MIRRABOOKA
Investments Limited

Finding opportunities in small and medium-sized companies

Contents

These documents comprise the preliminary final report given to ASX under listing rule 4.3A

Mirrabooka Investments Limited
ABN 31 085 290 928

Appendix 4E Statement for the Full-Year ending 30 June 2019

PRELIMINARY RESULTS FOR ANNOUNCEMENT TO THE MARKET

The reporting period is the year ended 30 June 2019 with the corresponding period being the year ended 30 June 2018.

These preliminary results are based on financial statements that are in the process of being audited.

Results for announcement to the market

- Net Profit attributable to members was $8.91 million, down 14.0% from the previous corresponding period.
- Net profit per share was 5.6 cents, down 14.9% on the previous corresponding period.
- Revenue from operating activities was $10.3 million, 1.8% down on the previous corresponding period.
- The interim dividend for the 2019 financial year was 3.5 cents per share fully franked (the same as last year) plus a fully franked special dividend of 10 cents per share. They were paid to shareholders on 15 February 2019.
- The final dividend of 6.5 cents per share fully franked, the same as last year, will be paid on 12 August 2019 to shareholders on the register on 26 July 2019. Shares are expected to trade ex-dividend from 25 July 2019. There is no conduit foreign income component of the dividend.
- 4.5 cents of the final dividend is sourced from capital gains, on which the Company has paid or will pay tax. The amount of the pre-tax attributable gain, known as an "LIC capital gain", attached to this dividend is 6.43 cents. This enables some shareholders to claim a tax deduction in their tax return. Further details will be on the dividend statements.
- The Company's Dividend Reinvestment Plan is in operation for the final dividend, under which shareholders may elect to have all or part of their dividend payment reinvested in new ordinary shares. Pricing of the new DRP shares will be based on the average selling price of shares traded on the ASX and Chi-X automated trading systems in the five days from the day the shares begin trading on an ex-dividend basis with a nil discount. The last day for the receipt of an election notice for participation in the plan is 29 July 2019. All shares issued under the DRP will rank equally with existing shares.
- Net asset backing per share before the provision for deferred tax on the unrealised gains in the Company's investment portfolio as at 30 June 2019 was $2.39 (before allowing for any dividend), down from $2.59 at the end of the previous corresponding period (also before allowing for any dividend).
- The 2019 AGM will be held at the Westin Hotel, Melbourne, at 10.00 AM on Thursday 10th October.

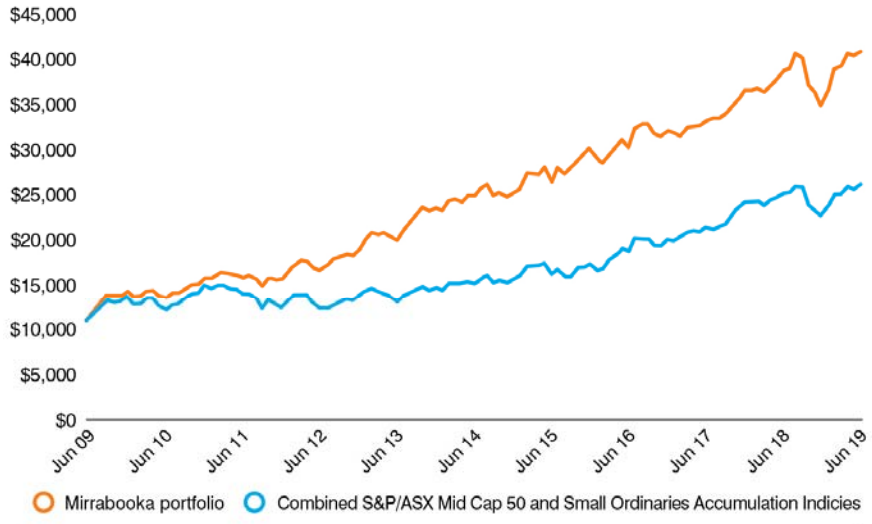
MIRRABOOKA
Investments Limited

Mirrabooka focuses on long term quality as investors pay up for growth in small companies

Full Year Report to 30 June 2019

- **Mirrabooka is a medium to long term investor in small and mid-cap companies.**
- **Full Year Profit was $8.9 million compared with $10.4 million last year. The fall in profit was due primarily to a reduced contribution from the Trading and Options Portfolios, which was $1.7 million this year compared with $3.1 million last year.**
- **The final dividend was maintained at 6.5 cents per share fully franked. A special dividend of 10 cents per share fully franked was paid along with the interim dividend of 3.5 cents per share fully franked in February 2019. Total fully franked dividends for the year, including specials, are 20 cents per share compared with 12 cents per share last year.**
- **Over the 12 month period there was significant disparity of returns across different sectors and stocks within the market in which Mirrabooka invests. For example, companies such as Afterpay Touch, Altium, Appen, WiseTech Global and Xero, drove a significant part of the Small Industrials return. Mirrabooka currently has modest holdings in Afterpay Touch and Xero.**
- **Mirrabooka's 12 month portfolio return including franking was 5.9%; the combined Small and Mid-Cap benchmark return, including franking, was 3.8%.**
- **During the period, a number of adjustments were made to the portfolio with purchases focused on high-quality businesses with proven business models trading at reasonable prices. Sales were in response to risk concerns with high valuations for some holdings and because of a diminished return outlook for others. The cash position at the end of June 2019 was $30 million, or 8% of the portfolio. Our experience gives us confidence that a patient approach will see opportunities arise in periods of inevitable future market volatility.**

Growth in Investment of $10,000 (including benefit of franking) - 10 Years to 30 June 2019



Note assumes an investor can take full advantage of the franking credits. This chart calculates the benefit of franking credits at the time dividends are paid for both Mirrabooka and the Index. In practice there is a timing difference between receipt of the dividend and the realisation of the franking benefit in the following tax year.

Market and Portfolio Returns

The small and mid-cap sectors, in which Mirrabooka invests, underperformed large companies for the first time in many years as investors gravitated to larger income generating stocks in this low interest rate environment. The combined Small and Mid-Cap Accumulation Index was up 2.8% over the year to 30 June 2019 whereas the Fifty Leaders Accumulation Index was up 14.2% over the corresponding period. Also within the small and mid-cap sector over the 12 month period there was a significant disparity of returns across different sectors and stocks within the market, as investors looked for “growth stories” in an otherwise subdued market sector.

The Mirrabooka portfolio, including the benefit of franking, delivered a return of 5.9% for the 12 months to 30 June 2019, as companies such as Mainfreight, Rhipe, Equity Trustees, Qube Logistics, Breville Group and Audinate Group contributed strongly to performance. The Small and Mid-Cap benchmark, including franking, over this period was up 3.8%. Over the 10 years to 30 June 2019, Mirrabooka has returned 15.1% per annum including the benefit of franking, whereas the benchmark has returned 9.7% per annum on a similar basis.

Portfolio Changes

In considering the investment opportunities over the period, Mirrabooka did not chase the most exciting perceived growth opportunities in the current market. This was not considered as the best use of available cash, as this may see exposure to a significant loss of capital in the future if these growth prospects decline. Mirrabooka instead furthered its focus on quality companies with proven business models and strong market positions.

In this context, the largest purchases in the portfolio were in companies such as James Hardie Industries and Reliance Worldwide, both of which saw reduced share prices through the period because of near term cyclical concerns, but in our view still provide good long term prospects for above average growth. Atlas Arteria and two New Zealand listed companies, Freightways and NZX, were also added, as these holdings provide exposure to businesses with strong market positions and growing dividend streams in a low interest rate environment. The other major purchase for the period was OZ Minerals, which is attractive because of changes under new management and the number of quality projects it has for growth.

Major sales included the complete disposal of Washington H. Soul Pattinson, Navitas (which was subject to a takeover offer at the time), Challenger and CYBG (Clydesdale Bank), with these last two companies being disappointing performers in the portfolio. There was also a reduction of the position in Lifestyle Communities which continues to be a large holding in the portfolio.

In total, the number of holdings in the Investment Portfolio fell from 71 to 63 over the year, reflecting a greater focus on holding quality companies in a more uncertain environment.

Profit and Dividend

Mirrabooka’s Reported Profit was $8.9 million for the 12 months to 30 June 2019, compared with $10.4 million last year.

The Company maintained the final dividend at 6.5 cents per share fully franked. A special dividend of 10 cents per share fully franked was paid along with the interim dividend of 3.5 cents per share fully franked in February 2019. Total fully franked dividends for the year, including specials, are 20 cents per share compared with 12 cents per share last year.

Opportunities to Invest

We continue to focus our research efforts on the highest quality businesses in our investment universe and have a clear list of stocks that we would like to own, or own more of, as opportunities arise. Mirrabooka’s 20 year history investing in the small and mid-cap sectors gives us confidence that a patient approach will see opportunities arise in periods of inevitable future market volatility.

Please direct any enquiries to:

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General Manager
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10 July 2019

MAJOR CHANGES TO THE INVESTMENT PORTFOLIO

Acquisitions	Cost $'000
James Hardie Industries	9,202
Reliance Worldwide Corporation	6,329
Atlas Arteria	6,116
Freightways	4,595
OZ Minerals	4,579

Sales	Proceeds $'000
Washington H. Soul Pattinson#	9,323
Challenger#	6,666
Navitas#	6,006
Lifestyle Communities	5,829
CYBG (Clydesdale Bank) #	5,136

#Complete disposals from the portfolio.

New Companies Added to the Portfolio

James Hardie Industries
Atlas Arteria
Freightways
OZ Minerals
NZX
Fleetwood
WorleyParsons
Afterpay Touch Group
Audinate Group
Sims Metal Management
PKS Holdings

TOP INVESTMENTS AS AT 30 JUNE 2019

Includes investments held in both the Investment and Trading Portfolios

Valued at closing prices at 28 June 2019

			Total Value $ million	% of Portfolio
1		Mainfreight	19.5	5.4%
2		Qube Holdings	13.4	3.7%
3		Lifestyle Communities	11.7	3.2%
4	*	Seek	11.5	3.2%
5		EQT Holdings	10.9	3.0%
6	*	Alumina	10.8	3.0%
7	*	IRESS	10.7	3.0%
8		ARB Corporation	10.4	2.9%
9		James Hardie Industries	10.4	2.9%
10		Breville Group	9.2	2.5%
11		Reece	9.1	2.5%
12	*	Carsales.com	8.5	2.3%
13		Reliance Worldwide Corporation	8.4	2.3%
14		Wellcom Group	8.0	2.2%
15		AUB Group	7.6	2.1%
16	*	Atlas Arteria	7.4	2.0%
17		Brickworks	7.4	2.0%
18		Macquarie Telecom Group	7.0	1.9%
19		Invocare	6.6	1.8%
20		Cooper Energy	6.6	1.8%
			195.4	
		As % of Total Portfolio Value (excludes Cash)	53.8%	

* Indicates that options were outstanding against part of the holding

PORTFOLIO PERFORMANCE TO 30 JUNE 2019

PERFORMANCE MEASURES AT 30 JUNE 2019	1 YEAR	5 YEARS %PA	10 YEARS %PA
PORTFOLIO RETURN–NET ASSET BACKING RETURN INCLUDING DIVIDENDS REINVESTED	***1.8%***	***7.6%***	***12.0%***
COMBINED S&P/ASX MID 50'S AND SMALL ORDINARIES ACCUMULATION INDEX	*2.8%*	*11.1%*	*8.7%*
PORTFOLIO RETURN –NET ASSET BACKING GROSS RETURN INCLUDING DIVIDENDS REINVESTED*	***5.9%***	***11.0%***	***15.1%***
COMBINED S&P/ASX MID 50'S AND SMALL ORDINARIES GROSS ACCUMULATION INDEX*	3.8%	12.2%	9.7%

***Incorporates the benefit of franking credits for those who can fully utilise them**.

Note: Rebalancing of the portfolio to manage risk is an important part of Mirrabooka's investment approach. The tax paid on realised gains can impact relative performance figures against the Index which does not have such imposts. The inclusion of the benefit of franking credits from the tax paid and distributed to shareholders in the dividend is one way of overcoming this distortion.

Mirrabooka Investments Ltd

Annual Financial Statements

30 June 2019

Financial statements

Income Statement for the Year Ended 30 June 2019

	Note	2019 $'000	2018 $'000
Dividends and distributions	A3	9,855	9,875
Revenue from deposits and bank bills		449	661
Other revenue		40	-
Total revenue		**10,344**	**10,536**
Net gains on trading portfolio		609	2,235
Income from options written portfolio		1,057	860
Income from operating activities		**12,010**	**13,631**
Borrowing expenses		(85)	-
Administration expenses	B1	(2,370)	(2,315)
Profit for the year before income tax		**9,555**	**11,316**
Income tax expense	B2, E2	(642)	(956)
Profit for the year		**8,913**	**10,360**
		Cents	**Cents**
Basic earnings per share	A5	5.59	6.57

This Income Statement should be read in conjunction with the accompanying notes.

Statement of Comprehensive Income for the Year Ended 30 June 2019

	Year to 30 June 2019			Year to 30 June 2018		
	Revenue[1]	**Capital[1]**	**Total**	Revenue	Capital	Total
	$'000	**$'000**	**$'000**	$'000	$'000	$'000
Profit for the year	**8,914**	**(1)**	**8,913**	**10,356**	**4**	**10,360**
Other Comprehensive Income						
Gains for the period on securities	-	5,140	**5,140**	-	43,433	**43,433**
Tax on above	-	(1,437)	**(1,437)**	-	(16,069)	**(16,069)**
Total Other Comprehensive Income	-	**3,703**	**3,703**	-	**27,364**	**27,364**
Total Comprehensive Income	**8,914**	**3,702**	**12,616**	**10,356**	**27,368**	**37,724**

[1] 'Capital' includes realised or unrealised gains or losses on securities in the investment portfolio and unrealised gains or losses on the options written portfolio, and the relevant taxation charge/credit. Income in the form of distributions and dividends is recorded as 'Revenue'. All other items, including expenses, are included in 'Profit for the year', which is categorised under 'Revenue'.

None of the items included in Other Comprehensive Income will be recycled through the Income Statement.

This Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Balance Sheet as at 30 June 2019

	Note	2019 $'000	2018 $'000
Current assets			
Cash	D1	30,453	28,140
Receivables		443	1,370
Trading portfolio		3,000	978
Total current assets		**33,896**	**30,488**
Non-current assets			
Deferred tax assets	E2	-	123
Investment portfolio	A2	361,055	381,689
Total non-current assets		**361,055**	**381,812**
Total assets		**394,951**	**412,300**
Current liabilities			
Payables		270	266
Tax payable		9,647	2,103
Options Sold		628	785
Total current liabilities		**10,545**	**3,154**
Non-current liabilities			
Deferred tax liabilities	E2	190	-
Deferred tax liabilities – investment portfolio	B2	39,168	47,493
Total non-current liabilities		**39,358**	**47,493**
Total liabilities		**49,903**	**50,647**
Net Assets		**345,048**	**361,653**
Shareholders' equity			
Share capital	A1, D5	206,602	200,911
Revaluation reserve	A1, D2	78,332	97,227
Realised capital gains reserve	A1, D3	43,474	47,851
Retained profits	A1, D4	16,640	15,664
Total shareholders' equity		**345,048**	**361,653**

This Balance Sheet should be read in conjunction with the accompanying notes.

Statement of Changes in Equity for the Year Ended 30 June 2019

Year Ended 30 June 2019

	Note	Share Capital	Revaluation Reserve	Realised Capital Gains Reserve	Retained Profits	Total
		$'000	$'000	$'000	$'000	$'000
Total equity at the beginning of the year		**200,911**	**97,227**	**47,851**	**15,664**	**361,653**
Dividends paid	A4	-	-	(26,974)	(7,938)	**(34,912)**
Shares issued under Dividend Reinvestment Plan	D5	5,713	-	-	-	**5,713**
Other share capital adjustments		(22)	-	-	-	**(22)**
Total transactions with shareholders		**5,691**	**-**	**(26,974)**	**(7,938)**	**(29,221)**
Profit for the year		-	(1)	-	8,914	**8,913**
Other Comprehensive Income (net of tax)						
Net gains for the period		-	3,703	-	-	**3,703**
Other Comprehensive Income for the year		-	3,703	-	-	**3,703**
Transfer to Realised Capital Gains of cumulative gains on investments sold		-	(22,597)	22,597	-	**-**
Total equity at the end of the year		**206,602**	**78,332**	**43,474**	**16,640**	**345,048**

This Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Statement of Changes in Equity for the Year Ended 30 June 2019 (continued)

Year Ended 30 June 2018

	Note	Share Capital	Revaluation Reserve	Realised Capital Gains Reserve	Retained Profits	Total
		$'000	$'000	$'000	$'000	$'000
Total equity at the beginning of the year		**197,062**	**74,584**	**57,225**	**13,180**	**342,051**
Dividends paid	A4	-	-	(14,099)	(7,872)	**(21,971)**
Shares issued under Dividend Reinvestment Plan	D5	3,865	-	-	-	**3,865**
Other share capital adjustments		(16)	-	-	-	**(16)**
Total transactions with shareholders		**3,849**	**-**	**(14,099)**	**(7,872)**	**(18,122)**
Profit for the year		-	4	-	10,356	**10,360**
Other Comprehensive Income (net of tax)						
Net gains for the period		-	27,364	-	-	**27,364**
Other Comprehensive Income for the year		-	27,364	-	-	**27,364**
Transfer to Realised Capital Gains of cumulative gains on investments sold		-	(4,725)	4,725	-	**-**
Total equity at the end of the year		**200,911**	**97,227**	**47,851**	**15,664**	**361,653**

This Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Cash Flow Statement for the Year Ended 30 June 2019

	Note	2019 $'000 Inflows/ (Outflows)	2018 $'000 Inflows/ (Outflows)
Cash flows from operating activities			
Sales from trading portfolio		3,536	11,689
Purchases for trading portfolio		(10,942)	(5,803)
Interest received		463	707
Proceeds from entering into options in options written portfolio		1,937	1,980
Payment to close out options in options written portfolio		(1,037)	(1,326)
Dividends and distributions received		9,544	9,513
		3,501	16,760
Other receipts		40	-
Administration expenses		(2,372)	(2,308)
Borrowing expenses		(85)	-
Income taxes paid		(1,073)	(76)
Net cash inflow/(outflow) from operating activities	E1	**11**	**14,376**
Cash flows from investing activities			
Sales from investment portfolio		116,237	95,373
Purchases for investment portfolio		(83,321)	(93,128)
Tax paid on capital gains		(1,393)	(6,030)
Net cash inflow/(outflow) from investing activities		**31,523**	**(3,785)**
Cash flows from financing activities			
Dividend reinvestment plan costs		(22)	(16)
Dividends paid		(29,199)	(18,106)
Net cash inflow/(outflow) from financing activities		**(29,221)**	**(18,122)**
Net increase/(decrease) in cash held		2,313	(7,531)
Cash at the beginning of the year		28,140	35,671
Cash at the end of the year	D1	**30,453**	**28,140**

For the purpose of the cash flow statement, 'cash' includes cash and deposits held at call.

This Cash Flow Statement should be read in conjunction with the accompanying notes.

Notes to the financial statements

A Understanding Mirrabooka's financial performance

A1 How Mirrabooka manages its capital

Mirrabooka's objective is to provide shareholders with attractive investment returns through a stream of fully-franked dividends and capital growth.

Mirrabooka recognises that its capital will fluctuate with market conditions. In order to manage those fluctuations, the Board may adjust the amount of dividends paid, issue new shares, buy back the Company's shares or sell assets to settle any debt.

Mirrabooka's capital consists of its shareholders' equity plus any net borrowings. A summary of the balances in equity is provided below:

	2019	**2018**
	$'000	**$'000**
Share capital	206,602	200,911
Revaluation reserve	78,332	97,227
Realised capital gains reserve	43,474	47,851
Retained profits	16,640	15,664
	345,048	**361,653**

Refer to notes D2-D5 for a reconciliation of movement for each equity account from period to period.

A2 Investments held and how they are measured

Mirrabooka has three portfolios of securities: the investment portfolio, the options written portfolio and the trading portfolio. Details of all holdings (except for the specific option holdings) as at the end of the reporting period can be found at the end of the Annual Report.

The investment portfolio holds securities which the Company intends to retain on a long-term basis. The options written portfolio and trading portfolio are held for short-term trading only and are relatively small in size when utilised. The Board has therefore focused the information below on the investment portfolio.

The balance and composition of the investment portfolio was:

	2019 $'000	2018 $'000
Equity instruments (at market value)	361,055	379,477
Convertible notes that are classified as debt	-	2,212
	361,055	**381,689**

All options written by the Company and open at year end are call options. If all options were exercised, this would lead to the sale of $22.3 million worth of securities at an agreed price – the 'exposure' (2018: $16.6 million).

$7.9 million of shares are lodged with ASX Clear Pty Ltd as collateral for sold option positions written by the Company (2018: $6.4 million). These shares are lodged with ASX Clear under the terms of ASX Clear Pty Ltd which require participants in the Exchange Traded Option market to lodge collateral, and are recorded as part of the Company's investment portfolio.

How investments are shown in the financial statements

The accounting standards set out the following hierarchy for fair value measurement:

Level 1: quoted prices in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices, which can be observed either directly (as prices) or indirectly (derived from prices)

Level 3: inputs for the asset or liabilities that are not based on observable market data

All financial instruments held by Mirrabooka are classified as Level 1 (other than an immaterial amount of call options). Their fair values are initially measured at the costs of acquisition and then remeasured based on quoted market prices at the end of the reporting period.

Net tangible asset backing per share

The Board regularly reviews the net asset backing per share both before and after provision for deferred tax on the unrealised gains in Mirrabooka's long-term investment portfolio. Deferred tax is calculated as set out in note B2. The relevant amounts as at 30 June 2019 and 30 June 2018 were as follows:

	30 June 2019	30 June 2018
Net tangible asset backing per share	**$**	**$**
Before tax	**2.39**	**2.59**
After tax	2.15	2.29

Equity investments

The shares in the investment portfolio are designated under the accounting standards as financial assets measured at fair value through 'other comprehensive income' ("OCI"), because they are equity instruments held for long-term capital growth and dividend income, rather than to make a profit from their sale. This means that changes in the value of these shares during the reporting period are included in OCI in the statement of comprehensive income. The cumulative change in value of the shares over time is then recorded in the Revaluation Reserve. On disposal, the amounts recorded in the revaluation reserve are transferred to the realised capital gains reserve.

Options

Options are classified as financial assets or liabilities at fair value through profit and loss and usually have an expiry date within twelve months from the date that they are sold. Options written are initially brought to account at the amount received upfront for entering into the contract (the premium) and subsequently revalued to current market value.

Securities sold and how they are measured

Where securities are sold, any difference between the sale price and the cost is transferred from the Revaluation Reserve to the Realised capital gains reserve and the amounts noted in the Statement of Changes in Equity. This means the Company is able to identify the realised gains out of which it can pay a 'Listed Investment Company' (LIC) gain as part of the dividend.

During the period $114.2 million (2018 : $95.2 million) of equity securities were sold. The cumulative gain on the sale of securities from the investment portfolio was $22.6 million for the period after tax (2018: $4.7 million). This has been transferred from the revaluation reserve to the realised capital gains reserve (See Statement of Changes in Equity). These sales were accounted for at the date of trade.

A3 Operating income

Dividend income

The total dividends and distributions received from Mirrabooka's investments in 2019 is set out below.

	2019 $'000	2018 $'000
Dividends and distributions		
Securities held in investment portfolio at 30 June	8,653	7,756
Investment securities sold during the year	1,043	1,964
Securities held in trading portfolio at 30 June	-	15
Trading securities sold during the year	159	140
	9,855	9,875

Dividends and distributions from listed securities are recognised as income when those securities are quoted in the market on an ex-distribution basis. Dividends from unlisted securities are recognised as income when they are received. Capital returns on ordinary shares are treated as an adjustment to the carrying value of the shares.

Trading income

Net gains (before tax) on the trading and options portfolios are set out below.

Net gains	2019 $'000	2018 $'000
Net realised gains/(losses) from trading portfolio	131	2,235
Realised gains on options written portfolio	983	1,120
Unrealised gains/(losses) from trading portfolio	479	(6)
Unrealised gains/(losses) from options written portfolio	74	(260)
Gains/(losses) on convertible notes classified as debt	(1)	6
	1,666	3,095

A4 Dividends paid

The dividends paid and payable for the year ended 30 June 2019 are shown below:

	2019 $'000	2018 $'000
(a) Dividends paid during the year		
Final dividend for the year ended 30 June 2018 of 6.5 cents fully franked plus special dividend of 2 cents, also fully franked at 30% paid on 13 August 2018 (2018: 6.5 cents fully franked plus special dividend of 4 cents also fully franked at 30% paid on 10 August 2017).	13,443	16,449
Interim dividend for the year ended 30 June 2019 of 3.5 cents per share fully franked plus special dividend of 10 cents also fully franked at 30%, paid 15 February 2019 (2018: 3.5 cents fully franked at 30% paid 15 February 2018)	21,469	5,522
	34,912	21,971
Dividends paid in cash	29,199	18,106
Dividends reinvested in shares	5,713	3,865
	34,912	21,971
(b) Franking credits		
Balance on the franking account after allowing for tax payable in respect of the current year's profits and the receipt of dividends recognised as receivables	19,536	22,237
Impact on the franking account of dividends declared but not recognised as a liability at the end of the financial year:	(4,470)	(5,761)
Net available	15,066	16,476
These franking account balances would allow Mirrabooka to frank additional dividend payments (at a franking rate of 30%) up to an amount of:	35,154	38,444

Mirrabooka's ability to continue to pay franked dividends is dependent upon the receipt of franked dividends from the trading and investment portfolios and on Mirrabooka paying tax.

(c) Dividends declared after balance date

Since the end of the year Directors have declared a final dividend of 6.5 cents per share fully franked at 30%. The aggregate amount of the final dividend for the year to 30 June 2019 to be paid on 12 August 2019, but not recognised as a liability at the end of the financial year is:

	10,430

(d) Listed Investment Company capital gain account

	2019 $'000	2018 $'000
Balance of the Listed Investment Company (LIC) capital gain account	43,731	47,602
This equates to an attributable amount of	62,472	68,002

Distributed LIC capital gains may entitle certain shareholders to a deduction in their tax return, as set out in the dividend statement. LIC capital gains available for distribution are dependent on the disposal of investment portfolio holdings that qualify for LIC capital gains, or the receipt of LIC distributions from LIC securities held in the portfolios. $10.3 million of the attributable amount will be paid out as part of the final dividend on 12 August 2019.

A5 Earnings per share

The table below shows the earnings per share based on the profit for the year:

Basic Earnings per share	**2019 Number**	**2018 Number**
Weighted average number of ordinary shares used as the denominator	159,455,226	157,790,481
	$'000	**$'000**
Profit for the year	8,913	10,360
	Cents	**Cents**
Basic earnings per share	5.59	6.57

Dilution

As there are no options, convertible notes or other dilutive instruments on issue, diluted earnings per share is the same as basic earnings per share.

B Costs, Tax and Risk

B1 Management Costs

The total management expenses for the period are as follows:

	2019 $'000	2018 $'000
Administration fees paid to AICS	(1,382)	(1,400)
Other administration expenses	(988)	(915)
	(2,370)	(2,315)

Administration fees paid to AICS

Australian Investment Company Services Limited ("AICS") undertakes the day-to-day administration of Mirrabooka's investments and its operations, including financial reporting.

Other administration expenses

A major component of other administration expenses is Directors' remuneration. This has been summarised below:

	Short Term Benefits $	Post-Employment Benefits $	Total $
2019			
Directors	410,959	39,041	450,000
2018			
Directors	371,575	35,365	406,940

Mirrabooka recognises Directors' retirement allowances that have been crystallised as 'amounts payable'. There are no further retirement allowances that will need to be expensed.

B2 Tax

Mirrabooka's tax position, and how it accounts for tax, is explained here. Detailed reconciliations of tax accounting to the financial statements can be found in note E2.

The income tax expense for the period is the tax payable on this financial year's taxable income, adjusted for any changes in deferred tax assets and liabilities attributable to temporary differences and for any unused tax losses. Deferred tax assets and liabilities (except for those related to the unrealised gains or losses in the investment portfolio) are offset, as all current and deferred taxes relate to the Australian Taxation Office and can legally be settled on a net basis. Deferred tax balances are calculated at the rate of 30% (2018 : 30%).

A provision has been made for taxes on any unrealised gains or losses on securities valued at fair value through the Income Statement – i.e. the trading portfolio, puttable instruments, convertible notes that are classified as debt and the options written portfolio.

A provision also has to be made for any taxes that could arise on sale of securities in the investment portfolio, even though there is no intention to dispose of them. Where Mirrabooka disposes of such securities, tax is calculated according to the particular parcels allocated to the sale for tax purposes, offset against any capital losses carried forward.

Tax expense

The income tax expense for the period is shown below:

(a) Reconciliation of income tax expense to prima facie tax payable

	2019 $'000	2018 $'000
Net profit before income tax expense	**9,555**	**11,316**
Tax at the Australian tax rate of 30% (2018 – 30%)	2,867	3,395
Tax offset for franked dividends received	(2,309)	(2,406)
Tax effect of sundry items taxable but not included in income	105	1
	663	**990**
Over provision in prior years	(21)	(34)
Total tax expense	**642**	**956**

Deferred tax liabilities – investment portfolio

The accounting standards require us to recognise a deferred tax liability for the potential capital gains tax on the unrealised gain in the investment portfolio. This amount is shown in the Balance Sheet. However, the Board does not intend to sell the investment portfolio, so this tax liability is unlikely to arise at this amount. Any sale of securities would also be affected by any changes in capital gains tax legislation or tax rate applicable to such gains when they are sold. The rate used at 30 June 2019 is 30% (30 June 2018 : 30%).

	2019 $'000	2018 $'000
Deferred tax liabilities on unrealised gains in the investment portfolio	**39,168**	**47,493**
Opening balance at 1 July	47,493	32,815
(Credited)/charged to income statement for non-equity investments	-	2
Tax on realised gains (at 30%)	(9,762)	(1,393)
Charged to OCI for ordinary securities on gains or losses for the period	1,437	16,069
	39,168	**47,493**

B3 Risk

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

As a Listed Investment Company that invests in tradeable securities, Mirrabooka 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 will fluctuate.

A general fall in market prices of 5% and 10%, if spread equally over all assets in the investment portfolio, would have led to a reduction in Mirrabooka's comprehensive income of $12.6 million and $25.3 million respectively, at a tax rate of 30% (2018 : $13.3 million & $26.6 million), and no reduction in profit after tax (2018: $77,000 and $155,000 at a tax rate of 30%).

A general fall in market prices of 5% and 10%, if spread equally over all assets in the trading and options portfolio, would lead to a reduction in Mirrabooka's profit after tax of $83,000 and $166,000 respectively, at a tax rate of 30% (2018 : $7,000 & $14,000).

Mirrabooka seeks to reduce market risk at the investment portfolio level by ensuring that it is not, in the opinion of the Investment Committee, overly exposed to one company or one particular sector of the market. The relative weightings of the individual securities and the relevant market sectors are reviewed by the Investment Committee and risk can be managed by reducing exposure where necessary. Mirrabooka does not have a minimum or maximum amount of the portfolio that can be invested in a single company or sector.

Mirrabooka's total investment exposure by sector is as below:

	2019	**2018**
Energy	2.75%	3.02%
Materials	13.67%	11.26%
Industrials	22.52%	14.67%
Consumer Discretionary	11.86%	16.78%
Consumer Staples	3.55%	6.94%
Healthcare	6.17%	6.91%
Financials	8.34%	13.31%
Real Estate	2.98%	4.54%
Info Technology & Telecoms	20.43%	15.71%
Cash	7.73%	6.86%

There was one security representing over 5% of the investment portfolio at 30 June 2019 – Mainfreight (5.4%) (2018: Nil)

Mirrabooka is not currently materially exposed to interest rate risk as all its cash investments are short-term for a fixed interest rate. Mirrabooka is also not directly exposed to material currency risk as most of its investments are quoted in Australian dollars.

The writing of call options provides some protection against a fall in market prices as it generates income to partially compensate for a fall in capital values. Options are only written against securities that are held in the trading or investment portfolio.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Mirrabooka is exposed to credit risk from cash, receivables, securities in the

trading portfolio and securities in the investment portfolio respectively. None of these assets are overdue. The risk in relation to each of these items is set out below.

Cash

All cash investments not held in a transactional account are invested in cash management trusts which invest predominantly in securities with an A1+ rating.

In the unlikely event of a bank default or default on the underlying securities in the cash trust, there is a risk of losing the cash deposits and any accrued unpaid interest.

Receivables

Outstanding settlements are on the terms operating in the securities industry, which usually require settlement within two days of the date of a transaction. Receivables are non-interest bearing and unsecured. In the event of a payment default, there is a risk of losing any difference between the price of the securities sold and the price of the recovered securities from the discontinued sale.

Trading and investment portfolios

Converting and convertible notes or other interest-bearing securities that are not equity securities carry credit risk to the extent of their carrying value. Any loss as a consequence of this risk will be realised in the event of a shortfall on winding-up of the issuing companies.

Liquidity risk

Liquidity risk is the risk that an entity will not be able to meet its financial liabilities.

Mirrabooka monitors its cash-flow requirements daily. The Investment Committee also monitors the level of contingent payments on a regular basis by reference to known sales and purchases of securities, dividends and distributions to be paid or received, put options that may require Mirrabooka to purchase securities, and facilities that need to be repaid. Mirrabooka ensures that it has either cash or access to short-term borrowing facilities sufficient to meet these contingent payments.

Mirrabooka's inward cash flows depend upon the dividends received. Should these drop by a material amount, Mirrabooka would amend its outward cash-flows accordingly. Mirrabooka's major cash outflows are the purchase of securities and dividends paid to shareholders, and both of these can be adjusted by the Board and management. Furthermore, the assets of Mirrabooka are largely in the form of readily tradeable securities which can be sold on-market if necessary.

The table below analyses Mirrabooka's financial liabilities into relevant maturity groupings. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts as the impact of discounting is not significant.

30 June 2019	Less than 6 months	6-12 months	Greater than 1 year	Total contractual cash flows	Carrying amount
	$'000	$'000	$'000	$'000	$'000
Non-derivatives					
Payables	270	-	-	270	270
	270	-	-	270	270
30 June 2018					
Non-derivatives					
Payables	266	-	-	266	266
	266	-	-	266	266

In the case of call options, there are no contractual cash flows as if the option is exercised the contract will be settled in the securities over which the option is written.

C Unrecognised items

Unrecognised items, such as contingencies, do not appear in the financial statements, usually because they do not meet the requirements for recognition. However, they have the potential to have a significant impact on the Company's financial position and performance.

C1 Contingencies

Directors are not aware of any material contingent liabilities or contingent assets other than those already disclosed elsewhere in the financial report.

Further information that shareholder may find useful is included here. It is grouped into three sections:

D Balance sheet reconciliations

E Income statement reconciliations

F Further information

D Balance sheet reconciliations

This section provides information about the basis of calculation of line items in the financial statements.

D1 Current assets – cash

	2019 $'000	2018 $'000
Cash at bank and in hand (including on-call)	30,453	28,140
	30,453	28,140

Cash holdings yielded an average floating interest rate of 2.08% (2018: 1.83%). All cash investments are held in a transactional account or an over-night 'at call' account invested in cash management trusts which invest predominantly in securities with an A1+ rating.

The Company also has access to a $20 million liquidity facility with the Commonwealth Bank of Australia. This expires on 31 December 2019 and was undrawn at 30 June 2019.

D2 Revaluation reserve

	2019 $'000	2018 $'000
Opening balance at 1 July	97,227	74,584
Gains/(losses) on investment portfolio		
- Equity Instruments	5,140	43,433
- Non-equity instruments (transferred from retained profits)	(1)	6
Provision for tax on above	(1,437)	(16,071)
Cumulative taxable realised (gains)/losses (net of tax)	(22,597)	(4,725)
	78,332	**97,227**

This reserve is used to record increments and decrements on the revaluation of the investment portfolio as described in accounting policy note A2.

D3 Realised capital gains reserve

	2019 $'000	2018 $'000
Opening balance at 1 July	47,851	57,225
Dividends paid	(26,974)	(14,099)
Cumulative taxable realised gains for period through OCI (net of tax)	22,597	4,725
	43,474	**47,851**

This reserve records gains or losses after applicable taxation arising from disposal of securities in the investment portfolio as described in A2

D4 Retained profits

	2019 $'000	2018 $'000
Opening balance at 1 July	15,664	13,180
Dividends paid	(7,938)	(7,872)
Profit for the year	8,913	10,360
Transfer to revaluation reserve (non-equity investments) (net of tax)	1	(4)
	16,640	**15,664**

This reserve relates to past profits.

D5 Share capital

Date	Details	Notes	Number of shares '000	Issue price $	Paid-up Capital $'000
1/7/2017	Balance		**156,653**		**197,062**
10/8/2017	Dividend Reinvestment Plan	i	1,126	2.58	2,905
15/2/2018	Dividend Reinvestment Plan	i	372	2.58	960
Various	Costs of issue		-		(16)
30/6/2018	Balance		**158,151**		**200,911**
13/8/2018	Dividend Reinvestment Plan	i	879	2.58	2,269
15/2/2019	Dividend Reinvestment Plan	i	1,435	2.40	3,444
Various	Costs of issue		-		(22)
30/6/2019	Balance		**160,465**		**206,602**

i. Shareholders elect to have all or part of their dividend payment reinvested in new ordinary shares under the Dividend Reinvestment Plan (DRP). The price of the new DRP shares is based on the average selling price of shares traded on the Australian Securities Exchange and Chi-X in the five days after the shares begin trading on an ex-dividend basis.

All shares have been fully paid, rank pari passu and have no par value.

E Income statement reconciliations

E1 *Reconciliation of net cash flows from operating activities to profit*

	2019 $'000	2018 $'000
Profit for the year	**8,913**	**10,360**
Change in fair value of non-equity investments	1	(4)
Net decrease (increase) in trading portfolio	(2,022)	3,656
Sale of stock from trading portfolio to investment portfolio	(5,992)	-
Increase (decrease) in options written portfolio	(157)	(207)
Dividends received as securities under DRP investments	-	(431)
Decrease (increase) in current receivables	927	350
- Less increase (decrease) in receivables for investment portfolio	(1,151)	(158)
Increase (decrease) in deferred tax liabilities	(8,012)	14,499
- Less (increase) decrease in deferred tax liability on investment portfolio	8,325	(14,678)
Increase (decrease) in current payables	4	1
- Less decrease (increase) in payables for investment portfolio	-	2
Increase (decrease) in provision for tax payable	7,544	(3,651)
- Less CGT provision	(9,762)	(1,393)
- Add taxes paid on capital gains	1,393	6,030
Net cash flows from operating activities	**11**	**14,376**

E2 *Tax reconciliations*

Tax expense composition

Charge for tax payable relating to the current year	350	1,167
Over provision in prior years	(21)	(34)
Increase (decrease) in deferred tax liabilities	313	(179)
Increase in deferred tax liabilities charged to income statement from investment portfolio	-	2
	642	**956**

Amounts recognised directly through Other Comprehensive Income

Net increase in deferred tax liabilities relating to capital gains tax on the movement in gains in the investment portfolio	1,437	16,069
	1,437	**16,069**

Deferred tax assets & liabilities

The deferred tax balances are attributable to:

		2019 $'000	2018 $'000
(a)	Tax on unrealised gains or losses in the trading portfolio	(144)	2
(b)	Tax on unrealised gains/losses in the options written portfolio	(22)	78
(c)	Provisions and expenses charged to the accounting profit which are not yet tax deductible	78	78
(d)	Interest and dividend income receivable which is not assessable for tax until receipt	(102)	(35)
		(190)	123

Movements:

Opening asset balance at 1 July	123	(56)
Credited/(charged) to Income statement	(313)	179
	(190)	123

Deferred tax assets arise when provisions and expenses have been charged but are not yet tax deductible. These assets are realised when the relevant items become tax deductible, as long as enough taxable income has been generated to claim the assets against, and as long as there are no changes to the tax legislation that affect Mirrabooka's ability to claim the deduction. As noted in B2, deferred tax assets and liabilities have been calculated at a rate of 30% (2018 : 30%).

F Further information

This section covers information that is not directly related to specific line items in the financial statements, including information about related party transactions and other statutory information.

F1 Related parties

All transactions with deemed related parties were made on normal commercial terms and conditions and approved by independent Directors.

F2 Remuneration of auditors

For the year the auditor earned or will earn the following remuneration:

	2019 $	2018 $
PricewaterhouseCoopers		
Audit or review of financial reports	96,424	104,895
Non-Audit Services		
Taxation compliance services	12,411	15,708
Total remuneration	108,835	120,603

F3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting used by the chief operating decision-maker. The Board, through its sub-committees, has been identified as the chief operating decision-maker, as it is responsible for allocating resources and assessing performance of the operating segments.

Description of segments

The Board makes the strategic resource allocations for Mirrabooka. Mirrabooka has therefore determined the operating segments based on the reports reviewed by the Board, which are used to make strategic decisions.

The Board is responsible for Mirrabooka's entire portfolio of investments and considers the business to have a single operating segment. The Board's asset allocation decisions are based on a single, integrated investment strategy, and Mirrabooka's performance is evaluated on an overall basis.

Segment information provided to the Board

The internal reporting provided to the Board for Mirrabooka's assets, liabilities and performance is prepared on a consistent basis with the measurement and recognition principles of Australian Accounting Standards, except that net assets are reviewed both before and after the effects of capital gains tax on investments (as reported in Mirrabooka's Net Tangible Asset announcements to the ASX).

Other segment information

Revenues from external parties are derived from the receipt of dividend, distribution and interest income, and income arising on the trading portfolio and realised income from the options portfolio.

Mirrabooka is domiciled in Australia and most of Mirrabooka's income is derived from Australian entities or entities that maintain a listing in Australia. Mirrabooka has a diversified portfolio of investments, with only one investment comprising more than 10% of Mirrabooka's income, including realised income from the trading and options written portfolios – Alumina (13.6%). (2018: 1 : Rhipe Limited's gains through the trading portfolio – 10.8% of total income).

F4 Summary of other accounting policies

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, Interpretations issued by the Australian Accounting Standards Board and the Corporations Act 2001. This financial report has been authorised in accordance with a resolution of the Board and is presented in the Australian currency. The directors of Mirrabooka have the power to amend and reissue the financial report.

Mirrabooka has attempted to improve the transparency of its reporting by adopting 'plain English' where possible. Key 'plain English' phrases and their equivalent AASB terminology are as follows:

Phrase	AASB Terminology
Market Value	Fair Value for Actively Traded Securities
Cash	Cash & Cash Equivalents
Share Capital	Contributed Equity
Options	Derivatives written over equity instruments that are valued at fair value through Profit or Loss

Mirrabooka complies with International Financial Reporting Standards (IFRS). Mirrabooka is a 'for profit' entity.

Mirrabooka has not applied any Australian Accounting Standards or AASB Interpretations that have been issued as at balance date but are not yet operative for the year ended 30 June 2019 ("the inoperative standards"). The impact of the inoperative standards has been assessed and the impact has been identified as not being material. Mirrabooka only intends to adopt other inoperative standards at the date at which their adoption becomes mandatory.

Basis of accounting

The financial statements are prepared using the valuation methods described in A2. All other items have been treated in accordance with the historical cost convention.

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 Mirrabooka approximates their carrying value.

Rounding of amounts

Mirrabooka is a company of the kind referred to in the ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, relating to the 'rounding off' of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Instrument, to the nearest thousand dollars, or in certain cases, to the nearest dollar.