

# WAM CAPITAL LIMITED

A.B.N. 34 086 587 395



**ANNUAL REPORT  
FOR THE YEAR ENDED  
30 JUNE 2010**

# COMPANY PARTICULARS

## WAM CAPITAL LIMITED

A.B.N. 34 086 587 395

WAM Capital Limited is a Listed Investment Company and is a reporting entity. It is an investor in equities and similar securities on the stock market primarily in Australia.

**DIRECTORS:**

G. Wilson (Chairman)  
M. Kidman  
J. Chirnside  
P. Jensen

**SECRETARY:**

K. Thorley

**INVESTMENT MANAGER:**

Wilson Asset Management (International) Pty Limited  
Level 11, 139 Macquarie Street  
Sydney NSW 2000

**AUDITORS:**

Moore Stephens Sydney

**COUNTRY OF INCORPORATION:**

Australia

**REGISTERED OFFICE:**

Level 11, 139 Macquarie Street  
Sydney NSW 2000

**CONTACT DETAILS:**

Postal Address: GPO Box 4658  
Sydney NSW 2001

Telephone: (02) 9247 6755  
Fax: (02) 9247 6855  
Email: [info@wami.com.au](mailto:info@wami.com.au)  
Website: [www.wilsonassetmanagement.com.au](http://www.wilsonassetmanagement.com.au)

**SHARE REGISTRAR:**

Registries Limited  
Level 7, 207 Kent Street  
Sydney NSW 2000

Telephone: (02) 9290 9600  
Fax: (02) 9279 0664

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

**STOCK EXCHANGE:**

Australian Securities Exchange (ASX)  
The home exchange is Sydney.  
ASX code for ordinary shares: WAM

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# WAM CAPITAL LIMITED

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## CHAIRMAN'S LETTER

Dear Shareholders,

Firstly I would like to thank you for your support during another volatile year for Australian and global equities. Recently two significant events have occurred that I believe will be very positive for WAM Capital Limited (WAM) and the Listed Investment Company (LIC) sector in Australia. The first of these events is the recent changes in dividend legislation which allows LIC's and other listed companies to pay dividends based on the solvency position of the company rather than from reported profits and retained earnings. This will be a great benefit to investors as it will increase the level of fully franked dividends paid to investors and it will enable WAM to always be in a position to pay a dividend. It is estimated there is over \$100 billion of franked dividends available for distribution from Australian companies. The second event is the Ripoll Review which proposes the banning of commissions on managed funds from 1 July 2012. This will provide a level playing field between LIC's and managed funds. Another benefit from this review will be the introduction of a statutory fiduciary duty on financial advisors in relation to their clients. I believe these events will increase the interest in LIC's as an attractive investment option.

These are very exciting times for LIC's and as such I have been highlighting these events in the press and at the recent ASX LIC Roadshows.

WAM is a listed investment company whose mission is to provide superior returns to its investors over the medium to long term. WAM listed in August 1999 and is managed by Wilson Asset Management (International) Pty Limited.

### Investment Objectives and Process

Our investment objectives are to achieve a high real rate of return, comprising both income and capital growth, within risk parameters acceptable to the Directors and to preserve the capital of the Company.

Our investment process focuses on:

- a) Research Driven investing: We undertake extensive research, focusing on free cashflow then rating the company with respect to management, earnings growth potential, valuation and industry position. We only buy when we can identify a catalyst that will change the valuation the market gives to the company.
- b) Market Driven investing: We scour the market for trading opportunities. These could include participating in initial public offerings, placements, block trades, rights issues, corporate transactions (such as takeovers, mergers, schemes of arrangements), corporate spin-offs, restructurings, arbitrage opportunities, LIC discount arbitrages or relative value arbitrages. This part of the portfolio is traded actively.

WAM is committed to delivering returns to you its shareholders, of between 15-20% per annum over the medium term. Since inception in 1999, WAM's gross portfolio has delivered shareholders an annualised return of 18.8% per annum. WAM has achieved this by investing in companies that have strong earnings growth, trade on a low price to earnings multiples, have an experienced management team and hold a strategic position in their industry.

We are constantly challenged in finding companies with these characteristics. Often we uncover investment opportunities that may not meet all the requirements of our research model. If however, they provide a favourable risk/reward payoff, we will take the opportunity. These investments form part of our Market Driven or trading portfolio. The number of companies in our portfolio and our cash holding varies as these opportunities are taken and realised. If we cannot find acceptable investment opportunities, we will hold cash until the right opportunities present themselves.

Our disciplined approach is to provide the maximum return possible while taking the minimum amount of risk.

# WAM CAPITAL LIMITED

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## CHAIRMAN'S LETTER

Our investment team has continued to develop and comprises of Matthew Kidman and myself, Portfolio Managers, Chris Stott, Head of Research and Portfolio Manager and Martin Hickson, Analyst who is responsible for the market driven side of our investing. We all spend as much time as possible meeting with the management of investee companies and during the year had over 700 meetings.

### Performance

WAM's gross portfolio increased 29.8% for the 12 months to 30 June 2010, while the S&P/ASX All Ordinaries Accumulation Index increased by 13.8%, the S&P/ASX Small Ordinaries Accumulation Index increased 11.2% and the S&P/ASX Small Industrials Accumulation Index increased 10.3%. The after tax NTA, excluding tax assets and adjusted for dividends, increased 26.8% while the share price, adjusted for dividends rose 24.7% for the 12 months to 30 June 2010.

The Research Driven portion of the portfolio performed solidly over the 12 months with the top performing research stocks being Reckon Limited, McMillan Shakespeare Limited, REA Group Limited and Orotongroup Limited. During the second half of the financial year it proved difficult to find quality research stocks to add to the portfolio. Only three new stocks were added to the research portion of the portfolio over the six month period to 30 June 2010: The Reject Shop Limited, Blackmores Limited and MyState Limited. While there are many companies trading on low multiples, we believe the earnings for 2011 are overstated by analysts. This may provide opportunities to establish positions in quality companies at lower levels. With the reduction in investment opportunities and bearish outlook on the market the cash level of the fund rose to 55.3% at 30 June 2010 up from 38.2% at 30 June 2009. The average cash level for the financial year was 36.5%, a decrease on the prior year average of 53.9%.

The top contributing Market Driven stocks for the year were Virgin Blue Holdings Limited, Wattyl Limited, FKP Property Group and National Australia Bank Limited. The financial year was a year of two very different halves for the Market Driven portion of the portfolio. During the first half FY2010 the fund participated in 122 capital raisings as companies raised money to shore up their balance sheets after making it through the worst of the GFC. In total \$100 billion was raised by Australian companies in all of 2009. In comparison in the first half of calendar year 2010 capital raisings were down heavily with issuance of just \$8.4 billion the lowest half-year volume seen in seven years. This reduced the amount of discounted capital raisings available for the fund to take part in, with the fund participating in just 49 capital raisings during the period.

Entering the first half of calendar year 2010 we anticipated a strong period for M&A activity, as companies which had raised capital began to deploy it. Two of the companies which we owned in the fund, Dexion Limited and Wattyl Limited, received takeover offers which contributed positively to the Funds performance. The fund also took advantage of other takeovers, trading positions in Ammtec Limited, Ausmelt Limited, Challenger Kenedix Japan Trust and Corporate Express Limited.

### Dividends

On 20 July 2010 the Board announced a fully franked final dividend of 4.0 cents per share to be paid on 17 September 2010. The shares traded ex dividend on 6 September 2010. This brings the full year dividend to 8.0 cents per share fully franked.

The Board is committed to paying an increasing stream of fully franked dividends to shareholders provided the company has sufficient franking credits, and it is within prudent business practices. Dividends are paid on a six-monthly basis. Recently introduced government legislation now enables companies to pay dividends if the company is deemed solvent. Dividend payments will not be reliant on reported profit and retained earnings as it was previously. Rather it will be with consideration to cash flow, cash holdings and available franking credits. Essentially, WAM will always be in a position to pay dividends providing it is solvent.

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## CHAIRMAN'S LETTER

The dividend re-investment plan will operate at the volume weighted average market price of shares sold on the record date and the three trading days prior to the record date. To participate in the dividend re-investment plan, please send your election to our share registrar no later than 10 September 2010.

### Outlook

The Australian share market stumbled across the line to post a 14% gain for the financial year to 30 June 2010. This was a disappointing result given the market was up as much as 30% by April 2010. The sharp drop towards the end of the year was inspired by government debt concerns in Europe, sluggish world economic growth and concerns over a proposed resources tax.

We would expect share markets around the world to head lower in the current financial year. Consumers in western countries continue to moderate spending in a bid to lower their debt levels. Even historically low interest rates have failed to stimulate consumer activity. In addition, governments in the world's biggest economies of US, Japan and Western Europe all have to drastically reduce spending and/or increase revenue. The measures taken by these governments will stymie global growth. We believe this will weigh heavily on equity prices around the globe including Australia.

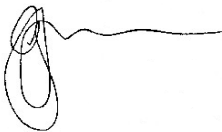
### Shareholder Communication

We take an active approach to keeping shareholders informed about the Company's activities and performance including monthly investment updates and NTA announcements, yearly and half yearly profit announcements, semi-annual shareholder briefings and access to all relevant information on our website. Also included on our website are regular audio casts to discuss important market issues and address common questions. These audio casts are posted on our website: [www.wilsonassetmanagement.com.au/audio](http://www.wilsonassetmanagement.com.au/audio)

During the year we continued the successful and well attended shareholder briefings, with seminars held in Sydney, Melbourne, Adelaide, Brisbane and Canberra. The team at Wilson Asset Management enjoys the opportunity to meet with you and are committed that shareholder briefings remain a semi-annual event.

In the coming week shareholders will be sent the latest edition of the Investor Newsletter. This newsletter will now be circulated on a six-monthly basis. We hope you enjoyed the content and would encourage feedback on how we can improve this newsletter and our overall communication with our shareholders.

Thank you for your continuing support.



**Geoff Wilson**  
Chairman

# WAM CAPITAL LIMITED

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## CORPORATE GOVERNANCE STATEMENT

To ensure the Company operates effectively and in the best interests of shareholders, the Board has followed the principles and best practice recommendations established by the ASX Corporate Governance Council having regard to the nature of the Company's activities and its size. The Company has adopted the ASX Corporate Governance Principles and Recommendations (2<sup>nd</sup> Edition, August 2007) for the 2010 financial year.

### Role of the Board (Recommendations 1.1 to 1.3)

The Company has a Board but no full time employees. Subject at all times to any written guidelines issued by the Board of Directors of WAM Capital Limited, the day-to-day management and investment of funds is carried out by Wilson Asset Management (International) Pty Limited (the Manager) pursuant to a management agreement. Consequently, there is no need for a process to evaluate the performance of senior executives under recommendations 1.2 and 1.3.

The role of the Board is to set strategic direction, approve capital management initiatives and to be responsible for the overall corporate governance of the Company which includes:

- To oversee and monitor the performance of the Manager's compliance with the management agreement and to ensure that the Manager is monitoring the performance of other external service providers;
- Ensuring adequate internal controls exist and are appropriately monitored for compliance;
- Ensuring significant business risks are identified and appropriately managed;
- Approving the interim and final financial statements and related reports and other communications to the ASX and shareholders;
- Responsibility for managing and progressing the profitable operation and development of the Company; and
- Setting appropriate business standards and code for ethical behavior.

The Board aims to ensure that all Directors and the Manager act with the utmost integrity and objectivity and endeavour to enhance the reputation of the Company. The Board should act in a manner designed to create and build sustainable value for shareholders.

### Composition & Operation of the Board (Recommendations 2.1 to 2.6)

The skills, experience and expertise relevant to the position of each Director who is in office at the date of the annual report and their term in office are detailed in the Directors' Report.

The Board has two independent Directors and two non independent Directors. The names of the Directors considered to be independent are:

- James Chirside
- Paul Jensen

These Directors are considered independent as per the criteria outlined in the Board of Directors Charter which includes the Company's criteria for independence of Directors, and can be found in the Corporate Governance section of the Company's website at [www.wilsonassetmanagement.com.au](http://www.wilsonassetmanagement.com.au). The criteria are in accordance with ASX Corporate Governance Council's Principles.

Whilst the Company agrees with the benefits of a majority of independent Directors, under Recommendation 2.1, it believes that it can better achieve the results of the Company with the current Boards' level of expertise and without burdening shareholders with the additional costs associated with adding further independent Directors.

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## CORPORATE GOVERNANCE STATEMENT

The Chairman is not an independent Director. The Company believes that an independent Chairman, under recommendation 2.2, does not necessarily improve the function of the Board. The Company believes that when the Chairman is a significant driver behind the business and is a sizeable shareholder, as is the case with the Company, it adds value to the Company for all shareholders.

Given the size of the Board a nomination committee has not been formed under recommendation 2.4. The Board as a whole considers the composition of the board and appointment of new Directors. The Board identifies suitable candidates to fill vacancies as they arise. Under the Board of Directors Charter, the performance of each Director is reviewed by the Chairman annually and the Board undertakes an annual review of the performance of the Chairman to ensure the Board's activities continue to be efficiently organised and conducted. At every Annual General Meeting one third of the Directors must retire from office and be eligible for re-election. Shareholder approval is required on the composition of the Board.

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

### **Code of Conduct (Recommendations 3.1 and 3.3)**

The Company has established a Directors Code of Conduct which sets out the Company's key values and how they should be applied within the workplace and in dealings with those outside of the Company. The Directors Code of Conduct can be found in the Corporate Governance section of the Company's website at [www.wilsonassetmanagement.com.au](http://www.wilsonassetmanagement.com.au).

### **Board's Policy on Dealing in Shares (Recommendations 3.2 and 3.3)**

Directors are not required to hold a minimum number of shares pursuant to the Company's Constitution. However, their current relevant interests in the Company's shares are shown in the Directors' Report.

Subject to them not being in possession of undisclosed price sensitive information, Directors may deal in shares of the Company whenever they wish. The Securities Dealing Policy can be found in the Corporate Governance section of the Company's website at [www.wilsonassetmanagement.com.au](http://www.wilsonassetmanagement.com.au).

### **Audit & Risk Committee (Recommendation 4.1 to 4.4)**

The company has formed an Audit & Risk Committee consisting of three non-executive Directors of whom two are independent as defined by the ASX Corporate Governance Council's principles. This is considered adequate given the size of the board (4 members) and the nature of the company. The members of the Audit & Risk Committee are:

- |                   |   |
|-------------------|---|
| - James Chirnside | Chairman, independent                   |
| - Paul Jensen     | Non-Executive Director, independent     |
| - Matthew Kidman  | Non-Executive Director, non-independent |

The Committee's responsibilities are to:

- Oversee the existence and maintenance of internal controls and procedures to ensure compliance with all applicable regulatory obligations;
- Oversee the financial reporting process;
- Review the annual and half-year financial reports and recommend them for approval by the Board of Directors;
- Nominate external auditors; and
- Review the existing external audit arrangements.



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## CORPORATE GOVERNANCE STATEMENT

The Audit & Risk Committee Charter can be found in the Corporate Governance section of the Company's website at [www.wilsonassetmanagement.com.au](http://www.wilsonassetmanagement.com.au).

The Committee formally reports to the Board after each of its meetings. Details of the number of meetings of the Audit & Risk Committee during the 2010 financial year are set out in the Directors Report.

The external audit firm partner responsible for the Company audit attends meetings of the Board and Audit & Risk Committee by invitation.

The Company's external audit is undertaken by Moore Stephens Sydney and the audit engagement partner is required to be changed at regular intervals. Jenelle Webster, a partner of Moore Stephens Sydney, is the partner responsible for the external audit of the Company for the 2010 financial year.

### **ASX Listing Rule Compliance (Recommendation 5.1 and 5.2)**

The Company has established a Continuous Disclosure Policy to ensure compliance with the continuous disclosure obligations under the ASX Listing Rules and the *Corporations Act 2001* and to ensure all investors have equal and timely access to material information concerning the Company and that Company announcements are factual and presented in a clear and balanced way.

The Continuous Disclosure Policy can be found in the Corporate Governance section of the Company's website at [www.wilsonassetmanagement.com.au](http://www.wilsonassetmanagement.com.au).

In addition, the Company has established a related Conflict of Interest Policy, in accordance with the *Corporations Act 2001*. Under this Policy, the Directors must keep the Board advised, on an ongoing basis, of any interests that could potentially conflict with those of the Company. Where the Board believes that a significant conflict exists, the Director concerned does not receive the relevant board papers and is not present at the meeting whilst the item is considered.

### **Shareholder Rights and Communication (Recommendation 6.1 and 6.2)**

The Board aims to ensure that the shareholders are informed of all major developments affecting the Company's state of affairs.

The Company Secretary is primarily responsible for coordinating the disclosure of information to shareholders and regulators under the direction of the Board.

Information is communicated to shareholders through the:

- Website;
- ASX Company Announcements platform;
- Annual Report;
- Investor newsletters;
- Monthly Investment Updates and NTA releases; and
- Other correspondence regarding matters impacting on shareholders as required.

Monthly NTA releases and bi-annual investor newsletters contain additional information concerning the underlying investment portfolio of the Company in an effort to give investors a better understanding of the Company.

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the Company's strategy and goals.

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## CORPORATE GOVERNANCE STATEMENT

Shareholder information sessions are also held twice a year in May/June and November following the AGM. These provide an informal forum where shareholders are given the opportunity to raise questions and participate in general discussion about the Company.

The Communications Policy can be found in the Corporate Governance section of the Company's website at [www.wilsonassetmanagement.com.au](http://www.wilsonassetmanagement.com.au).

### **Risk Management (Recommendation 7.1 to 7.4)**

The Company has an established enterprise risk management program that during the 2010 financial year was upgraded in accordance with the new International Risk Standard AS/NZS ISO 31000:2009. It also has an established internal control program based upon the principles set out in the Australian Compliance Standard AS 3806:2006.

The Company's enterprise risk management program addresses its material business risks. Each identified risk is individually assessed in terms of the likelihood of the risk event occurring and the potential consequences in the event that the risk event was to occur. The CompliSpace Assurance software has been implemented through which material business risks are linked to mitigating controls. This software gives the Company and the Manager the ability to monitor the performance of its enterprise risk and compliance programs in real time. It also ensures transparency of data and ease of reporting to the Board.

The Manager has provided to the Board a report as to the overall effectiveness of the company's management of its material business risks.

The Board has received assurance from the CFO and sole Director of the Manager that in their view:

- the declaration provided in accordance with section 295A of the *Corporations Act 2001* is founded on a sound system of risk management and internal control; and
- the system of risk management and internal control is operating effectively in all material respects in relation to financial reporting risks.

The Board has delegated responsibility for reviewing the risk profile and reporting on the operation of the internal control system to the Audit & Risk Committee. The Audit & Risk Committee requires the Manager to report annually on the operation of internal controls, reviews the external audit of internal controls and conducts any other investigations it requires in order to report to the Board on the effectiveness of the internal control system. In respect of the current financial year all necessary declarations have been submitted to the Board.

There are two main areas of risk that have been identified:

- Market risk
- Operational risk

#### *Market risk*

The Board is primarily responsible for recognising and managing market related risk. By its nature, as a listed investment company that invests in tradeable securities, the Company will always be subject to market risk as it invests its capital in securities which are not risk free as the market price of these securities can fluctuate. However, the Company seeks to reduce and manage market risk by not being overly exposed to one investee company or one particular sector of the market. The Manager reviews the relative weightings of individual securities and the relevant market sectors regularly. The Company does not have set parameters as to a minimum or maximum amount of the portfolio that can be invested in a single company or sector.

Wilson Asset Management (International) Pty Limited, the Manager is required to act in accordance with the Board approved investment management agreement and reports to the Board regularly on the Fund's performance and any material actions that have occurred in the period.

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## CORPORATE GOVERNANCE STATEMENT

### *Operational risk*

The Board is primarily responsible for recognising and managing operational risk issues such as legal and regulatory risk, systems and process risk and third party risk. The company outsources its operational functions to service providers: Wilson Asset Management (International) Pty Limited (investment management, accounting and compliance), RBC Dexia Investor Services (custody) and Registries Limited (share registrar) and accordingly risk issues associated with these activities are handled in accordance with the service provider's policies and procedures.

Wilson Asset Management (International) Pty Limited, the Manager provides a declaration to the Board twice a year, to certify that the Company's financial statements and notes present a true and fair view, in all material respects, of the Company's financial condition and operational results and that they have been prepared and maintained in accordance with relevant Accounting Standards and the *Corporations Act 2001*.

### **Remuneration of Directors (Recommendation 8.1 to 8.3)**

Given the number of Directors (4), a remuneration committee has not been formed as it is believed that such a committee would not serve to protect or enhance the interests of the shareholder. As such, the Board deals with the issue of remuneration as a whole.

The maximum total remuneration of the Directors of the company has been set at \$80,000 per annum to be divided in such proportions as they agree. The scope of the Company's operations, and the frequency of Board meetings are principal determinants of the fee level. Further detail is provided in the Directors' Report.

The Board has made no distinction between the remuneration of non-executive directors from executive directors under recommendations 8.2 and 8.3.

The Chairman and a Director of WAM Capital Limited are employees, the Chairman is the sole Director, of Wilson Asset Management (International) Pty Limited and they are further remunerated by that Company. Further detail is provided in the Directors' Report.

# WAM CAPITAL LIMITED

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## DIRECTORS' REPORT TO SHAREHOLDERS FOR THE YEAR ENDED 30 JUNE 2010

The Directors present their report together with the financial report of WAM Capital Limited ("the Company") for the financial year ended 30 June 2010.

### Principal Activity

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

### Operating and Financial Review

Investment operations over the year resulted in an operating profit before tax of \$33,304,756 (2009: operating loss before tax \$7,242,838) and an operating profit after tax of \$24,383,192 (2009: operating loss after tax \$4,083,239)

Asset backing for each ordinary share as at 30 June 2010 (calculated on market value less realisation costs and all applicable taxes and before provision for dividend) amounted to \$1.52 per share (2009: \$1.37). Asset backing after tax on realised gains but before tax on unrealised gains was \$1.57 per share (2009: \$1.40).

Further information on the operating and financial review of the company is contained in the Chairman's Letter on pages 1 to 3 of the Annual Report.

### Financial Position

The net asset value of the company for the current financial year was \$158,746,626 (2009: \$141,178,888).

### Significant Changes in State of Affairs

There was no significant change in the state of affairs of the Company during the year ended 30 June 2010.

### Dividends Paid or Recommended

Dividends paid or declared are as follows:

	\$
Fully franked 2009 dividend of 4.0 cents per share was paid on 17 August 2009	4,111,415
Fully franked 2010 interim dividend of 4.0 cents per share was paid on 25 February 2010	4,134,683

Since year end the Board has announced a final dividend of 4.0 cents per share fully franked to be paid on 17 September 2010.

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## DIRECTORS' REPORT TO SHAREHOLDERS FOR THE YEAR ENDED 30 JUNE 2010

### Options

There are no options on issue as at 30 June 2010.

### Directors

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

G.J. Wilson  
M.J. Kidman  
P.D.K Jensen  
J.M. Chirnside

### Information on Directors

#### **Geoffrey Wilson (Chairman – Non-independent)**

##### *Experience and expertise*

Geoffrey Wilson has had 30 years experience in the Australian and international securities industry. He holds a Bachelor of Science Degree and a Graduate Management Qualification. He is also a Fellow of the Institute of Company Directors and a Fellow of the Securities Institute of Australia.

Geoffrey Wilson has been Chairman of the Company since March 1999.

##### *Other current directorships*

Geoffrey Wilson is currently Chairman of Wilson Investment Fund Limited (appointed June 2003), WAM Active Limited (appointed July 2007), Australian Stockbrokers Foundation and Ascham Foundation Limited. He is a Director of Australian Leaders Fund Limited (appointed October 2003), Clime Capital Limited (appointed November 2003), Cadence Capital Limited (appointed February 2005), Vietnam Fund Limited (appointed October 2007), Incubator Capital Limited (appointed Feb 2000), the Sporting Chance Cancer Foundation, Australian Fund Managers Foundation and Odyssey House McGrath Foundation. He is also a Director of investment management companies Wilson Asset Management (International) Pty Limited, MAM Pty Limited and Boutique Asset Management Pty Limited.

##### *Former directorships in the last 3 years*

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

##### *Special responsibilities*

Chairman of the Board.

##### *Interests in shares and options of the Company*

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

##### *Interests in contracts*

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

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## DIRECTORS' REPORT TO SHAREHOLDERS FOR THE YEAR ENDED 30 JUNE 2010

### **Matthew Kidman (Non-Executive Director – Non-independent)**

#### *Experience and expertise*

Matthew Kidman worked as a finance reporter for the Sydney Morning Herald between 1994 and 1998. In 1997 he was appointed Investment Editor of that newspaper and was charged with the responsibility of company coverage for the newspaper. He has degrees in Economics and Law and a Graduate Diploma in Applied Finance. He is a Portfolio Manager of Wilson Asset Management (International) Pty Limited and has been instrumental in establishing the company's valuation methodology of rating companies.

Matthew Kidman has been a Director of the Company since March 1999.

#### *Other current directorships*

Matthew Kidman is a Director of Wilson Investment Fund Limited, (appointed May 2002), WAM Active Limited (appointed July 2007) and Incubator Capital Limited (appointed February 2000). He is also a Director of the investment management companies MAM Pty Limited and Boutique Asset Management Pty Limited.

#### *Former directorships in the last 3 years*

Matthew Kidman is a former Director of Australian Leaders Fund Limited (formerly known as Wilson Leaders Fund Limited) (October 2003 to January 2010).

#### *Special responsibilities*

Member of the Audit & Risk Committee.

#### *Interests in shares and options of the Company*

Details of Matthew Kidman's interests in shares and options of the Company are included later in this report.

#### *Interests in contracts*

Details of Matthew Kidman's interests in contracts of the Company are included later in this report.

### **James Chirnside (Non-Executive Director – Independent)**

#### *Experience and expertise*

James Chirnside has been exclusively focused in emerging markets and absolute return investment management for twenty-one years in Melbourne, London, Hong Kong, and Sydney. James is Managing Director of Asia Pacific Asset Management, a specialist emerging market investment firm based in Sydney. James previously worked for Challenger Financial Group in Sydney. Prior to this he was Senior Fund Manager for emerging market hedge funds in Hong and London for Regent Fund Management. He was country head for India, Indonesia and Australia during this time. From 1989 to 1992 James worked for County NatWest in London as head of proprietary trading for Asia and specifically focussed on country funds and equity derivatives arbitrage strategies.

James Chirnside has been a Director of the Company since February 2003.

#### *Other current directorships*

James Chirnside is a Director of Cadence Capital Limited (appointed February 2005).

#### *Former directorships in the last 3 years*

James Chirnside has not held any other directorships of listed companies within the last three years.

#### *Special responsibilities*

Chairman of the audit & Risk Committee.

#### *Interests in shares of the Company*

Details of James Chirnside's interests in shares of the Company are included later in the report.

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## DIRECTORS' REPORT TO SHAREHOLDERS FOR THE YEAR ENDED 30 JUNE 2010

### *Interests in contracts*

James Chirnside has no interests in contracts of the Company.

### ***Paul Jensen (Non-Executive Director – Independent)***

#### *Experience and expertise*

Paul Jensen has over 25 years of international experience in the funds management and institutional banking sectors. He holds a Bachelor of Commerce and Administration in accounting and commercial law from Victoria University, Wellington, NZ and is a Fellow of the Australian Institute of Company Directors.

Paul Jensen has been a Director of the Company since June 2004.

#### *Other current directorships*

Paul Jensen is a Director of Clime Investment Management Limited.

#### *Former directorships in the last 3 years*

Paul Jensen is a former Director HFA Holdings Limited from February to September 2007, HFA Asset Management Limited from February to September 2007 and HFA Accelerator Plus Limited from February to September 2007.

#### *Special responsibilities*

Member of the Audit & Risk Committee.

#### *Interests in shares of the Company*

Details of Paul Jensen's interests in shares of the Company are included later in this report.

#### *Interests in contracts*

Paul Jensen has no interests in contracts of the Company.

### **Company Secretary**

The following person held the position of Company Secretary at the end of the financial year:

Katherine Thorley – Bachelor of Commerce, CPA and CSA Certificate in Governance Practice and Administration. Katherine has worked in the funds management industry the past 5½ years with the Wilson Asset Management group initially as a Financial Accountant and more recently as CFO. Katherine Thorley was appointed Company Secretary on 30 October 2008.

# WAM CAPITAL LIMITED

A.B.N. 34 086 587 395

## DIRECTORS' REPORT TO SHAREHOLDERS FOR THE YEAR ENDED 30 JUNE 2010

### Remuneration Report

This report details the nature and amount of remuneration for each Director of WAM Capital Limited.

a) Remuneration of Directors

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

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

Directors' base fees are presently \$80,000 per annum. Non-Executive Directors do not receive bonuses nor are they issued options on securities as part of their remuneration. Directors' fees cover all main Board activities and membership of committees.

Directors' remuneration received for the year ended 30 June 2010:

Director	Position	Directors' Fees	Post-employment Superannuation	Total
		\$	\$	\$
G.J. Wilson	Chairman	9,174	826	10,000
	Non-Executive			
M.J. Kidman	Director	9,174	826	10,000
	Non-Executive			
J.M. Chirnside	Director	27,523	2,477	30,000
	Non-Executive			
P.D.K. Jensen	Director	21,261	8,739	30,000
		<b>67,132</b>	<b>12,868</b>	<b>80,000</b>

The following table compares the Company performance and Non-Executive Directors' remuneration over five years:

	2010	2009	2008	2007	2006
Operating profit/(loss) after tax (\$)	24,383,192	(4,083,239)	(31,619,033)	34,005,754	18,041,517
Dividends (cents per share)	8.0	4.0	8.0	16.0	14.0
Equal Access Share Buy-Back (\$1.38 per share x 5.8% holding)	-	8.0	-	-	-
Net tangible asset (\$ per share)	1.52	1.37	1.41	1.88	1.57
Total Directors' remuneration (\$)	<b>80,000</b>	<b>80,000</b>	<b>80,000</b>	<b>70,000</b>	<b>60,000</b>



# WAM CAPITAL LIMITED

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## DIRECTORS' REPORT TO SHAREHOLDERS FOR THE YEAR ENDED 30 JUNE 2010

b) Director Related Entities Remuneration

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

Geoffrey Wilson is the sole Director and beneficial owner of Wilson Asset Management (International) Pty Limited, the entity appointed to manage the investment portfolio of WAM Capital Limited and manage the day-to-day operations of the Company. Matthew Kidman is an employee of Wilson Asset Management (International) Pty Limited. The core duties of the Manager include the provision of financial and administrative support to ensure the maintenance of the corporate and statutory records of the Company; liaison with the ASX with respect to compliance with the ASX Listing Rules; liaison with ASIC with respect to compliance with the Corporations Act; liaison with the share registrar of the Company; and the provision of information necessary for the maintenance of financial accounts of the Company to be completed. In its capacity as Manager, Wilson Asset Management (International) Pty Limited was paid a management fee of 1% p.a (plus GST) of gross assets amounting to \$1,802,104 inclusive of GST (2009: \$1,402,454). As at 30 June 2010 the balance payable to the manager was \$151,509 (2009: \$123,820).

In addition, Wilson Asset Management (International) Pty Limited is to be paid, annually in arrears, a performance fee being 20% of:

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

No performance fee is payable in respect of any performance period where the portfolio has decreased in value over that period. For the year ended 30 June 2010, a performance fee of \$4,445,012 inclusive of GST was payable to Wilson Asset Management (International) Pty Limited (2009: no performance fee was payable).

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

c) Remuneration of Executives

There are no executives that are paid by the Company. Wilson Asset Management (International) Pty Limited, the investment manager of the Company, remunerates Geoffrey Wilson, Matthew Kidman and Katherine Thorley as employees and/or directors of the Company. The Manager also provides day to day management of the Company and is remunerated as outlined above.

d) Equity Instruments Disclosures of Directors and Related Parties

As at the date of this report, the Company's Directors and their related parties held the following interests in the Company:

<b>Directors</b>	<b>Ordinary Shares</b>
G.J. Wilson	3,596,896
M.J. Kidman	190,590
P.D.K. Jensen	69,232
J.M. Chirnside	-

Directors and director related entities disposed of and acquired ordinary shares and options in the Company on the same terms and conditions available to other shareholders. The Directors have not, during or since the end financial year, been granted options over unissued shares or interests in shares of the Company as part of their remuneration.

# WAM CAPITAL LIMITED

A.B.N. 34 086 587 395

## DIRECTORS' REPORT TO SHAREHOLDERS FOR THE YEAR ENDED 30 JUNE 2010

### Directors' Meetings

Director	No. eligible to attend	Attended
G.J. Wilson	8	8
M.J. Kidman	8	8
P.D.K. Jensen	8	8
J.M. Chirside	8	8

### Audit & Risk Committee Meetings

The main responsibilities of the Audit & Risk Committee are set out in the Corporate Governance Statement on pages 4 - 8 of the Annual Report.

Director	No. eligible to attend	Attended
M.J. Kidman	2	2
P.D.K. Jensen	2	2
J.M. Chirside	2	2

### After Balance Date Events

Since year end the Board has announced a final dividend of 4.0 cents per share fully franked to be paid on 17 September 2010.

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

### Future Developments

The Company will continue to pursue its policy of investment during the next financial year, investing its current fixed interest and cash holdings into the equity market as opportunities arise.

### Environmental Issues

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

### Indemnification and Insurance of Officers or Auditors

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

# WAM CAPITAL LIMITED

A.B.N. 34 086 587 395

## DIRECTORS' REPORT TO SHAREHOLDERS FOR THE YEAR ENDED 30 JUNE 2010

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

### Proceedings on behalf of the Company

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

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

### Non-Audit Services

During the year Moore Stephens Sydney, the Company's auditor, did not perform any other services in addition to their statutory duties for the Company. Moore Stephens Sydney Pty Limited, a related party of the Company's auditor, performed taxation services for the Company. Details of the amounts paid to the auditors and their related parties are disclosed in Note 5 to the financial statements.

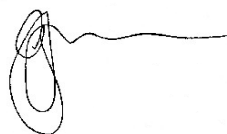
The Board of Directors, in accordance with advice from the Audit & Risk Committee, is satisfied that the provisions of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the services disclosed in Note 5 did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the Audit & Risk Committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditory independence in accordance with the APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

### Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under Section 307C of the *Corporations Act 2001* is set out on page 17 of this Annual Report.

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



G.J. Wilson  
Chairman

Dated at Sydney this 9<sup>th</sup> day of September 2010

**AUDITOR'S INDEPENDENCE DECLARATION  
TO THE DIRECTORS OF WAM CAPITAL LIMITED**

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the audit of WAM Capital Limited for the year ended 30 June 2010, I declare that, to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

*Moore Stephens Sydney*

**Moore Stephens Sydney**  
Chartered Accountants

*J Webster*

**Jenelle Webster**  
Partner

Dated in Sydney, this 9<sup>th</sup> day of September 2010

# WAM CAPITAL LIMITED

A.B.N. 34 086 587 395

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2010

		2010 \$	2009 \$
Proceeds from sale of investments		326,826,410	198,908,012
Cost of investments sold		(305,518,178)	(221,963,557)
Unrealised gains/(losses) on held for trading financial assets		11,519,881	10,411,090
Other revenue	2	7,634,210	7,799,327
Management fees		(1,679,233)	(1,306,832)
Performance fee		(4,141,943)	-
Directors fees		(80,000)	(80,000)
Brokerage expense on share purchases		(879,143)	(671,735)
Other expenses from ordinary activities		(377,248)	(339,143)
<b>Profit/(Loss) before income tax</b>		<b>33,304,756</b>	<b>(7,242,838)</b>
Income tax (expense)/benefit	3(a)	(8,921,564)	3,159,599
<b>Profit/(Loss) attributable to members of the Company</b>	<b>12</b>	<b>24,383,192</b>	<b>(4,083,239)</b>
<b>Other comprehensive income</b>			
Other comprehensive income for the year, net of tax		-	-
<b>Total comprehensive income for the year</b>		<b>24,383,192</b>	<b>(4,083,239)</b>
<b>Basic earnings per share</b>	<b>15</b>	<b>23.3 cents</b>	<b>(3.9) cents</b>
<b>Diluted earnings per share</b>	<b>15</b>	<b>23.3 cents</b>	<b>(3.9) cents</b>

The accompanying notes form part of these financial statements

# WAM CAPITAL LIMITED

A.B.N. 34 086 587 395

## STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2010

		2010 \$	2009 \$
<b>Assets</b>			
Cash and cash equivalents	13	80,666,402	52,024,614
Trade and other receivables	6	14,272,244	4,151,414
Financial assets	7	75,079,790	81,797,475
Deferred tax assets	3(b)	2,635,083	9,721,346
<b>Total Assets</b>		<b>172,653,519</b>	<b>147,694,849</b>
<b>Liabilities</b>			
Trade and other payables	9	5,685,989	2,554,425
Financial liabilities	8	2,860,907	436,840
Deferred tax liabilities	3(d)	5,359,997	3,524,696
<b>Total Liabilities</b>		<b>13,906,893</b>	<b>6,515,961</b>
<b>Net Assets</b>		<b>158,746,626</b>	<b>141,178,888</b>
<b>Equity</b>			
Issued capital	10	148,702,589	147,271,945
Reserve	11	4,526,169	-
Retained earnings/(Accumulated losses)	12	5,517,868	(6,093,057)
<b>Total Equity</b>		<b>158,746,626</b>	<b>141,178,888</b>

The accompanying notes form part of these financial statements

# WAM CAPITAL LIMITED

A.B.N. 34 086 587 395

## STATEMENT OF CHANGES IN EQUITY AS AT 30 JUNE 2010

		2010 \$	2009 \$
<b>Total Equity as at 1 July</b>		<b>141,178,888</b>	<b>149,917,636</b>
Profit/(Loss) for the year attributable to members of the Company	12	24,383,192	(4,083,239)
Total other comprehensive income for the year		-	-
Shares issued via DRP during the year	10(b)	1,430,644	-
Shares bought back during the year	10(b)	-	(4,655,509)
		<u>166,992,724</u>	<u>141,178,888</u>
Dividends paid	4(a)	<u>(8,246,098)</u>	<u>-</u>
<b>Total Equity as at 30 June attributable to members of the Company</b>		<b><u>158,746,626</u></b>	<b><u>141,178,888</u></b>

The accompanying notes form part of these financial statements

# WAM CAPITAL LIMITED

A.B.N. 34 086 587 395

## STATEMENT OF CASH FLOW AS AT 30 JUNE 2010

	2010	2009
	\$	\$
<b>Cash flows from Operating Activities</b>		
Dividends received	4,582,545	3,743,390
Interest received	2,452,182	4,388,030
Other investment income received	260,321	84,322
Investment management fee	(1,653,230)	(1,413,344)
Brokerage expense on share purchases	(879,143)	(671,735)
Payments for administration expenses	(473,679)	(302,703)
Income tax paid	(189,980)	-
<b>Net cash provided by operating activities</b>	<b>14</b> <u>4,099,016</u>	<u>5,827,960</u>
<b>Cash flows from Investing Activities</b>		
Proceeds from sale of investments	317,519,376	209,580,932
Payments for purchase of investments	(286,161,150)	(223,872,325)
<b>Net cash provided by/(used in) investing activities</b>	<u>31,358,226</u>	<u>(14,291,393)</u>
<b>Cash Flows from Financing Activities</b>		
Dividends paid	(6,815,454)	-
Share buyback	-	(4,655,509)
<b>Net cash used in financing activities</b>	<u>(6,815,454)</u>	<u>(4,655,509)</u>
<b>Net increase/(decrease) in cash and cash equivalents held</b>	<b>28,641,788</b>	<b>(13,118,942)</b>
Cash and cash equivalents at beginning of financial year	<u>52,024,614</u>	<u>65,143,556</u>
<b>Cash and cash equivalents at end of financial year</b>	<b>13</b> <u>80,666,402</u>	<u>52,024,614</u>

The accompanying notes form part of these financial statements



# WAM CAPITAL LIMITED

A.B.N. 34 086 587 395

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 1. Statement of Significant Accounting Policies

#### Basis of Preparation

The financial report is a general purpose financial statement that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

The financial report was authorised for issue on 9<sup>th</sup> September 2010 by the Board of Directors.

WAM Capital Limited is a listed public company, incorporated and domiciled in Australia.

Australian Accounting Standards set out in accounting policies that the Australian Accounting Standards Board has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

The financial report has been prepared on an accruals basis and is based on historical costs with the exception of financial assets and certain other financial assets and liabilities which have been measured at fair value.

#### Accounting Standards not previously applied

The Company has adopted the following new and revised Australian Accounting Standard issued by the Australian Accounting and Standards Board which is mandatory to apply for the current year. Disclosures required by this Standard that are deemed material have been included in this financial report on this basis that they represent a significant change in information from that previously made available.

#### Presentation of Financial Statements

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

- the replacement of income statement with statement of comprehensive income. Items of income and expense not recognised in profit or loss are now disclosed as components of "other comprehensive income". In this regard, such items are no longer reflected as equity movements in the statement of changes in equity;
- the adoption of the single statement approach to the presentation of the statement of comprehensive income;
- other financial statements are renamed in accordance with the Standard; and
- presentation of a third statement of financial position as at the beginning of a comparative financial year where relevant amounts have been affected by a retrospective change in accounting policy or material reclassification of items.

#### a) Financial Instruments

##### *i. Recognition and Initial Measurement*

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by market convention. Trade date is the date on which the Company commits to purchase or sell the assets.

# WAM CAPITAL LIMITED

A.B.N. 34 086 587 395

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 1. Statement of Significant Accounting Policies (continued)

#### a) Financial Instruments (continued)

Financial instruments are initially measured at fair value. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to the Statement of Comprehensive Income immediately. Financial instruments are classified and measured as set out below.

#### ii. *Classification and Subsequent Measurement*

Investments consist of shares in publicly listed and unlisted companies, exchange traded call and put options and investments in fixed interest securities.

It is considered that the information needs of shareholders in a company of this type are better met by stating investments at fair value rather than historical cost and by presenting the Statement of Financial Position on a liquidity basis.

The Company may short sell securities in anticipation of a decline in the market value of that security, or it may short sell securities for various arbitrage transactions. Short sales or borrowed stock are classified as a financial liability and are revalued to fair value through the Statement of Comprehensive Income.

#### iii. *Financial Assets at Fair Value through Profit or Loss*

Financial assets are classified at fair value through Statement of Comprehensive Income when they are held for trading for the purpose of short term profit taking. Realised and unrealised gains and losses arising from changes in fair value are included in Statement of Comprehensive Income in the period in which they arise. Unrealised gains and losses are then transferred to an asset revaluation reserve, net of the potential tax charges that may arise from the future sale of the investments, where they are above cost.

#### iv. *Financial Liabilities*

Financial liabilities are classified at fair value through Statement of Comprehensive Income. Realised and unrealised gains and losses are then transferred to an asset revaluation reserve, net of the potential tax charges that may arise from the future sale of the investments, where they are above cost.

#### v. *Fair Value*

Fair value is determined based on current market prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, include recent arm's length transactions and reference to similar instruments.

#### vi. *Derecognition*

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the Company no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in the Statement of Comprehensive Income.

# WAM CAPITAL LIMITED

A.B.N. 34 086 587 395

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 1. Statement of Significant Accounting Policies (continued)

#### b) Income Tax

The charge of current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the end of the current financial year. Current tax liabilities (assets) are measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred tax is accounted for using the Statement of Financial Position liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the Statement of Comprehensive Income except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

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

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

#### c) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, at call deposits with banks or financial institutions and other fixed interest securities maturing within three months or less.

#### d) Revenue and Other Income

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets, is the rate inherent in the instrument. Dividend revenue is recognised when the right to receive a dividend has been established. All revenue is stated net of the amount of goods and services tax (GST).

#### e) Trade and Other Receivables

Trade and other receivables are non-derivative financial assets and are initially recognised at fair value. They are subsequently stated at their amortised cost less the provision for impairment losses [refer Note 1(g)].

#### f) Trade and Other Payables

Trade and other payables are non-derivative financial liabilities and are stated at their amortised cost.

# WAM CAPITAL LIMITED

A.B.N. 34 086 587 395

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 1. Statement of Significant Accounting Policies (continued)

#### g) Impairment of Assets

At each reporting date, the Company reviews the carrying values of its tangible assets to determine whether there is any indication that those assets may be impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the assets' carrying value. Any excess of the assets' carrying value over its recoverable amount is expensed to the Statement of Comprehensive Income.

#### h) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of GST, except where the amount of the GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from, or payable to, the ATO is included as an asset or liability in the Statement of Financial Position.

Cash flows are presented in the Statement of Cash Flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

#### i) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

#### j) Critical Accounting Estimates and Judgements

The directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge the best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data.

There are no estimates or judgements that have a material impact on the financial results of the Company for the year ended 30 June 2010.

#### k) New Standards and Interpretations not yet Adopted

The Australian Accounting Standards Board has issued a new accounting standard AASB 9: Financial Instruments and AASB 2009 11: Amendments to Australian Accounting Standards arising from AASB 9 that has a mandatory application date for future reporting periods. The Company has decided against early adoption of this standard. This standard does not materially impact the Company.

### 2. Other Revenue

	2010	2009
	\$	\$
Australian sourced dividends	4,160,974	3,178,322
Interest	2,812,241	4,029,683
Foreign sourced dividends	102,027	178,322
Underwriting fees	202,856	21,761
Trust distributions	345,782	232,891
Other gains from options trading	8,140	123,645
Other revenue	2,190	34,703
	<u>7,634,210</u>	<u>7,799,327</u>

# WAM CAPITAL LIMITED

A.B.N. 34 086 587 395

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 3. Taxation

#### a) Income Tax Expense/(Benefit)

The prima facie tax on profit/(loss) from ordinary activities before income tax is reconciled to the income tax expense/(benefit) as follows:

	2010 \$	2009 \$
Prima facie tax payable on profit/(loss) from ordinary activities before income tax at 30% (2009: 30%)	9,991,427	(2,172,852)
Imputation credit gross up	516,588	409,772
Franking credit offset	(1,703,956)	(1,363,095)
Other non-assessable items	78,082	(33,424)
Under provision in prior period	39,423	-
	<u>8,921,564</u>	<u>(3,159,599)</u>
Total income tax expense/(benefit) results in a:		
Current tax asset	7,039,641	(4,812,533)
Deferred tax liability	1,843,898	1,654,537
Deferred tax asset	(1,398)	(1,603)
Under provision in prior period	39,423	-
	<u>8,921,564</u>	<u>(3,159,599)</u>

#### b) Deferred Tax Assets

Tax losses	2,625,558	9,712,906
Provisions	9,525	8,440
	<u>2,635,083</u>	<u>9,721,346</u>

#### Movement in deferred tax assets

Balance at the beginning of the period	9,721,346	5,220,434
Capitalised legal fees	-	-
Transfer tax losses from current tax liability	(7,087,661)	4,499,309
Credited to the Statement of Comprehensive Income	1,398	1,603
At reporting date	<u>2,635,083</u>	<u>9,721,346</u>

#### c) Current Tax liabilities

Balance at the beginning of the year	-	-
Current year income tax benefit/(expense) on operating profit	-	-
Income tax paid	-	-
At reporting date	<u>-</u>	<u>-</u>

# WAM CAPITAL LIMITED

A.B.N. 34 086 587 395

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 3. Taxation (continued)

#### d) Deferred Tax liabilities

	2010	2009
	\$	\$
Fair value adjustments	5,112,873	3,252,999
Income provisions	247,124	271,697
	<u>5,359,997</u>	<u>3,524,696</u>

#### Movement in deferred tax liabilities

Balance at the beginning of the year	3,524,696	1,870,159
Charged to the Statement of Comprehensive Income	1,843,898	1,654,537
Over provision in prior year	(8,597)	-
At reporting date	<u>5,359,997</u>	<u>3,524,696</u>

### 4. Dividends

#### a) Ordinary Dividends Paid during the Year

	2010	2009
	\$	\$
Dividend: 4.0 cents per share fully franked at 30% tax rate paid 17 August 2009 (Final dividend 2009: no final dividend)	4,111,415	-
Interim dividend 2010: 4.0 cents per share fully franked at 30% tax rate paid 25 February 2010 (Interim dividend 2009: no interim dividend)	<u>4,134,683</u>	<u>-</u>
Dividends paid by the Company	<u>8,246,098</u>	<u>-</u>

#### b) Dividends not recognised at Year End

In addition to the above dividends, since the end of the year, the Directors have declared a 4.0 cent per share fully franked dividend which has not been recognised as a liability at the end of the financial year:

	<u>4,157,247</u>	<u>4,111,415</u>
--	------------------	------------------

#### c) Dividend Franking Account

Balance of franking account at year end adjusted for franking credits, arising from payment of provision for income tax and dividends recognised as receivables and franking credits that may be prevented from distribution in subsequent financial years.

	2,111,305	3,941,437
--	-----------	-----------

Subsequent to the reporting period, the franking account would be reduced by the proposed dividend disclosed in b) above as follows:

	<u>(1,781,678)</u>	<u>(1,762,036)</u>
	<u>329,627</u>	<u>2,179,401</u>

# WAM CAPITAL LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 4. Dividends (continued)

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

The balance of the franking account does not include the tax to be paid on unrealised investment gains and accrued income currently recognised as a deferred tax liability of \$5,359,997 (2009: \$3,524,696).

### 5. Auditors remuneration

#### Remuneration of the auditor of the Company for:

	2010 \$	2009 \$
Auditing or reviewing the financial report	27,291	27,760
Non-audit services	-	-
Other services provided by a related practice of the auditor:		
Taxation Services	8,800	8,058
	<u>36,091</u>	<u>35,818</u>

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

### 6. Trade and Other Receivables

	2010 \$	2009 \$
Outstanding settlements	12,262,620	2,955,586
Income receivable	1,123,316	812,811
Tax refund	503,204	313,224
Prepayments	-	8,761
GST receivable	383,104	61,032
	<u>14,272,244</u>	<u>4,151,414</u>

Outstanding settlements are on the terms of operating in the securities industry. These are non-interest bearing and require the settlement within three days of the date of a transaction. Income receivable relates to accrued income and is non-interest bearing and unsecured.

### 7. Financial Assets

	2010 \$	2009 \$
Listed investments at fair value	74,686,495	79,323,620
Unlisted investments at cost	393,295	2,473,855
	<u>75,079,790</u>	<u>81,797,475</u>

# WAM CAPITAL LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 8. Financial Liabilities

	2010 \$	2009 \$
Borrowed stock	<u>2,860,907</u>	<u>436,840</u>

Borrowed stock is carried at fair value. The Company provides cash collateral backing of 105% of the fair value of the borrowed stock to the stock lender. The level of borrowed stock plus other borrowings cannot exceed 50% of the net asset value of the Company as outlined in the Company's Management Agreement.

### 9. Trade and Other Payables

	2010 \$	2009 \$
Outstanding settlements	988,659	2,321,921
Management fee payable	151,509	123,820
Performance fee payable	4,445,012	-
Sundry payables	100,809	108,684
	<u>5,685,989</u>	<u>2,554,425</u>

Outstanding settlements are on the terms operating in the securities industry. These do not incur interest and require settlement within three days of the date of the transaction. Sundry payables are settled within the terms of payment offered. No interest is applicable on these accounts.

### 10. Issued Capital

#### a) Paid-up Capital

	2010 \$	2009 \$
103,931,192 ordinary shares fully paid (2009: 102,785,383)	<u>148,702,589</u>	<u>147,271,945</u>

#### b) Ordinary Shares

Balance at the beginning of the year	147,271,945	151,927,454
564,129 ordinary shares issued on 25 February 2010 under a dividend reinvestment plan	717,557	-
581,680 ordinary shares issued on 17 August 2009 under a dividend reinvestment plan	713,087	-
3,373,557 ordinary shares bought back on 30 October 2008 under a 5.8% equal access buy-back at a price of \$1.38 per share	-	(4,655,509)
At reporting date	<u>148,702,589</u>	<u>147,271,945</u>

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



# WAM CAPITAL LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### c) Capital Management

The Board manages the Company's capital by regularly reviewing the most efficient manner by which the company employs its capital. At the core of this management is the belief that shareholder value should be preserved. Shareholder value will be preserved through the management of the level of distributions to shareholders, share and options issues as well as the use of share buy-backs. These capital management initiatives will be used when deemed appropriate by the Board.

### 11. Reserve

	2010 \$	2009 \$
Asset Revaluation Reserve	<u>4,526,169</u>	<u>-</u>

This reserve is used to record increments and decrements on the revaluation of the investments, net of potential tax as described in accounting policy Note 1a) iii).

	2010 \$	2009 \$
<b>Movement in Asset Revaluation Reserve</b>		
Balance at the beginning of the year	-	-
Transfer from retained earnings	<u>4,526,169</u>	<u>-</u>
At reporting date	<u>4,526,169</u>	<u>-</u>

### 12. Retained Earnings/(Accumulated Losses)

	2010 \$	2009 \$
Balance at the beginning of the year	(6,093,057)	(2,009,818)
Profit/(loss) for the year attributable to members of the Company	24,383,192	(4,083,239)
Transfer to asset revaluation reserve	(4,526,169)	-
Dividends paid (refer Note 4)	<u>(8,246,098)</u>	<u>-</u>
At reporting date	<u>5,517,868</u>	<u>(6,093,057)</u>

### 13. Cash and Cash Equivalents

Cash as at the end of the financial year as shown in the Statement of Cash Flow is reconciled to the related items in the Statement of Financial Position as follows:

	2010 \$	2009 \$
Cash at bank and on hand	2,596,034	4,683,742
Fixed interest securities	<u>78,070,368</u>	<u>47,340,872</u>
	<u>80,666,402</u>	<u>52,024,614</u>

# WAM CAPITAL LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 13. Cash and Cash Equivalents (continued)

The weighted average interest rate for cash and fixed interest securities as at 30 June 2010 is 5.75% (2009: 3.06%). The fixed interest securities have an average maturity of 80 days (2009: 26 days). The fixed interest securities has 97% invested in Standard & Poor's rated AA and 3% invested in Standard & Poor's rated A. The fixed interest securities include the cash collateral for the borrowed stock (refer Note 8).

### 14. Cash Flow Information

	2010 \$	2009 \$
<b>Reconciliation of Operating Profit/(Loss) after Income Tax:</b>		
Cash Flow from operations after income tax	24,383,192	(4,083,239)
<b>(Less)/Add items classified as Investing/Financing Activities:</b>		
Realised (gain)/loss on sale of investments	(21,308,232)	23,055,545
<b>Add non-cash items:</b>		
Unrealised gain on investments	(11,519,881)	(10,411,090)
<b>Changes in assets and liabilities:</b>		
(Increase)/decrease in receivables	(623,819)	424,059
Decrease/(increase) in deferred tax assets	6,896,286	(4,814,136)
Increase in payables	4,436,169	2,285
Increase in deferred tax liabilities	1,835,301	1,654,536
Cash flow from operations	<u>4,099,016</u>	<u>5,827,960</u>

### 15. Earnings Per Share

	2010 \$	2009 \$
Profit after income tax used in the calculation of basic earnings per share	<u>24,383,192</u>	<u>(4,083,239)</u>
	<b>No.</b>	<b>No.</b>
Weighted average number of ordinary shares outstanding during the year used in calculating basic earnings per share	<u>104,827,921</u>	<u>103,912,983</u>
Add: Weighted average number of options outstanding	n/a	n/a
Weighted average number of ordinary shares outstanding during the year used in calculating diluted earnings per share	<u>104,827,921</u>	<u>103,912,983</u>

### 16. Financial Risk Management

The Company's financial instruments consist of fixed interest securities, short term investments, accounts receivable, accounts payable and borrowed stock.

# WAM CAPITAL LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 16. Financial Risk Management (continued)

The terms and conditions including interest rate risk of each class of financial asset, financial liability and equity instrument, both recognised and unrecognised at balance date, are included under the appropriate note for that instrument.

Under delegation from the Board, the Manager has the responsibility for assessing and monitoring the financial market risk of the Company. The Manager monitors these risks daily. On a formal basis the investment team meet on a weekly basis to monitor and manage the below four risks as appropriate.

#### a) Credit Risk

The standard defines this is a risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge a contracted obligation. The Manager monitors the credit worthiness of counterparties on an ongoing basis and evaluates the credit quality of all new counterparties before engaging them.

The maximum exposure to credit risk on financial assets, excluding investments, of the Company which have been recognised on the Statement of Financial Position, is the carrying amount net of any provision for impairment of those assets.

The Manager is responsible for ensuring there is appropriate diversification across counterparties and that they are of a sufficient quality rating. The Manager is satisfied that the counterparties are of sufficient quality and diversity to minimise any individual counterparty credit risk. The majority of the Company's receivables arise from unsettled trades at year end which are settled three days after trade date. Engaging with counterparties via the Australian securities exchange facilitates the Company in both mitigating and managing its credit risk.

The Company is not materially exposed to credit risk on its fixed interest securities as the majority of cash and fixed interest securities are held with Australian banks who have a Standard and Poor's short rating of A-1 and long term rating of AA. Also the majority of maturities are within three months.

None of the assets exposed to a credit risk are overdue or considered to be impaired.

#### b) Liquidity Risk

Liquidity risk represents the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Company's major cash outflows are the purchase of securities and dividends paid to shareholders, the levels of which are managed by the Board and the Manager.

The Company's cash inflows depend upon the level of sales of securities, dividends and interest received and the exercise of Company options that may be on issue from time to time.

The Manager monitors the Company's cash-flow requirements daily by reference to known sales and purchases of securities, dividends and interest to be paid or received. Should these decrease by a material amount the Company can alter its cash outflows as appropriate. The Company also holds a portion of its portfolio in cash and fixed interest securities sufficient to ensure that it has cash readily available to meet all payments. Furthermore the assets of the company are largely in the form of tradeable securities which if liquidity is available, can be sold on market if necessary.

# WAM CAPITAL LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 16. Financial Risk Management (continued)

#### b) Liquidity Risk (continued)

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

<b>30 June 2010</b>	<b>&gt;1 month</b>	<b>&lt;1 months</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Trade and Other Payables	-	5,685,989	5,685,989
Financial Liabilities	-	2,860,907	2,860,907
Deferred Tax Liability	5,359,997	-	5,359,997
<b>Total Liabilities</b>	<b>5,359,997</b>	<b>8,546,896</b>	<b>13,906,893</b>

<b>30 June 2009</b>	<b>&gt;1 month</b>	<b>&lt;1 months</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Trade and Other Payables	-	2,554,425	2,554,425
Financial Liabilities	-	436,840	436,840
Deferred Tax Liability	3,524,696	-	3,524,696
<b>Total Liabilities</b>	<b>3,524,696</b>	<b>2,991,265</b>	<b>6,515,961</b>

#### c) Market Risk

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

By its nature, as a listed investment company that invests in tradeable securities, the Company will always be subject to market risk as it invests its capital in securities which are not risk free as the market price of these securities can fluctuate.

The Manager seeks to manage and reduce the market risk of the Company by diversification of the investment portfolio across numerous stocks and multiple industry sectors. The relative weightings of the individual securities and market sectors are reviewed daily and the risk managed on a daily basis. The Company does not have set parameters as to a minimum or maximum amount of the portfolio that can be invested in a single company or sector.

The Company enters into option contracts for the purpose of enhancing returns via the premiums that it earns from the writing of these contracts or for the purpose of providing downside protection. Where the Company sells a call option, it is obligated to deliver securities to an agreed price if the taker exercises the option. As at balance date there were call options outstanding which potentially required the Company if they were exercised to deliver securities to the value of \$2,499,000 (2009: \$2,402,000), however these call options were written against the underlying securities already owned by the Company.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 16 Financial Risk Management (continued)

#### c) Market Risk (continued)

This exchange traded option was entered into within the constraints and controls imposed by the Australian Securities Exchange Limited. Dealing and administrative (including settlement) functions are separated. The total exposure position is determined daily and the Manager continually reviews the investment and trading transactions of the Company. Shares to the value of \$2,281,440 (2009: \$985,920) are held by the Australian Clearing House (ACH) as collateral for sold option positions written by the Company. These shares are held by ACH under the terms of ACH 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.

The Company's industry sector weighting of the gross assets as at 30 June 2010 is as below:

<b>Industry Sector</b>	<b>2010</b>	<b>2009</b>
	<b>%</b>	<b>%</b>
Software & Services	7.9%	7.4%
Diversified Financials	7.2%	6.7%
Media	5.7%	5.4%
Retailing	5.1%	8.5%
Banks	5.1%	6.5%
Commercial & Professional Services	3.3%	3.5%
Materials	2.0%	4.6%
Health Care Equipment & Services	1.6%	0.2%
Real Estate	1.2%	1.7%
Telecommunication Services	1.1%	0.0%
Consumer Durables & Apparel	0.8%	1.6%
Capital Goods	0.7%	2.0%
Consumer Services	0.5%	0.4%
Semiconductors & Semiconductor Equipment	0.5%	0.0%
Pharmaceuticals & Biotechnology	0.3%	0.0%
Insurance	0.1%	0.1%
Convertible Note	0.1%	0.1%
Energy	0.0%	1.4%
Exchange Traded Options	0.0%	0.0%
Transportation	0.0%	1.5%
Automobiles & Components	0.0%	0.1%
Food Beverage & Tobacco	0.0%	3.4%
Utilities	0.0%	1.0%

# WAM CAPITAL LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 16. Financial Risk Management (continued)

#### c) Market Risk (continued)

Securities representing over 5 per cent of the gross assets at 30 June 2010 were:

Company Name	2010 (%)
Reckon Limited (RKN)	5.0%

Company Name	2009 (%)
Nil	-

#### d) Interest Rate Risk

The Company's interest bearing financial assets expose it to risks associated with the effects of fluctuations in the prevailing level of market interest rates on its financial position and cash flows. The Company however is not materially exposed to interest rate risk as the majority of its fixed interest securities mature within three months.

As at 30 June 2010, the Company's exposure to interest rate risk and the effective weighted average interest rate is set out in the following table:

	Weighted average interest rate (% pa)	Interest bearing \$	Non-interest bearing \$	Total \$
<b>30 June 2010</b>				
<b>Assets</b>				
Cash and cash equivalents	5.75%	80,666,402	-	80,666,402
Trade and other receivables		-	14,272,244	14,272,244
Financial assets		-	75,079,790	75,079,790
Deferred tax assets		-	2,635,083	2,635,083
<b>Total</b>		<b>80,662,402</b>	<b>91,987,117</b>	<b>172,653,519</b>
<b>Liabilities</b>				
Trade and other payables		-	5,685,989	5,685,989
Financial liabilities		-	2,860,907	2,860,907
Deferred tax liabilities		-	5,359,997	5,359,997
<b>Total</b>		<b>-</b>	<b>13,906,893</b>	<b>13,906,893</b>

As at 30 June 2009, the company's exposure to interest rate risk and the effective weighted average interest rate is set out in the following table:

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 16. Financial Risk Management (continued)

#### d) Interest Rate Risk (continued)

	Weighted average interest rate (% pa)	Interest bearing \$	Non-interest bearing \$	Total \$
<b>30 June 2009</b>				
<b>Assets</b>				
Cash and cash equivalents	3.96%	52,024,614	-	52,024,614
Trade and other receivables		-	4,151,414	4,151,414
Financial assets		-	81,797,475	81,797,475
Deferred tax assets		-	9,721,346	9,721,346
<b>Total</b>		<b>52,024,614</b>	<b>95,670,235</b>	<b>147,694,849</b>
<b>Liabilities</b>				
Trade and other payables		-	2,554,425	2,554,425
Financial liabilities		-	436,840	436,840
Deferred tax liabilities		-	3,524,696	3,524,696
<b>Total</b>		<b>-</b>	<b>6,515,961</b>	<b>6,515,961</b>

#### e) Sensitivity Analysis

Investments represent 43.4% (2009: 55%) of total assets at year end. A 5% movement in the market value of each of the companies within the portfolio would result in a 2.2% (2009: 2.8%) movement in the net assets after tax. This would result in the net asset backing after tax moving by 0.03 cents per share using the 30 June 2010 numbers (2009: 0.04 cents per share).

#### f) Financial Instruments Measured at Fair Value

The financial assets and liabilities recognised at fair value in the Statement of Financial Position have been analysed and classified using a fair value hierarchy reflecting the significance of the inputs in making the measurements. The fair value hierarchy consists of the following levels:

**Level 1:** Quoted prices in active markets for identical assets or liabilities.

**Level 2:** Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (as prices) or indirectly (derived from prices).

**Level 3:** Inputs for the asset or liability are not based on observable market data (unobservable inputs).

Included within Level 1 of the hierarchy are listed investments. The fair value of these financial assets and liabilities have been based on the closing quoted last sale prices at the end of the reporting period, excluding transaction cost.

In valuing unlisted investments, included in Level 2 of the hierarchy, valuation techniques such as those using comparisons to similar investments for which market observable prices are available or the last sale price have been adopted to determine the fair valued of these investments.

# WAM CAPITAL LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 16. Financial Risk Management (continued)

#### f) Financial Instruments Measured at Fair Value (continued)

<b>30 June 2010</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Financial assets	74,686,485	393,295	-	75,079,780
Financial liabilities	(2,860,907)	-	-	(2,860,907)
<b>Total</b>	<b>71,825,578</b>	<b>393,295</b>	<b>-</b>	<b>72,218,883</b>

<b>30 June 2009</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Financial assets	79,323,620	2,473,855	-	81,797,475
Financial liabilities	(436,840)	-	-	(436,840)
<b>Total</b>	<b>78,886,780</b>	<b>2,473,855</b>	<b>-</b>	<b>81,360,635</b>

### 17. Events Subsequent to Reporting Date

Since year end the Directors have declared a final dividend of 4.0 cents per share fully franked to be paid on 17 September 2010.

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

### 18. Investment Transactions

The total number of contract notes that were issued for transactions in securities during the financial year was 3,578 (2009: 2,014). Each contract note could involve multiple transactions. The total brokerage paid on these contract notes was \$2,231,533 (\$2009: \$1,541,447).

### 19. Segment Reporting

The Company currently operates only in the investment industry within Australia. It has no reportable business or geographic segments.

### 20. Capital Commitments

Capital commitments exist for placements \$156,816 (2009 \$1,052,743) entered into before year end, which settle after year end in July and August 2010.

### 21. Contingent Liabilities

There are no outstanding contingent liabilities as at 30 June 2010 (2009: nil).



# WAM CAPITAL LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 22. Key Management Personnel Compensation

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

G.J. Wilson	Chairman
M.J. Kidman	Non-Executive Director
P.D.K. Jensen	Non-Executive Director
J.M. Chirside	Non-Executive Director

#### a) Remuneration

There are no executives that are paid by the Company. Wilson Asset Management (International) Pty Limited, the Manager of the Company, remunerates Geoffrey Wilson and Matthew Kidman as employees and/or Directors of the Company.

	Directors' Fees \$	Post-employment Superannuation \$	Total \$
Total Directors remuneration paid by the Company for the year ended 30 June 2010	67,132	12,868	<b>80,000</b>
Total Directors remuneration paid by the Company for the year ended 30 June 2009	53,372	26,628	<b>80,000</b>

#### b) Share and Option holdings

As at 30 June 2010 the Company's key management personnel and their related parties held the following interests in the Company:

##### *Ordinary Shares held*

Directors	Balance at 30 June 2009	Acquisitions	Disposals	Balance at 30 June 2010
G.J. Wilson	3,556,896	-	-	3,556,896
M.J. Kidman	184,779	5,811	-	190,590
P.D.K. Jensen	83,473	4,821	19,062	69,232
J.M. Chirside	-	-	-	-
	<b>3,825,148</b>	<b>10,632</b>	<b>19,062</b>	<b>3,816,718</b>

As at 30 June 2009 the Company's key management personnel and their related parties held the following interests in the Company:

# WAM CAPITAL LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 22 Key Management Personnel Compensation (continued) b) Share and Option holdings (continued)

*Ordinary Shares held*

	Balance at 30 June 2008	Acquisitions	Disposals	Balance at 30 June 2009
<b>Directors</b>				
G.J. Wilson	3,560,947	-	4,051	3,556,896
M.J. Kidman	178,940	5,839	-	184,779
P.D,K. Jensen	81,349	2,124	-	83,473
J.M. Chirnside	-	-	-	-
	<b>3,821,236</b>	<b>7,963</b>	<b>4,051</b>	<b>3,825,148</b>

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

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

### 23. Related Party Transactions

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

Geoffrey Wilson is the sole Director and beneficial owner of Wilson Asset Management (International) Pty Limited, the entity appointed to manage the investment portfolio of WAM Capital Limited and manage the day-to-day operations of the Company. Matthew Kidman is an employee of Wilson Asset Management (International) Pty Limited. The core duties of the Manager include the provision of financial and administrative support to ensure the maintenance of the corporate and statutory records of the Company; liaison with the ASX with respect to compliance with the ASX Listing Rules; liaison with ASIC with respect to compliance with the Corporations Act; liaison with the share registrar of the Company; and the provision of information necessary for the maintenance of financial accounts of the Company to be completed. In its capacity as Manager, Wilson Asset Management (International) Pty Limited was paid a management fee of 1% p.a (plus GST) of gross assets amounting to \$1,802,104 inclusive of GST (2009: \$1,402,454). As at 30 June 2010 the balance payable to the manager was \$151,509 (2009: \$123,820).

In addition, Wilson Asset Management (International) Pty Limited is to be paid, annually in arrears, a performance fee being 20% of:

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

No performance fee is payable in respect of any performance period where the portfolio has decreased in value over that period. For the year ended 30 June 2010, a performance fee of \$4,445,012 inclusive of GST was payable to Wilson Asset Management (International) Pty Limited (2009: no performance fee was payable).

# **WAM CAPITAL LIMITED**

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## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

### **23 Related Party Transactions (continued)**

Wilson Asset Management (International) Pty Limited employ's accounting personnel to provide accounting services to WAM Capital Limited. These services are provided on commercial terms and include a standard charge of \$2,500 per month and an additional charge of \$5,000 is charged for preparing the half year and full year financial statements. These accounting services total \$35,000 for the financial year 2010 (2009: \$35,000).

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

# WAM CAPITAL LIMITED

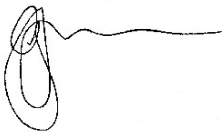
A.B.N. 34 086 587 395

## DIRECTOR'S DECLARATION

The Directors of WAM Capital Limited declare that:

- 1) The financial report as set out in pages 18 to 40 and the additional disclosures included in the Directors' Report designated as "Remuneration Report", as set out on pages 13 and 14, are in accordance with the *Corporations Act 2001*, including:
  - a) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and
  - b) giving a true and fair view of the financial position of the company as at 30 June 2010 and of its performance, as represented by the results of the operations and the cashflows, for the year ended on that date; and
- 2) The sole Director of the Manager, Wilson Asset Management (International) Pty Limited has declared that:
  - a) the financial records of the company for the financial year have been properly maintained in accordance with the Section 286 of the *Corporations Act 2001*;
  - b) the financial statements and notes for the financial year comply with the Accounting Standards; and
  - c) the financial statements and notes for the financial year give a true and fair view.
- 3) At the date of this declaration, in the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



G.J. Wilson, Chairman

Dated at Sydney this 9<sup>th</sup> day of September 2010.

**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF WAM CAPITAL LIMITED**

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

*Directors' Responsibility for the Financial Report*

The Directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditor's Responsibility*

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

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

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

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

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

*Independence*

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

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*An independent member of Moore Stephens International Limited - members in principal cities throughout the world  
The Sydney Moore Stephens firm is not a partner or agent of any other Moore Stephens firm*

*Auditor's Opinion*

In our opinion:

- (a) the financial report of WAM Capital Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the company's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

**Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 13 and 14 of the Directors' Report for the year ended 30 June 2010. The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

*Auditor's Opinion*

In our opinion the Remuneration Report of WAM Capital Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

*Moore Stephens Sydney*

**Moore Stephens Sydney**  
Chartered Accountants

*J Webster*

**Jenelle Webster**  
Partner

Dated in Sydney this 9<sup>th</sup> day of September 2010

# WAM CAPITAL LIMITED

A.B.N. 34 086 587 395

## ASX ADDITIONAL INFORMATION

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

### Shareholdings

#### Substantial shareholders (as at 31 July 2010)

There are currently no substantial shareholders of WAM Capital Limited.

#### On-market buy back (as at 31 July 2010)

There is no current on-market buy back.

#### Distribution of shareholders (as at 31 July 2010)

Category	No. of shareholders	
	Ordinary Shares	Options
1 – 1,000	315	-
1,001 – 5,000	1,038	-
5,001 – 10,000	884	-
10,001 – 100,000	1,776	-
100,001 and over	129	-
	<b>4,142</b>	<b>-</b>

The number of shareholdings held in less than marketable parcels is 101.

#### Twenty largest shareholders – Ordinary shares (as at 31 July 2010)

Name	Number of ordinary shares held	Percentage of issued capital held
Mr Victor John Plummer	3,700,000	3.6
Mr Geoffrey James Wilson and Associated Entities	3,531,094	3.4
Dr Russell Kay Hancock	3,203,068	3.1
Mrs Fay Cleo Martin-Weber	1,463,068	1.4
Marbear Holdings Pty Limited	1,440,300	1.4
VBS Investments Pty Limited	1,386,437	1.3
Vilo Finance Pty Limited	1,318,800	1.3
Dr and Mrs English <N English SF No 1 A/C>	1,072,576	1.0
Pineross Pty Limited	904,987	0.9
Eneber Investment Company Limited	881,000	0.8
VBS Investments Pty Limited	744,180	0.7
Trophy Components Distributors Pty Limited	554,798	0.5
Sanolu Pty Limited	500,000	0.5
Lonceta Pty Limited (Hancock Super Fund A/C)	432,673	0.4
Solana Pty Limited	405,000	0.4
Mr & Mrs Heathers <Heathers Family Super A/C>	395,785	0.4
M & H Nominees	387,600	0.4
Edington Pty Limited (Herring Super Fund A/C)	385,851	0.4
Mr Thomas Storey	376,800	0.4
Charanda Nominee Company Pty Ltd <Greycliffe Super Fund A/C>	370,050	0.4
	<b>23,454,067</b>	<b>22.7</b>

# **WAM CAPITAL LIMITED**

**A.B.N. 34 086 587 395**

## **ASX ADDITIONAL INFORMATION**

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

### **Stock Exchange Listing**

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



# WAM CAPITAL LIMITED

A.B.N. 34 086 587 395

## INVESTMENTS AT MARKET VALUE AS AT 30 JUNE 2010

Company Name	Code	Quantity	Market Value \$	% of Gross Portfolio
<b>Banks</b>				
RGH Limited	RGH	4,849,650	3,006,783	1.8%
Mystate Limited	MYS	848,835	2,648,365	1.6%
National Australia Bank Limited*	NAB	98,000	2,281,440	1.4%
Homeloans Limited	HOM	1,190,196	833,137	0.5%
			<b>8,769,725</b>	<b>5.3%</b>
<b>Capital Goods</b>				
Ludowici Limited	LDW	317,173	786,589	0.5%
Lycopodium Limited	LYL	147,015	461,627	0.3%
			<b>1,248,216</b>	<b>0.8%</b>
<b>Commercial &amp; Professional Services</b>				
McMillan Shakespeare Limited	MMS	874,967	4,103,595	2.5%
Corporate Express Australia Limited	CXP	193,695	1,098,251	0.7%
Norfolk Group Limited	NFK	485,031	368,624	0.2%
SAI Global Limited	SAI	36,960	148,579	0.1%
			<b>5,719,049</b>	<b>3.5%</b>
<b>Consumer Durables &amp; Apparel</b>				
McPherson's Limited	MCP	573,502	1,445,225	0.9%
			<b>1,445,225</b>	<b>0.9%</b>
<b>Consumer Services</b>				
Reef Casino Trust	RCT	320,424	608,806	0.4%
Integrated Legal Holdings Limited	IAW	2,200,000	220,000	0.1%
Slater & Gordon Limited	SGH	62,778	96,050	0.1%
			<b>924,856</b>	<b>0.6%</b>
<b>Diversified Financials</b>				
Van Eyk Three Pillars Limited	VTP	2,271,035	1,816,828	1.1%
Thinksmart Limited	TSM	1,757,027	1,704,316	1.0%
Clime Investment Limited	CIW	3,846,346	1,577,002	1.0%
HFA Accelerator Plus Limited	HAP	4,080,328	1,387,312	0.8%
PaperlinX SPS Trust	PXUPA	21,896	1,345,509	0.8%
Centrepoint Alliance Limited	CAF	6,454,300	871,331	0.5%
Westoz Investment Company Limited	WIC	815,118	802,891	0.5%
Ask Funding Limited	AKF	2,383,860	584,046	0.4%
Premium Investors Limited	PRV	815,570	574,977	0.3%
Contango Capital Partners Limited	CCQ	693,479	429,957	0.3%
Everest Financial Group Limited	EFG	7,159,911	329,356	0.2%
Keybridge Capital Limited	KBC	2,658,213	223,290	0.1%
Tidewater Investments Limited	TDI	925,322	222,077	0.1%
Investorfirst Limited	ING	3,591,898	179,595	0.1%
Ozgrowth Limited	OZG	826,616	132,259	0.1%
Contango Microcap Limited	CTN	146,000	107,310	0.1%
Cadence Capital Limited	CDM	100,000	75,000	0.0%
Rattoon Holdings Limited	RTN	976,496	48,825	0.0%
Austock Group Limited	ACK	107,319	16,098	0.0%
			<b>12,427,977</b>	<b>7.4%</b>
<b>Energy</b>				
Texon Petroleum Limited	TXN	180,675	67,753	0.0%
			<b>67,753</b>	<b>0.0%</b>

# WAM CAPITAL LIMITED

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Company Name	Code	Quantity	Market Value \$	% of Gross Portfolio
<b>Health Care Equipment &amp; Services</b>				
Healthscope Limited	HSP	292,000	1,515,480	0.9%
Blackmores Limited	BKL	52,788	1,177,172	0.7%
			<b>2,692,652</b>	<b>1.6%</b>
<b>Insurance</b>				
Tower Australia Group Limited	TAL	109,500	222,285	0.1%
			<b>222,285</b>	<b>0.1%</b>
<b>Materials</b>				
Wattyl Limited	WYL	1,689,667	2,771,054	1.7%
Cape Lambert Resources Limited	CFE	800,000	260,000	0.2%
Citadel Resource Group Limited	CGG	803,000	212,795	0.1%
Ammtec Limited	AEC	40,518	142,218	0.1%
Sylvania Resources Limited	SLV	108,407	83,473	0.1%
Gindalbie Metals Limited	GBG	43,800	45,333	0.0%
ADX Energy Limited	ADX	268,962	22,862	0.0%
			<b>3,537,735</b>	<b>2.2%</b>
<b>Media</b>				
REA Group Limited	REA	301,656	3,218,670	1.9%
Mitchell Communications Group Limited	MCU	2,767,107	2,448,890	1.5%
STW Communications Group Limited	SGN	2,501,729	2,289,082	1.4%
Sky Network Television Limited	SKT	376,276	1,467,476	0.9%
Macquarie Radio Limited	MRN	539,636	404,727	0.2%
			<b>9,828,845</b>	<b>5.9%</b>
<b>Pharmaceuticals &amp; Biotechnology</b>				
Sirtex Medical Limited	SRX	98,668	483,473	0.3%
			<b>483,473</b>	<b>0.3%</b>
<b>Real Estate</b>				
Devine Limited	DVN	2,184,594	513,380	0.3%
Wentworth Mutual Limited	WWM	5,668,641	453,491	0.3%
AVJennings Limited	AVJ	917,697	412,964	0.2%
Finbar Group Limited	FRI	320,701	320,701	0.2%
Geo Property Group	GPM	1,460,000	284,700	0.2%
Port Bouvard Limited	PBD	1,123,077	146,000	0.1%
			<b>2,131,236</b>	<b>1.3%</b>
<b>Retailing</b>				
OrotonGroup Limited	ORL	413,863	2,764,605	1.7%
Automotive Holdings Group Limited	AHE	839,968	1,889,928	1.1%
Thorn Group Limited	TGA	1,532,580	1,862,085	1.1%
The Reject Shop Limited	TRS	88,000	1,381,600	0.8%
RCG Corporation Limited	RCG	1,762,016	881,008	0.5%
			<b>8,779,226</b>	<b>5.2%</b>
<b>Semiconductors &amp; Semiconductor Equipment</b>				
Dyesol Limited	DYE	879,010	918,565	0.6%
			<b>918,565</b>	<b>0.6%</b>
<b>Software &amp; Services</b>				
Reckon Limited	RKN	4,031,422	8,264,415	5.0%
IRESS Market Technology Limited	IRE	264,001	2,294,169	1.4%
ITX Group Limited	ITX	1,144,433	1,235,988	0.7%
Melbourne IT Limited	MLB	607,363	1,193,468	0.7%
DWS Advanced Business Solutions Limited	DWS	440,000	633,600	0.4%
MatrixView Limited	MVU	3,620,255	57,924	0.0%
			<b>13,679,564</b>	<b>8.2%</b>

**WAM CAPITAL LIMITED**  
A.B.N. 34 086 587 395

Company Name	Code	Quantity	Market Value \$	% of Gross Portfolio
<b>Telecommunication Services</b>				
Macquarie Telecom Group Limited	MAQ	222,219	1,026,652	0.6%
Amcom Telecommunications Limited	AMM	2,772,263	887,124	0.5%
			<b>1,913,776</b>	<b>1.1%</b>
<b>Transportation</b>				
Qube Logistics	QUB	21,900	17,192	0.0%
			<b>17,192</b>	<b>0.0%</b>
<b>Convertible Note</b>				
Beyond Sportswear International	BSI		205,800	0.1%
			<b>205,800</b>	<b>0.1%</b>
<b>Exchange Traded Options</b>				
			66,640	0.0%
			<b>66,640</b>	<b>0.0%</b>
<b>Total Long Portfolio</b>			<b>75,079,790</b>	<b>44.7%</b>
<b>Total Cash, income receivable and net outstanding settlements</b>			<b>93,063,679</b>	<b>55.3%</b>
<b>Total Short Portfolio</b>			<b>2,860,907</b>	<b>100.0%</b>

\* Indicates that options were outstanding against the holding.