Partners Limited transferred 500,000 units in the Fund to its shareholders on 26 June 2013, as part of a return of capital.

13 : Auditor Independence

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is attached.

Signed on behalf of the Directors of the Responsible Entity, Capricorn Investment Partners Limited.

David French

Director

25 September 2013

HLB Mann Judd

Accountants | Business and Financial Advisers

Auditor's Independence Declaration under s.307C of the Corporations Act 2001 to the Directors of Capricorn Investment Partners Limited, the responsible entity of the:

Capricorn Diversified Investment Fund

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2013 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.

HLB Mann Judd

HLB MANN JUDD
Chartered Accountants

C J M KING
Partner

Date: 25 September 2013
Brisbane, Queensland

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Statement of Comprehensive Income
for the Year Ended 30 June 2013

	Note	Consolidated 2013 $	Consolidated 2012 $
Revenue from continuing operations			
Rental income		-	8,515
Trust distributions received		14,279	-
Dividend income		11,476	22,951
Gains on share sales		105,181	3,881
Interest income		68,387	96,745
Total revenue		**199,323**	**132,092**
Expenses from continuing operations			
Scheme administration fees		67,463	50,429
Consultants		41,244	40,000
Insurance		14,617	7,517
Legal fees		16,282	4,553
Rates		13,243	15,218
Other expenses		7,524	11,321
Total expenses from continuing operations		**160,373**	**129,038**
Operating Profit / (Loss) before tax		**38,950**	**3,054**
Income tax expense / (benefit)	3	-	-
Profit / (Loss) for the year		**38,950**	**3,054**
Other comprehensive income			
Unrealised gain / (loss) arising on revaluation of available for sale assets		(148,110)	71,338
Other comprehensive income for the period (net of tax)		(148,110)	71,338
Total comprehensive income for the period		**(109,160)**	**74,392**

The accompanying notes form part of these financial statements

Statement of Financial Position
as at 30 June 2013

	Note	Consolidated 2013 $	Consolidated 2012 $
Current Assets			
Cash and cash equivalents	12	1,667,887	420,304
Trade and other receivables	4	119,395	72,421
Available for sale financial assets	5	2,801,928	1,431,939
Total Current Assets		**4,589,210**	**1,924,664**
Non Current Assets			
Loans to related parties	6	55,000	55,000
Investment Property	7	2,997,791	1,846,355
Total Non Current Assets		**3,052,791**	**1,901,355**
Total Assets		**7,642,001**	**3,826,019**
Current Liabilities			
Trade and other payables	8	829,427	147,912
Loans from related parties	9	-	8,956
Total Current Liabilities		**829,427**	**156,868**
Total Liabilities		**829,427**	**156,868**
Net Assets		**6,812,574**	**3,669,151**
Net Assets Attributable to Unitholders			
Units issued	10	6,763,137	3,510,554
Reserves	11	305,400	453,510
Undistributed income		(255,963)	(294,913)
Total Equity		**6,812,574**	**3,669,151**

The accompanying notes form part of these financial statements

Statement of Changes in Net Assets Attributable to Unitholders for the Year Ended 30 June 2013

	Consolidated			
	Units issued	Reserves	Undistributed Income	Total Equity
	$		$	$
Balance at 1 July 2011	3,568,189	382,172	(297,967)	3,652,394
Profit (Loss) for the year	-	-	3,054	3,054
Other comprehensive income	-	71,338	-	71,338
Transactions with unit holders in their capacity as unit holders :				
Units issued	131,757	-	-	131,757
Redemption of units	(114,026)	-	-	(114,026)
Capital returns	(75,366)	-	-	(75,366)
Balance at 30 June 2012	**3,510,554**	**453,510**	**(294,913)**	**3,669,151**
Profit (Loss) for the year	-	-	38,950	38,950
Other comprehensive income	-	(148,110)	-	(148,110)
Transactions with unit holders in their capacity as unit holders :				
Units issued - for cash	1,628,019	-	-	1,628,019
Units issued - for financial assets	2,216,888	-	-	2,216,888
Redemption of units	(374,859)	-	-	(374,859)
Capital returns	(217,465)	-	-	(217,465)
Balance at 30 June 2013	**6,763,137**	**305,400**	**(255,963)**	**6,812,574**

The accompanying notes form part of these financial statements

Statement of Cash Flows
for the Year Ended 30 June 2013

	Note	Consolidated 2013 $	Consolidated 2012 $
Cash flows from operating activities			
Receipts from customers		-	8,515
Interest received		68,387	96,745
Dividends received		11,476	22,951
Income tax refunded		-	64
Payments to suppliers and employees		(78,038)	(135,812)
Net cash inflows / (outflows) from operating activities	12	**1,824**	**(7,538)**
Cash flows from investing activities			
Payments for acquisition of investment properties		-	(573,128)
Payments for development of investment property		(620,314)	(348,618)
Payments for purchase of financial assets		-	(238,266)
Proceeds from sale of financial assets		803,834	15,640
Net cash inflows from investing activities		**183,520**	**(1,144,372)**
Cash flows from financing activities			
Proceeds from issue of units		1,628,020	131,757
Payments for redemption of units		(374,860)	(114,026)
Payments of distributions		(181,585)	(37,277)
Proceeds / (repayments) of borrowings from related entities		(9,336)	8,956
Net cash inflows from financing activities		**1,062,238**	**(10,591)**
Net increase / (decrease) in cash and cash equivalents		1,247,583	(1,162,501)
Cash and cash equivalents at the beginning of the financial year		420,304	1,582,805
Cash and cash equivalents at the end of the financial year		**1,667,887**	**420,304**

The accompanying notes form part of these financial statements

Notes to the Financial Statements for the Year Ended 30 June 2013

1. Corporate Information

Capricorn Diversified Investment Fund is domiciled in Australia. The Responsible Entity, Capricorn Investment Partners Limited, is an unlisted public company limited by shares incorporated and domiciled in Australia.

The registered office and principal place of business of the Responsible Entity is;

Suite 1, Level 2, 34 East Street
Rockhampton Queensland 4700

The objective of the Fund is to construct and maintain a portfolio that meets the requirements of;

- matching identified Fund risk profile to portfolio risk;
- balancing income and growth requirements;
- achieving generally accepted financial standards for diversity with respect to modern portfolio theory (related to risk); and
- lowering the overall cost of management for investors.

These financial statements were authorised for issue by the directors of the Responsible Entity on 25 September 2013.

2. Statement of Significant Accounting Policies

The principal accounting policies adopted in the preparation of the financial report are set out below.

The financial statements relate to the consolidated entity consisting of Capricorn Diversified Investment Fund and its subsidiary. Separate financial statements of Capricorn Diversified Investment Fund as an individual entity are not required to be presented as a consequence of a change to the Corporations Act 2001.

Basis of Preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001.*

The financial statements have been prepared on an accruals basis and are based on historical costs, apart from financial assets and investment properties which have been measured at fair value.

The Fund is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

Compliance with IFRS's

This financial report also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

Financial instruments

All financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those assets classified at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following categories; available for sale financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Available for Sale Financial Assets

All non "loans and receivable" financial assets held by the Fund are classified as available for sale and are stated at fair value. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the financial assets reserve, with the exception of impairment losses, interest calculated using the effective interest method, and losses on monetary assets, all of which are recognised in the profit and loss.

Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to the profit or loss.

Dividends on available for sale financial assets are recognised in the profit or loss when the Fund's right to receive dividends is established.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as "loans and receivables". Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short term receivables when the recognition of interest would be immaterial.

Notes to the Financial Statements
for the Year Ended 30 June 2013

2. Statement of Significant Accounting Policies (continued)

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cashflows of that investment have been affected.

For certain categories of financial assets, such as receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the assets carrying amount and the present value of future cashflows, discounted at the financial asset's original effective interest rate.

The carrying of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Where the trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the profit or loss.

When an available for sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

With the exception of available for sale financial assets, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available for sale financial assets, impairment losses previously recognised in the profit or loss are not reversed through the profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

Derecognition of financial assets

The Fund derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Fund neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Fund recognises its retained interest in the asset and the associated liability for any amounts it may have to pay. If the Fund retains substantially all the risks and rewards of ownership of a transferred financial asset, the Fund continues to recognise the financial asset and also recognises a collateralised borrowing for any proceeds received.

Financial liabilities and Equity Instruments Issued

Classification of debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Fund after deducting all of its liabilities. Equity instruments issued by the Fund are recognised at the proceeds received, net of direct issue costs.

Unitholder funds are classified as equity and disclosed as such in the statement of financial position. Unit holders may only redeem their units at the discretion of the directors of the Responsible Entity.

Financial liabilities

Financial liabilities are initially measured at fair value, net of transaction costs.

Derecognition of financial liabilities

The Fund derecognises a financial liability when, and only when, the Fund's obligations are discharged, cancelled, or they expire.

Notes to the Financial Statements
for the Year Ended 30 June 2013

2. Statement of Significant Accounting Policies (continued)

Fair value estimation

The fair value of instruments that are not traded in active markets is determined using valuation techniques. The Fund may use a variety of methods and makes assumptions that are based on market conditions existing at balance date. Techniques may include reference to the actual price paid in recent sale transactions or quoted redemption prices, or through formal external valuation.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Receivables

Receivables include outstanding settlements and accrued interest and dividend revenue.

Receivables are recognised and carried at original contract / invoice amount less any allowance for impairment.

Other receivables are normally due within 30 days of recognition.

Payables

Liabilities for trade creditors and other amounts are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Fund.

Issued units

Transaction costs (net of tax) arising on the issue of ordinary units are recognised in equity as a reduction of the unitholder proceeds received.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Major items of revenue are recognised as follows:

Interest income

Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Dividend income

Dividends and distributions are recognised when the security-holder's right to receive the payment is established. This applies even if they are paid out of pre-acquisition profits.

Rental income

Rents are recognised when receivable under the relevant agreement.

Notes to the Financial Statements
for the Year Ended 30 June 2013

2. Statement of Significant Accounting Policies (continued)

Taxes

Income tax

The Fund is not subject to income tax. All taxable income will be distributed to unitholders, who will pay income tax at their applicable tax rate. Tax losses cannot be distributed to unitholders and will remain within the Fund to offset future taxable income. Consequently, tax effect accounting cannot be applied by the Trust itself.

However, the Fund does control other entities subject to income tax, and thus may be subject to income tax on a consolidated basis. This note explains the treatment of income tax for those controlled entities.

Income tax expense or revenue for the year is the tax payable on the current year's taxable income based on the statutory income tax rate adjusted by changes in the deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax balances attributable to amounts recognised in other comprehensive income or directly in equity are also recognised in other comprehensive income or directly in equity respectively.

Goods and services tax (GST)

The Fund's revenue from the sale of marketable securities and receipt of dividends and interest are "financial supplies" for GST purposes and are not subject to GST. The Fund's expenses are classified as being incurred in relation to the making of a financial supply and accordingly input tax credits on expenditure cannot be claimed. The Fund is entitled to claim reduced input tax credits of 75% of the GST paid on qualifying expenditures set out in Regulation 70-5 of the GST Regulations.

Expenses and assets are recognised net of the amount of GST recoverable from the taxation authority. That part of the GST incurred on a purchase of goods and services, which is not recoverable from the taxation authority is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from or payable to the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Comparatives

Where required by Accounting Standards comparative figures are adjusted to conform to changes in presentation for the current financial year. Details of any such changes are included in the financial report.

Notes to the Financial Statements
for the Year Ended 30 June 2013

2. Statement of Significant Accounting Policies (continued)

Business combinations and consolidation procedures

Basis of consolidation

The consolidated financial statements comprise the financial statements of Capricorn Diversified Investment Fund and its subsidiary as at and for the year ended 30 June 2013 (the Fund).

Subsidiaries are all those entities over which the Fund has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a Fund controls another entity.

The financial statements of the subsidiary are prepared for the same reporting period as the parent company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-Fund transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is obtained by the Fund and cease to be consolidated from the date on which control is transferred out of the Fund.

Investments in subsidiaries held by Capricorn Diversified Investment Fund are accounted for at cost in the separate financial statements of the parent entity less any impairment charges. Dividends received from subsidiaries are recorded as a component of other revenues in the separate statement of comprehensive income of the parent entity, and do not impact the recorded cost of the investment. Upon receipt of dividend payments from subsidiaries, the parent will assess whether indicators of impairment of the carrying value of investment in the subsidiary exist. Where such indicators exist, to the extent that the carrying value of the investment exceeds its recoverable amount, an impairment loss is recognised

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values.

The difference between the above items and the fair value of the consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or a discount on acquisition.

A change in the ownership interest of a subsidiary that does not result in a loss of control, is accounted for as an equity transaction.

Non-controlling interests are allocated their share of net profit after tax in the statement of comprehensive income and are presented within equity in the consolidated statement of financial position, separately from the equity of the owners of the parent.

Losses are attributed to the non-controlling interest even if that results in a deficit balance.

If the Fund loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary.
- Derecognises the carrying amount of any non-controlling interest.
- Derecognises the cumulative translation differences, recorded in equity.
- Recognises the fair value of the consideration received.
- Recognises the fair value of any investment retained.
- Recognises any surplus or deficit in profit or loss.
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

When the Fund acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Fund's operating or accounting policies and other pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Notes to the Financial Statements
for the Year Ended 30 June 2013

2. Statement of Significant Accounting Policies (continued)

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured.

Investment Properties

Investment Properties are held to generate long term yields. Investment Properties are initially recorded at cost. Subsequent to initial recognition, Investment Properties are measured at fair value. Investment Properties under construction are valued using the Net Present Value of the development. Gains and losses arising from changes in the fair value of investment properties are included in the profit and loss in the period in which they arise.

Provisions

Provisions are recognised when the Fund has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Significant accounting judgements, estimates and assumptions

(i) Significant accounting judgements

In the process of applying the Fund's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Available for Sale

The Fund follows the AASB 139 requirements in classifying financial assets. This classification requires significant judgment as to whether the other financial assets (mainly shares) are held for trading or whether they should be classified as available-for-sale. In both cases the other financial assets are recognised in the statement of financial position at fair value, however, a key difference is the treatment of unrealised gains or losses. Where classified as held for trading, unrealised gains and losses are recognised in the profit or loss. Where available for sale they are recognised within other comprehensive income (unless impaired).

All other financial assets have been classified as held as available for sale on the basis of the Fund's objective of generating returns via long term investment.

(ii) Significant accounting estimates and assumptions

Other financial assets held as available for sale are generally measured at fair value based on recently observed market prices. There is a significant risk that their carrying amount may change materially within the next annual reporting period, however, the changes generally do not arise from management assumptions or other estimates on uncertainty at reporting date, but rather from movement in market values.

Where there is no active market for a financial asset, fair value and net realisable value have been determined by valuation techniques, such as reference to the actual price paid in recent sale transactions or quoted redemption prices, or through formal external valuation.

The Fund has also made significant judgements relating to the various inputs used to estimate the net present value of the investment property under construction. Details of these inputs are provided in Note 7.

Notes to the Financial Statements
for the Year Ended 30 June 2013

2. Statement of Significant Accounting Policies (continued)

New Standards/Interpretations

During the year, the Fund reviewed all of the new and revised Standards and interpretations issued by the AASB that are relevant to its operations and effective for the current annual reporting period.

It has been determined by the Fund that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business, and, therefore, no change is necessary to Fund accounting policies.

Relevant Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted for the annual reporting period ended 30 June 2013, are as follows :

Standard/Interpretation	Application date of Standard	Application date for the Company
AASB 9 *Financial Instruments* - revised and consequential amendments to other accounting standards resulting from its issue *	1 January 2013	1 July 2013
AASB 13 *Fair Value Measurement*	1 January 2013	1 July 2013
AASB 2012-2 *Amendments to Australian Accounting Standards – Disclosures - Offsetting Financial Assets and Financial Liabilities*	1 January 2013	1 July 2013
AASB 2012-3 *Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities*	1 January 2014	1 July 2014
AASB 2012-5 *Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle*	1 January 2013	1 July 2013

* The IASB has amended IFRS 9 to defer the mandatory effective date to annual reporting periods beginning on or after 1 January 2015. The AASB is yet to issue a similar amendment.

"Application date" is for annual reporting periods beginning on or after the date shown in the above table.

AASB 9 - This revised standard provides guidance on the classification and measurement of financial assets, which is the first phase of a multi-phase project to replace AASB 139 Financial Instruments: Recognition and Measurement. Changes in the fair value of investments in equity securities that are not part of a trading activity may be reported directly in equity, but upon realisation those accumulated changes in value are not recycled to the profit or loss. Changes in the fair value of all other financial assets carried at fair value are reported in the profit or loss. As the Fund does not treat equity securities as trading activities, these amendments may impact the Fund in that any realised gains or losses would remain in equity rather than appearing in profit or loss.

In the second phase of the replacement project, the revised standard incorporates amended requirements for the classification and measurement of financial liabilities. The new requirements pertain to liabilities at fair value through profit or loss, whereby the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than profit or loss. There will be no impact on the Fund's accounting for financial liabilities, as the Fund does not have any liabilities at fair value through profit or loss.

AASB 13 – The new standard replaces the fair value measurement guidance contained in the various standards. It provides guidance on how to determine fair value by defining fair value and providing a framework for measurement, but does not change when an entity is required to determine fair value. It also expands the disclosures required when fair value is used. The Fund is yet to assess whether any of its current measurement techniques will require revision due to the new guidance, however, it is anticipated that disclosures may be more extensive.

AASB 2012-2 and AASB 2012-3 – The amendments to AASB132 clarify when an entity has a legally enforceable right to set-off financial assets and financial liabilities permitting entities to present balances net on the balance sheet. The amendments to AASB 7 increase the disclosure about offset positions, including the gross position and the nature of the arrangements. The Fund has not yet assessed the impact of the amendments, if any.

AASB 2012-5 – These amendments introduce various changes to AASBs. The Fund has not yet assessed the impact of the amendments, if any.

Overall, the Fund does not expect the above changes to have any material effect on the financial statements.

Notes to the Financial Statements
for the Year Ended 30 June 2013

3. Income Tax

The Fund's net income is not subject to income tax, provided that it pays out all of its net taxable income to its unitholders. The fund has carried forward tax losses amounting to $92,635 as at 30 June 2013 (2012 - $183,468). These losses will be available to offset future taxable income.

The Fund consolidates CB Grand Pty Ltd, a company which is subject to income tax. The company has carried forward tax losses of $87,351 at 30 June 2013. (2012 : $80,011). Under the relevant accounting standard, these losses can only be recognised as a deferred tax asset if it is probable that the losses will be utilised. CB Grand Pty Ltd, as owner of the completed Grand development building, will receive rental income that will be offset against these losses. However, as CDIF is the sole owner of CB Grand Pty Ltd, and will distribute all its income to unitholders, the losses have no value to the Fund and have not recognised as an asset..

	Consolidated	
	2013	**2012**
	$	**$**
4. Current Trade and Other Receivables		
Trade receivables	-	1,746
Distribution receivable	14,279	-
GST receivable	104,099	69,613
TFN withholding credits	1,017	1,062
	119,395	**72,421**

There were no impaired receivables, nor receivables past due not impaired, at 30 June 2013 (2012 : $nil). Refer Note 13 for information on risk exposure.

5. Available for sale financial assets

Available for sale financial assets		
Listed investments	2,408,982	1,056,198
Unlisted investments	392,946	375,741
Total investments	**2,801,928**	**1,431,939**
Movements in investments were as follows		
Listed investments		
Opening balance	1,056,198	744,103
Purchases	2,216,897	238,266
Sales	(751,811)	(11,760)
Unrealised gains / (losses)	(112,303)	85,589
Closing balance	**2,408,982**	**1,056,198**
Unlisted investments		
Opening balance	375,741	389,992
Purchases	-	-
Unrealised gains / (losses)	17,205	(14,251)
Closing balance	**392,946**	**375,741**

Refer to Note 13 for further disclosure on fair value measurements and classifications as they pertain to the assets listed above.

ASX listed and other traded securities are valued at their closing bid price at year end. Unlisted securities comprise shares in Capricorn Investment Partners Limited valued at $389,992 and units in the Esplanade Property Fund valued at $2,954. The CIPL shares have been valued at $23.92 per share which is the price in cash which has been offered by another entity. The Esplanade units are valued at their published NTA.
Refer Note 13 for information on risk exposure.

Notes to the Financial Statements
for the Year Ended 30 June 2013

	Consolidated	
	2013	2012
	$	$
6. Loans to related parties		
Loan to Development Services Pty Ltd	55,000	55,000
	55,000	**55,000**

The loan to Development Services Pty Ltd relates to the purchase of certain aspects of the Grand Hotel, and is reported net of expenses that have been incurred by CDIF on behalf of Development Services Pty Ltd. Directors considered that it was prudent to keep the operating business of the Hotel separate from the assets of the Fund. It is intended that the loan will be repaid on fully leasing the development.

Development Services Pty Ltd is a company controlled by the Fund but not consolidated. Refer note 18.

7. Investment Property		
Land and buildings - Grand Hotel redevelopment	1,470,545	1,470,545
Capital works in progress	1,527,246	375,810
	2,997,791	**1,846,355**

Land and buildings comprise the land formerly occupied by the Grand Hotel, together with two adjoining blocks that have been purchased as part of the overall development. During 2012 and 2013, the Grand Hotel building was demolished, and construction of a new two storey office building commenced.

Movements in carrying amounts

Opening carrying value	1,846,355	882,192
Additions - investment properties purchased	-	615,545
Additions - capital work in progress	1,151,436	348,618
Balance at end of year	**2,997,791**	**1,846,355**

The business of the Grand Hotel was operated by Development Services Pty Ltd ("DSPL") until March 2012. DSPL holds the applicable liquor licence. DSPL is controlled by CDIF, and CDIF receives rental income from DSPL. The results of DSPL have not been consolidated into these financial statements. Upon redevelopment, the liquor licence will be offered as part of a tenancy, and DSPL will no longer have an operating role. In that event, CDIF will regain direct benefit of the liquor licence.

Following a consolidation of the 3 original land titles, the investment property consists of land and buildings situated at 103 Boslover Street, Rockhampton, Queensland. The property is currently under development, and upon completion will consist of a two storey office building, carparks, and surplus land which could be developed in the future or resold.

Valuation methodology and key assumptions

The 30 June 2013 investment property valuation is based on the Net Present Value ("NPV") of the expected future cashflows from the building once it is leased, less the expected remaining costs as at 30 June 2013 required to complete the project, and adding the value of surplus land remaining. This NPV methodology gave an estimated value for the development of $3,322,443 compared to a carrying value of $2,997,791. The NPV has been calculated by management, and the investment property has not been independently valued as at 30 June 2013. Due to the inherent uncertainty involved in valuing a semi-completed development, and to be conservative, the investment property has not been revalued to this higher NPV. Rather, the NPV calculation provides support as to the carrying value at 30 June 2013.

In order to estimate the NPV as at 30 June 2013, it was necessary to make several key assumptions. These are set out below;

Notes to the Financial Statements
for the Year Ended 30 June 2013

7. Investment Property (continued)

Valuation methodology and key assumptions (continued)

(a) Discount rate

The discount rate selected for the NPV calculation is 8.0% (2012 - 8%). This is higher than the yield derived on available, comparatively recent sales of commercial properties in the Rockhampton area, which ranged from 7.66% to 7.79% . It also takes into account current market interest rates.

(b) Cost to complete

A binding construction contract is in effect between CB Grand Pty Ltd (a 100% owned subsidiary of the Fund) and J. Hutchinson Pty Ltd, builders. The total contract cost is $2,932,033 (excluding GST). A further $50,000 in payments to other suppliers has been estimated. As at 30 June 2013, CB Grand has paid, or included in payables, a total of $855,645 in respect of the Hutchinson contract. This leaves $2,076,388 to be paid to Hutchinson and $50,000 in estimated additional expenditure, which totals $2,126,388.

(c) Rental income & vacancy rates

As at the date of this report, Suncorp and Capricorn Investment Partners Limited have been secured as tenants for 58% of the building's lettable space at a gross rate of $310/sq metre for Suncorp and $380/sq metre for CIPL. It is assumed that the remainder of the upper storey of the building and the bistro can be leased at $400/sq metre, A vacancy rate of 5.9% has been assumed over the building's life.

(d) Outgoings

These have been assumed to be $65/sq metre. This is a higher figure than the nearest comparable leased buildings but has been adopted as a conservative input.

(e) Growth of income and expenses

Rental income has been assumed to increase at a rate of 3.5% pa (as allowed by the Suncorp and CIPL leases) while expenses have been assumed to rise at 6% pa.

(f) Surplus land

Upon completion of the development, there will be approximately 677 sq metres of remaining land space for further development or sale. To be conservative, only 298 sq metres of this has been classified as surplus. This land has been valued at $249,724, based on comparable land sales in the area.

(g) Project life

The project has been assumed to have a life of 17 years. A terminal value in year 18 has been assumed as being approximately $5.024 million, which equates to approximately $1,257,402 in present value dollars.

Sensitivity of valuation to changes in assumptions

The NPV model is sensitive to changes in its input assumptions. The table below sets out the effect on the NPV in different scenarios;

Scenario	**# 1**	**# 2**	**# 3**	**# 4**	**# 5**	**# 6**
	$	**$**	**$**	**$**	**$**	**$**
Adjusted NPV under scenario	3,100,739	2,893,179	2,632,726	1,654,539	2,432,324	3,856,554
Current carrying value	2,997,791	2,997,791	2,997,791	2,997,791	2,997,791	2,997,791
Surplus/deficit to carrying value	**102,948**	**(104,612)**	**(365,065)**	**(1,343,252)**	**(565,467)**	**858,763**

Key to scenarios listed above;

1 - Discount rate of 8.5%, other inputs unchanged

2 - Discount rate of 9.0%, other inputs unchanged

3 - Vacancy rate of 20.0%, other inputs unchanged

4 - Vacancy rate of 40.0%, other inputs unchanged

5 - Discount rate of 8.5%, vacancy rate of 20.0%, other inputs unchanged.

6 - Discount rate of 7.5%, vacancy rate of 0%, other inputs unchanged

Notes to the Financial Statements
for the Year Ended 30 June 2013

	Consolidated	
	2013	2012
	$	$
8. Trade and other payables		
Distribution payable	73,924	38,089
Trade creditors	755,503	109,823
Total trade and other payables	**829,427**	**147,912**
9. Loans from related parties		
Capricorn Investment Partners Limited	-	8,956

10. Issued units

7,392,393 ordinary fully paid units (2012 : 3,808,474) ordinary fully paid $1 units

Unit movements were as follows:	**No. of Units**	**$**
Balance at 1 July 2011	3,791,206	3,568,189
Issue of units for cash	135,268	131,757
Capital returns paid	-	(75,366)
Redemption of units	(118,000)	(114,026)
Balance at 30 June 2012	**3,808,474**	**3,510,554**
Issue of units for cash	1,690,813	1,628,019
Issue of units for investment assets	2,317,163	2,216,888
Capital returns paid	-	(217,465)
Cancellation of units	(35,018)	-
Redemption of units	(389,039)	(374,859)
Balance at 30 June 2013	**7,392,393**	**6,763,137**

Units allow unitholders to receive distributions from the Fund in proportion to their unitholding.

Notes to the Financial Statements
for the Year Ended 30 June 2013

	Consolidated	
	2013	2012
	$	$
11. Reserves		
Financial asset reserve	305,400	453,508
	305,400	**453,508**

The above represents the unrealised gain / (loss) on available for sale financial assets.

Movement in reserve		
Opening balance beginning of year	453,510	382,172
Decreases due to sale of assets	(53,012)	-
Increases in value of assets	69,477	93,319
Decreases in value of assets	(164,576)	(21,981)
Closing balance end of year	**305,400**	**453,510**

12. Cash and Cash Equivalents		
(a) Reconciliation of cash and cash equivalents		
Cash and cash equivalents comprise:		
Cash at financial institutions	1,667,887	420,304
	1,667,887	**420,304**

(b) Reconciliation of profit / (loss) after income tax to net cash outflow from operating activities		
Profit (loss) for the year after tax	38,950	3,054
Impairment of investments	-	-
Accounting gain on sale of investments	(105,181)	(3,881)
(Increase) / decrease in receivables	(47,018)	(1,397)
Increase / (decrease) in payables	115,073	687
Increase / (decrease) in provisions	-	(6,000)
Net cash inflows / (outflows) from operating activities	**1,824**	**(7,538)**

13. Financial Instruments Disclosure

(a) Capital risk management

The capital structure of the Fund consists of cash, listed and unlisted securities, and via its investment in CB Grand Pty Ltd, an interest in real property.

The Responsible Entity aims to ensure that there is sufficient capital for possible redemptions by unitholders by maintaining a minimum of 5% of its total assets in cash and cash equivalents. Also, redemptions are only available as the discretion of the Responsible Entity.

The fund has no restrictions or specific capital requirements on the application and redemption of units. The Fund's overall investment strategy is detailed in the Directors report.

Notes to the Financial Statements
for the Year Ended 30 June 2013

13. Financial Instruments Disclosure (continued)

	Consolidated	
	2013	**2012**
Financial assets	**$**	**$**
Cash at bank	1,667,887	420,304
Receivables for goods and services	14,279	1,746
Available for sale financial assets	2,801,928	1,431,939
	4,484,094	1,853,989
Financial liabilities		
Trade and other payables	755,503	109,823
	755,503	109,823

The Fund's activities expose it to financial risks. These risks can be broadly classified into market risk, credit risk, and liquidity risk. Market risk itself is further comprised of price risk, interest rate risk, and currency risk. The Fund's overall risk management programme focuses on minimising potential adverse effects arising from all these risks on the financial performance of the Fund. Risk management techniques include holding a range of different investments in the portfolio, conducting reviews of existing investments, keeping borrowings to a prudent level and maintaining spare borrowing capacity, and investing only in Australian dollar denominated assets.

The Fund outsources the investment management process to the Responsible Entity, Capricorn Investment Partners Limited ("CIPL"). CIPL provides services to the Fund, co-ordinates access to financial markets and the local property market, and manages the financial risks relating to the operations of the Fund in accordance with an investment man

The Fund does not enter into or trade derivative financial instruments for speculative purposes.

Details of these risks, and the effects they have on the profit and loss and equity position of the Fund under different scenarios, are detailed under the relevant headings below.

(a) Market risk

(i) Price risk

Price risk, in the form of equity securities price risk, primarily affects financial assets of the Fund.

The Fund is exposed to fluctuations in the unit price of its investments. These fluctuations are driven by the performance of the underlying fund or company, but are also impacted the economy generally and the performance of equity markets.

The Fund manages these risks through regular monitoring of each investment and its overall financial position.

Due to general market and investment specific fluctuations, the overall value of the Fund's portfolio of investments will change. As changes in the value of investments are reflected in reserves, changes in the value of investments will be shown in equity via the statement of comprehensive income. Based on the investments held at 30 June 2013, had the portfolio's value increased/decreased by 10%, the Fund's closing equity would have been $280,193 higher / $280,193 lower (2012 - $144,619 higher / $144,619 lower). The movements shown of plus or minus 10% are based on the Fund's estimation of reasonably likely changes in the value of the overall portfolio of securities held. However, given the past and present volatility of the stockmarket, increases or decreases in excess of this amount are possible.

(ii) Interest rate risk

The Fund's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of a change in market interest rates, is minimal in respect of the Fund's assets due to the nature and composition of the assets held. Accordingly, no risk management transactions are entered into. In relation to assets, the only effect of interest rate movements would be to affect the amount of interest revenue derived by the Fund on its cash deposits.

As the Fund had no borrowings and consequently no interest expense, it cannot be adversely affected by interest rate increases. However, the Fund does have substantial cash deposits, and a decline in interest rates would reduce the income earned from those deposits.

The sensitivity analysis below has been calculated based on the Fund's exposure to interest rates at the reporting date and the assumed change taking place at the beginning of the financial year and held constant throughout the reporting period, in the case of financial instruments (being Wide Bay floating rate notes) and cash deposits that have floating interest rates.

Notes to the Financial Statements
for the Year Ended 30 June 2013

13. Financial Instruments Disclosure (continued)

The effect on the Fund's profit and equity of interest rates increasing or decreasing by 50 basis points is set out below. Such a possible variation over a year is considered reasonable by the Fund.

	Interest rate risk			
2013	**0.5%**		**(0.5%)**	
	Operating Profit	**Equity**	**Operating Profit**	**Equity**
	$	**$**	**$**	**$**
Increase (decrease)	10,839	10,839	(10,839)	(10,839)
Totals	**10,839**	**10,839**	**(10,839)**	**(10,839)**

2012	**0.5%**		**(0.5%)**	
	Operating Profit	**Equity**	**Operating Profit**	**Equity**
	$	**$**	**$**	**$**
Increase (decrease)	4,602	4,602	(4,602)	(4,602)
Totals	**4,602**	**4,602**	**(4,602)**	**(4,602)**

(iii) Currency risk

The Fund holds only Australian denominated assets, and hence has no currency exposure risk.

(b) Credit risk

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

The maximum exposure to credit risk on financial assets which have been recognised on the balance sheet is the carrying amount. The Fund is not materially exposed to any significant individual credit risk arising from receivables. None of these receivables are secured.

The Fund has adopted a policy of only dealing with creditworthy counter parties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

The receivables balance is in relation to rent receivable. Rental income receivable has historically been received within 30 days of year end.

Credit risk of financial instruments not past due or individually determined as impaired;

	Not past due or impaired 2013	**Not past due or impaired 2012**
Cash at bank	1,667,887	420,304
Receivables for goods and services	-	1,746
	1,667,887	**422,050**

No receivables were past due or impaired at 30 June 2013 or 30 June 2012.

(c) Liquidity risk

As disclosed in the Fund's Product Disclosure Statement, unitholders are not able to redeem their units in the Fund, except at the discretion of the directors of the Responsible Entity. Liquidity risk is therefore assessed as very low. During the 2013 and 2012 years, some units were redeemed following investor requests. Further requests may or may not be granted.

The Fund's investments include both listed and unlisted securities, together with a property holding. The unlisted securities and the property holding are not traded in a market and may prove difficult to sell at their fair value within a short timeframe.

Liquidity risk is managed by ensuring that cash and listed securities make up a substantial portion of the Fund's assets, thus allowing redemption requests to be met. As at 30 June 2013, such assets made up approximately 53.3% (2012 - 38.6%) : of the total assets of the Fund.

Notes to the Financial Statements
for the Year Ended 30 June 2013

13. Financial Instruments Disclosure (continued)

The Fund's financial liabilities are payables, which are not material to the Fund. These are summarised below.

	On demand	1 month or less	1 month to 3 months
2013	**$**	**$**	
Financial liabilities			
Trade creditors	-	755,503	-
Distribution payable	-	-	73,924
Balance available	-	755,503	73,924

	On demand	1 month or less	1 month to 3 months
2012	**$**	**$**	
Financial liabilities			
Trade creditors	-	109,824	-
Distribution payable	-	-	38,039
Balance available	**-**	**109,824**	**38,039**

(d) Other market risks

The Fund is exposed to fluctuations in the property market through its investment in CB Grand Pty Ltd. The property investment is managed by the Responsible Entity in accordance with the Fund's constitution. The Responsible Entity manages all facets of managing the property, all administrative matters involving the tenant, and all statutory requirements.

As stated in Note 7, the Fund is currently redeveloping the three separate properties as a single office development.

It is intended that the finished property will mostly be leased to external parties, with the Responsible Entity occupying part of the premises. There is a risk that the property may not be able to be leased, or the actual income received will be less than expected due to lower than expected rentals. If this occurs, income from the investment, and its resultant value, will be reduced. This will result in a charge against the assets and income of the Fund. Further, the cost of the development may be higher than expected, which would result in a lower return to the fund.

In 2013 and 2012, the property yielded no rental income due to the demolition of the building on the former Grand Hotel property.

(e) Net fair values

The fair value of financial assets must be estimated for recognition and measurement or for disclosure purposes. The carrying amounts of trade receivables and payables are assumed to approximate their fair value due to their short term nature.

The Fund has adopted the amendment to AASB 7 Financial Instruments : Disclosures which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy :

(a) quoted price (unadjusted) in active markets for identical assets or liabilities (level 1)

(b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3)

Notes to the Financial Statements
for the Year Ended 30 June 2013

13. Financial Instruments Disclosure (continued)

The following table presents the Fund's assets measured and recognised at fair value.

Fund - as at 30 June 2013

	Level 1	Level 2	Level 3	Total
Assets				
Other financial assets held as available for sale	2,408,982	-	392,946	2,801,928
Total assets	2,408,982	-	392,946	2,801,928

Fund - as at 30 June 2012

	Level 1	Level 2	Level 3	Total
Assets				
Other financial assets held as available for sale	1,056,198	-	375,741	1,431,939
Total assets	1,056,198	-	375,741	1,431,939

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Fund is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example, unlisted securities) is determined using valuation techniques. Level 3 financial assets comprise 16,304 ordinary shares in Capricorn Investment Partners Ltd ("CIPL") and 33,525 units in the Esplanade Property Fund . The value of the CIPL shares has been determined by the cash price offered by an external buyer. The Esplanade units are valued at their stated NTA as per the Esplanade website.

The following table presents the change in level 3 instruments.

Fund	**Other financial assets held available for sale**	
	2013	**2012**
Opening balance	375,741	389,992
Securities acquired	-	-
Revaluations / Decreases in fair value	17,205	(14,251)
Closing balance	**392,946**	**375,741**

The 2013 revaluation relates to 16,304 ordinary shares in CIPL, and 33,525 units in the Esplanade Property Fund. The 2012 revaluation only relates to CIPL.

14. Auditor's Remuneration

	2013 $	**2012 $**
Remuneration of HLB Mann Judd, the auditor of the Fund:		
Audit and review of the financial report *	-	-
Other services - tax and accounting *	-	2,400
	-	2,400

* - In 2013 and 2012, the audit fees were paid by Capricorn Investment Partners Limited, and not on-charged to the Fund. The other services relate to the preparation of the Fund's and CB Grand Pty Ltd's income tax return.

15. Events Subsequent to Balance Date

There has not arisen in the interval between the end of the reporting year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Responsible Entity, to significantly affect the operations of the Fund, the results of those operations or the state of affairs of the Fund in future financial years.

16. Contingent Liabilities

There were no contingent liabilities existing at year end.

17. Commitments

As at 30 June 2013, the Fund had entered into an agreement with Hutchinson Builders to construct an office building on the site of the former Grand Hotel. The agreement requires the Fund to make total construction payments of $2,932,033 (excluding GST). As at 30 June 2013, the Fund had paid 1 installment of $224,982 and included as a trade creditor one installment of $630,753, leaving $2,076,388 required to be paid during the 2013/14 financial year. There were no commitments at 30 June 2012.

Notes to the Financial Statements
for the Year Ended 30 June 2013

18. Controlled Entities

Controlled entities consolidated

Entity name	Country of incorporation	Percentage owned	
		2013	2012
CB Grand Pty Ltd	Australia	100%	100%
Controlled entities not consolidated			
Development Services Pty Ltd	Australia	-	-

Although the Fund has no shares in Development Services Pty Ltd, it is considered a controlled entity of the Fund. This is because; (i) David French is a director the Fund's Responsible Entity and is also the sole shareholder of Development Services Pty Ltd, and, (ii) The purpose of Development Services Pty Ltd is to hold the liquor licence of the Grand Hotel; and (iii) the Hotel is a material asset of the Fund.

Development Services Pty Ltd was not consolidated in either the 2013 or 2012 year. The net assets of Development Services Pty Ltd were negative $63,147 at 30 June 2013 (2012 : negative $65,039) and the entity recorded a profit of $40,490 for the 2013 year (2012 : loss of $271).

19. Fund details

The Responsible Entity of the Fund is Capricorn Investment Partners Limited ACN 095 998 771, which has its registered office and principal place of business at Suite 1, Level 2, 34 East Street, Rockhampton, Queensland, 4700.

20. Related Party Disclosures

(a) Units held by Directors

The number of units in the Fund held during the year by each Director and the Responsible Entity, including the directors' personally related entities, is set out below.

2013

Name	Balance at the beginning of the year	Acquired via CIPL return of capital	Acquired via purchase	Other changes during year	Balance at end of the year
Capricorn Investment Partners Limited	500,000	-	-	(500,000)	-
Stephen Moss	-	157,885	-	-	157,885
David McKay French	195,000	75,935	-	-	270,935
Michael John Cranny	220,000	57,840	-	-	277,840
Mark Andrew Hayes (resigned 16/11/2012)	-	-	-	-	-

Capricorn Investment Partners Limited made an inspecie capital return of its units in the Fund to its shareholders on 26 June 2013.

2012

Name	Balance at the beginning of the year	Acquired via bonus issue	Acquired via purchase	Other changes during year	Balance at end of the year
Capricorn Investment Partners Limited	500,000	-	-	-	500,000
David McKay French	195,000	-	-	-	195,000
Michael John Cranny	220,000	-	-	-	220,000
Mark Andrew Hayes	26,000	-	-	(26,000)	-

Notes to the Financial Statements
for the Year Ended 30 June 2013

20. Related Party Disclosures (continued)

(b) Transactions with related entities

The related entities of the Fund comprised Capricorn Investment Partners Limited, CB Grand Pty Ltd, and Development Services Pty Ltd. The transactions with these parties are set out below.

	2013 $	2012 $
Repayment of loan from Capricorn Investment Partners Limited	8,956	-
Loan made by Capricorn Investment Partners Limited	-	8,956
Loan made to CB Grand Pty Ltd	698,443	1,008,719
Distribution of units in Esplanade Property Fund from CIPL	2,954	-
Management services fee paid to Capricorn Investment Partners Limited	67,463	50,429
Amount owing from CB Grand Pty Ltd at year end	1,707,162	1,094,830
Amount owing to Capricorn Investment Partners Limited at year end	-	8,956
Amount owing from Development Services Pty Ltd at year end	55,000	55,000

21. Parent Entity financial information, guarantees, and contingent liabilities

There were no parent entity guarantees entered into by the parent entity in relation to the debts of a subsidiary.

There were no contingent liabilities existing in relation to the parent entity.

Financial information pertaining to the parent entity (CDIF) alone is disclosed below.

	2013 $	2012 $
(a) Summarised statement of financial position		
Assets		
Current assets	6,254,598	2,971,013
Non-current assets	817,902	817,902
Total assets	7,072,501	3,788,915
Liabilities		
Current liabilities	82,399	34,820
Non-current liabilities	-	-
Total liabilities	82,399	34,820
Net assets	6,990,102	3,754,095
Equity		
Issued Units	6,763,137	3,559,571
Reserves	279,559	378,652
Undistributed income	(52,594)	(184,128)
Total equity	**6,990,102**	**3,754,095**
(b) Summarised statement of comprehensive income		
Profit for the year	131,534	70,024
Other comprehensive income for the year	(148,110)	71,338
Total comprehensive income for the year	**(16,577)**	**141,362**

Directors' Declaration

The Directors of the Responsible Entity declare that;

1. The financial statements and notes, as set out in pages 6 to 27 , are in accordance with the Corporations Act 2001 and;
   a) Comply with Accounting Standards, which as stated in accounting policy Note 1, comply with International Financial Reporting Standards ("IFRS") and;
   b) give a true and fair view of the Scheme's financial position at 30 June 2013 and of its performance for the year ended on that date.

2. In the Directors' opinion, there are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they fall due.

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

David French, Director, Capricorn Investment Partners Limited

25 September 2013

HLB Mann Judd

Accountants | Business and Financial Advisers

INDEPENDENT AUDITOR'S REPORT

To the members of Capricorn Diversified Investment Fund

Report on the Financial Report

We have audited the accompanying financial report of Capricorn Diversified Investment Fund ("the fund"), which comprises the consolidated statement of financial position as at 30 June 2013, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration for the consolidated entity. The consolidated entity comprises the fund and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the responsible entity of the fund are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

In Note 2, the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that the consolidated financial report complies with International Financial Reporting Standards.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the fund'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 fund'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.

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

Independence

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

HLB Mann Judd (SE Qld Partnership) ABN 68 920 406 716
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Accountants | Business and Financial Advisers

Basis for Qualified Auditor's Opinion

The Director's of the Responsible Entity of the fund have decided not to apply the provisions of *AASB 127 Consolidated and Separate Financial Statements* in respect of the controlled entity Development Services Pty Ltd. The non-application of the standard has resulted in the assets and liabilities, and income and expenditure of Development Services Pty Ltd not being included in the financial report. Had the financial results of Development Services Pty Ltd been included in the financial report it would have had the effect of decreasing the net assets by $63,147, and increasing the net profit for the year by $40,490.

Qualified Auditor's Opinion

In our opinion except for the effect on the financial statements of the matter referred to in the preceding paragraph:

(a) the financial report of Capricorn Diversified Investment Fund is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and

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

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

HLB Mann Judd

HLB Mann Judd
Chartered Accountants

C J M King
Partner

Brisbane, Queensland
25 September 2013