Souls Private Equity Limited

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CORPORATE DIRECTORY

Directors
Robert Millner, Chairman
David Fairfull, Non-Executive Director
David Wills, Non-Executive Director
Robert Westphal, Non-Executive Director
Graeme Crampton, Independent Non-Executive Director (appointed 19 September 2011)
Ross Strang, Independent Non-Executive Director (appointed 19 September 2011)

Company Secretary
Richard Pillinger

Registered Office
Level 2
160 Pitt Street Mall
Sydney NSW 2000
Telephone: (02) 9210 7000
Facsimile: (02) 9210 7099

Postal Address:
GPO Box 5015
Sydney NSW 2001

Auditors
Grant Thornton Audit Pty Ltd
Level 17
383 Kent Street
Sydney NSW 2000

Investment Manager
Pitt Capital Partners Limited
Level 2
160 Pitt Street Mall
Sydney NSW 2000

Share Registry
Advanced Share Registry Services Limited
150 Stirling Highway
Nedalnds, WA 6009
Telephone: 08 9389 8033

Australian Securities Exchange Code
Ordinary Shares	SOE
Options	SOEOA

Website
www.spel.com.au

CONTENTS

CHAIRMAN'S ADDRESS

Dear Shareholders,

I am pleased to enclose the seventh Annual Report of Souls Private Equity Limited (SPEL) for the year ended 31 July 2011.

SPEL has recorded a net loss after tax of $8.3 million for FY11, compared to a net profit of $0.5 million in FY10.

The major contributor to the 2011 loss was an unrealised loss on listed investments of $4.1 million compared to a profit of $3.7 million in the prior year. Cromford continued to drag the portfolio down with substantial losses, however, continued investment to increase capacity and improved market conditions set the platform for improved results going forward.

Liquid assets at 31 July 2011 were $24.5 million which equates to 4.12 cents per share. Net assets as at the end of the FY11 reporting period were $106.0 million.

Further detailed discussion regarding the investment portfolio is contained in the Investment Manager's Report.

On 19 September 2011, the Company received a proposal from Washington H. Soul Pattinson and Co Limited (WHSP). Mr Graeme Crampton and Mr Ross Strang were appointed as independent Directors on 19 September to form a sub-committee for the purpose of assessing the proposal from WHSP. On 7 October 2011 SPEL and WHSP signed a Scheme Implementation Agreement in which the independent directors recommended WHSP's acquisition of SPEL's shares and options subject to receipt of an Independent Expert opinion that the scheme is fair and reasonable and in the best interests of shareholders.

The 2011 Annual General Meeting of the Company is expected to coincide with the date of the scheme vote which will be sent to shareholders along with a booklet outlining the details of the scheme. My fellow Directors and I look forward to meeting you personally at the AGM.

Robert D. Millner
Chairman

Sydney
13 October 2011

INVESTMENT MANAGER'S REPORT

2011 was a difficult year for many Australian companies and the SPEL portfolio was not exempt from this. However, because of SPEL's strong balance sheet it was able to invest in building the market shares and progressing the business plans of its portfolio investments.

Portfolio Financial Performance

The following table shows the breakdown of the Group's financial performance.

	2011 $m	2010 $m	Mvt $m
Parent entity			
Dividends and distributions	1.4	1.8	(0.4)
Interest Income	0.1	0.2	(0.1)
Realised (loss) / gain on portfolio	(0.4)	0.2	(0.6)
Unrealised (loss)/gain on trading portfolio	(4.1)	3.7	(7.8)
Expenses	(2.6)	(2.8)	0.2
Controlled and associate entities			
Cromford Pty Ltd - net loss before tax	(9.1)	(5.0)	(4.1)
Cromford Pty Ltd - impairment	(1.2)	-	(1.2)
Ampcontrol Pty Ltd	4.6	3.2	1.4
Pitt Capital Partners Ltd	0.3	(0.3)	0.6
Heritage Brands Ltd	(0.1)	(0.9)	0.8
Supercorp Pty Ltd	0.2	(0.0)	0.2
InterRisk Australia Pty Ltd	0.5	0.3	0.2
Austgrains Pty Ltd	(0.1)	(1.6)	1.5
Specialist Oncology Property Pty Ltd	0.3	0.3	-
Belaroma Coffee Pty Ltd	0.3	0.2	0.1
Impairment reversal of Belaroma	1.0	-	1.0
Net gain on disposal of entities	-	1.2	(1.2)
Net (loss) / profit before tax	(8.9)	0.5	(9.4)

The two largest associate investments, Ampcontrol and Pitt Capital Partners showed significant improvement and they will continue to be the key drivers for the portfolio in the year ahead. Cromford continued to drag the portfolio down with substantial losses, however, expanded capacity and improved market conditions should yield better results in the year ahead.

Investment Portfolio

SPEL's investment portfolio is divided into three main segments:

- SME investments – unlisted and listed
- Listed share portfolio
- Cash and cash equivalents.

Segmented net assets	2011		2010	
As at 31 July 2011	$m	%	$m	%
SME investments - Unlisted	74.2	69%	68.0	60%
SME investments - Listed	3.2	3%	7.0	6%
Listed share portfolio	23.2	22%	33.3	29%
Cash (parent entity)	0.6	1%	0.3	0%
Other assets and eliminations	4.8	5%	5.6	5%
Net assets	**106.0**	**100%**	**114.2**	**100%**

SME Investments (unlisted and listed)

The active SME investment portfolio is currently made up of 11 companies. The three largest investments by carrying value make up 78% of the SME portfolio.

SME Investments As at 31 July 2011	Investment Cost $m	Book Value $m
Ampcontrol Pty Limited	11.5	30.3
Cromford Pty Limited*	55.7	24.1
Pitt Capital Partners Limited	5.9	5.7
CMA Corporation Limited	12.0	0.4
InterRisk Australia Pty Limited	2.1	3.5
CBD Energy Limited	2.9	2.8
Supercorp Australia Pty Limited	3.7	2.8
Belaroma Coffee Pty Limited**	3.0	3.7
Specialist Oncology Property Pty Limited	1.6	2.3
Austgrains Pty Limited	2.9	0.9
Heritage Brands Limited	7.4	0.9
Total SME investments (unlisted and listed)	**108.7**	**77.4**

**deemed book value of controlled entities is calculated as the original cost plus/minus the movement in accumulated profits and losses of the subsidiary since the date of original investment*
***Belaroma is held by the 100% subsidiary of SPEL, Food and Beverage Company Limited*

The three largest unlisted SME investments are discussed in the following section.

INVESTMENT MANAGER'S REPORT (continued)

Key Facts

Investment Date: December 2005

SPEL Ownership: 45%

Investment Cost: $11.5m

Book Value: $30.3m

Employees: ~900

Website: www.ampcontrolgroup.com

Year in Review

With no acquisitions during the year, the focus for the business was on securing a high quality replacement MD with Geoff Lilliss commencing in January 2011; on successfully integrating the businesses acquired in previous years and on building the order book for the group.

Financial Results

Ampcontrol delivered a strong financial result coming out of a tough economic environment. Revenue grew 23% with EBITDA increasing 33% as all operating divisions improved profits, including a large improvement in the United Kingdom business performance.

$'000	Jun-2010	Jun-2010
Revenue	194,702	158,074
EBITDA	27,780	20,915
EBIT	17,817	12,039

Outlook

The 2012 Financial Year will build on the performance achieved during 2011. The business commences the year with a strong order book, new leadership and a focus on improving profitability throughout the operation.

The business continues to review its capability to effectively meet its customers' needs and plans to relocate a number of businesses during the year to new premises to increase production capability.

While there is uncertainty associated with the proposed mining tax, the view of SPEL and Ampcontrol is that the Australian operations will remain buoyant due to the strength of the Australian coal mining industry.

Business Description

Founded in 1968 Ampcontrol began distributing industrial electrical products to the Hunter region. Through organic growth and selective acquisitions the Ampcontrol Group has become a leading international supplier of electrical and electronic products to the power, energy and mining sectors.

Ampcontrol has a strong presence in providing products and services to the mining sector, with a particular focus on underground longwall coal mining. It has been expanding its capabilities to include a range of mining, defence, energy and industrial applications.

Ampcontrol operates sites across Australia with international operations in China, Hong Kong, New Zealand, Russia, South Africa and the United Kingdom.

Investment Rationale

SPEL identified mining services as a growth sector of the economy and made a number of investments in the industry in 2005.

SPEL recognized the strength of Ampcontrol's dominant market position and superior product technology and the opportunity for Ampcontrol to expand geographically and use its expertise for new applications.

Ampcontrol is carried in the books of SPEL in accordance with accounting standards which may not necessarily reflect the current market value.

INVESTMENT MANAGER'S REPORT (continued)

Cromford Group Pty Ltd
Industrial Plastics Since 1978

Key Facts

Investment Date: December 2004

SPEL Ownership: 100%

Investment Cost: $55.7m

Book Value: $24.1m

Employees: 87

Website: www.cromford.com.au

Year in Review

Challenging market conditions persisted for much of the financial year, however, there were positive indications of an improving market towards the end of the year. The excess capacity in the industry is rapidly being absorbed by new infrastructure projects. Consequently, better volumes and pricing were returning towards the end of the year.

To take advantage of the improved market conditions and demand for larger pipe, Cromford installed a new 800mm diameter line to focus on large infrastructure projects.

The film business faced continued competition from foreign importers due to the relative strength of the AUD with demand remaining weak in line with building activity in NSW.

Financial Results

Although revenue grew by 16% compared with the previous financial year, margins remained under pressure resulting in a poorer result.

$'000	Jul-2011	Jul-2010
Revenue	30,674	26,516
EBITDA	(8,926)	(3,524)
EBIT	(10,265)	(4,908)

Outlook

Coal seam gas remains the large positive driver for the industry with the volume of industry production expanding rapidly as these contracts roll out. Cromford should benefit from their competitors' focus moving north to service these contracts and supplying the space where they competed aggressively. The expanded capacity adds significant marginal income to the fixed cost base of the pipe plant at Moss Vale.

The NSW economy continues to struggle which is having an effect on the demand for new building, which flows on to demand film. An increase in demand for film will be driven by an increase in new building activity.

The combination of improved market conditions in pipe and the expanded plant capacity is expected to significantly improve Cromford's financial performance.

Business Description

Cromford is a manufacturer and distributor of polyethylene pipes and industrial plastics.

Founded in 1978 as a manufacturer of building film and dampcourse, the company diversified via the acquisition of Australian Film and Pipe, to incorporate pipe production.

With manufacturing operations in Moss Vale and Western Sydney, Cromford is well positioned to capture growing demand in the eastern states.

Investment Rationale

SPEL acquired Cromford in December 2004. Cromford was the dominant market leader in the niche segment of plastic film and dampcourse supply.

To reduce dependence on the cyclical nature of the residential building and agricultural industries, Cromford entered the plastic extruded pipe market in February 2007.

INVESTMENT MANAGER'S REPORT (continued)

PITT CAPITAL PARTNERS

Key Facts

Investment Date: December 2004

SPEL Ownership: 25%

Investment Cost: $5.9m

Book Value: $5.7m

Employees: 11

Website: www.pittcapitalpartners.com.au

Year in Review

Pitt Capital Partners experienced an increase in demand for its advisory services during the financial year. A number of their existing corporate clients sought to grow their businesses via acquisition whilst some new clients sought to raise capital to fund exciting growth opportunities. Pitt Capital Partners acquired an interest in BW Partners during the year to add to its suite of advisory options. BW Partners is an independent real estate investment management and advisory business operating across the Australian marketplace.

Financial Results

Pitt Capital increased its revenue and significantly decreased its cost base compared to the previous financial year. The previous financial year cost base was affected by a number of one-off redundancy payments. Pitt Capital paid a dividend to SPEL of $900K during the year.

$'000	Jul-2011	Jul-2010
Revenue	6,450	5,839
EBITDA	2,279	(86)
EBIT	2,246	(168)

Outlook

Global markets are adding volatility to listed stocks, however, many Australian companies continue to perform well. A tightening debt capital market is increasing opportunities for recapitalistions and the poor IPO market is providing good pre-IPO investment opportunities.

Pitt Capital Partners is seeing a number of good opportunities and valuations are relatively attractive compared with recent years, particularly in the unlisted space.

Pitt Capital Partners has taken a strong pipeline of work into the new financial year and continues to explore new opportunities for its clients.

Business Description

Pitt Capital Partners is an independent corporate advisory firm specialising in financial advice to clients. Pitt Capital Partners provides a range of corporate advisory services including mergers and acquisitions, strategic advice, equity capital markets, private equity, restructuring and debt advisory.

Investment Rationale

Pitt Capital is the investment manager of SPEL. SPEL invested in Pitt Capital as one means to align the interest of the manager with the company. Pitt Capital gives SPEL crucial insight into what is happening in equity markets which enables them to maximise value for SPEL shareholders in terms of acquiring and exiting businesses. Pitt Capital's expertise in transaction execution and private equity investment management are essential services to the operation of SPEL.

INVESTMENT MANAGER'S REPORT (continued)

CBD Energy Limited

CBD had a record year in 2011. Revenue increased 267% to $164.7m and EBITDA increased 48% to $9.2m. One off and non cash expenses totalled $5.7m, bringing normalised EBITDA (before one off and non cash expenses) to $14.9m. The main contributor to CBD's outstanding result was its eco-Kinetics business which specialises in solar energy solutions, both domestically and overseas. In addition, post year end CBD announced that it has signed an agreement to act as manager to the AusChina wind joint venture which entitles CBD to an annual management fee once the joint venture acquires or develops assets.

Belaroma Coffee Company Pty Limited

Belaroma's revenue grew by 13.0% in FY11 to $14.3m. EBITDA increased 33% to $1.9m and NPAT increased 57.8% to $777k. The improved sales and margins are a result of Belaroma's ongoing strategy to expand all sales channels. Growth has been achieved in enabling existing customers to improve their own sales and from an appropriate investment in the acquisition of new customers.

Heritage Brands Limited

Following its successful merger in August 2010, Heritage Brands had a strong first half of the year, however, a slowing retail environment significantly impacted earnings in the second half. As a result Heritage Brands reported sales of $29.1 million and EBITDA of $2.0 million for the year ending 31 July 2011.

Supercorp Pty Limited

Supercorp had a mixed year in 2011. On the technology side, the company continued its successful roll-out of its Supermate software with strong uptake by both new and existing clients and on the administration side the company has grown the business through the acquisition of McPherson Super Administration Pty Ltd.

Specialist Oncology Property Pty Limited

Specialist Oncology Property's earnings for the 2011 financial year were in line with budget. Property purchases settled during the financial year included a property in Blacktown and a suite at Norwest Private Hospital. The Blacktown purchase is adjacent to existing owned premises and increases the Company's capacity to meet existing demand for consulting space in Blacktown.

Austgrains Pty Limited

Austgrains continued to expand its regional growing base throughout the year as customers sought to reduce the impact of supply due to a weather event in a specific region. This customer demand has driven a restructure of the Austgrains business where a number of the assets located in Moree were deemed to be surplus assets. Austgrains commenced a marketing programme for these assets during the financial year and this programme is continuing. Austgrains was fortunate to achieve good harvest volumes through the unusually wet harvest period. The business continued to see growing volumes in its key licensed varieties.

CMA Corporation Limited

At year end, CMA remained in voluntary suspension. CMA undertook a restructuring through a fully underwritten 8 for 1 entitlement offer to raise A$77.5m of new equity on 11 July 2011. The entitlement offer was fully underwritten and was supported by key shareholders Scholz Group and a new entrant to the shareholder register, Stemcor, the world's largest independent steel trader. CMA is currently working to secure it's debt financing following the equity raise and relisted on the ASX on 6 September 2011.

INVESTMENT MANAGER'S REPORT (continued)

InterRisk Australia Pty Limited

Interrisk generated a net profit before tax of $1.367m for the financial year. Interrisk diversified its revenue base into the SME sector by acquiring Lyne & Associates, an insurance broker based in Balgowlah. The SME sector has a lower revenue per client and a lower customer volatility than the corporate sector where Interrisk principally operates. Interrisk is aiming to be the consolidating partner of choice for SME brokers looking to gain the advantages of scale to their business.

Cash and Cash Equivalents

Cash balances as at the end of FY11 totalled $1.3 million which included cash of $0.7 million held within Cromford. Interest earned on cash balances totalled $0.2 million during the year.

Listed Share Portfolio

The market value of the listed portfolio (excluding listed SME investments) at 31 July 2011 was $23.2 million.

Dividends and distributions received from the listed share portfolio during the year totalled $1.6 million. Disposals totaling $8.3 million were made in the year to fund follow on investments. These disposals included Transurban Group, Telstra, Fairfax, Westfield Group and Suncorp-Metway.

Listed share portfolio (excluding listed SME investments) as at 31 July 2011	Book Value $m
Australia and New Zealand Banking Group Ltd	4.7
BHP Billiton Ltd	2.1
Bravura Solutions Ltd	0.3
Commonwealth Bank of Australia Ltd	9.5
Coca-Cola Amatil Ltd	1.7
Telstra Corporation Ltd	2.8
Wesfarmers Ltd	2.1
Total	**23.2**

DIRECTORS' REPORT

The Directors of Souls Private Equity Limited ("the Company") and its controlled entities ("the consolidated entity") present the following report for the year ended 31 July 2011.

Directors

The following persons were Directors of the Company from the beginning of the year up to the date of this report unless otherwise stated:

Robert D Millner, F.A.I.C.D – Non-Executive Director and Chairman

Mr Millner has over 27 years experience as a Company Director. Mr Millner is a Director of Pitt Capital Partners Limited, an investee company. During the past three years, Mr Millner has also served as a Director of the following listed companies:

- Washington H. Soul Pattinson and Company Limited*
- Brickworks Limited*
- New Hope Corporation Limited*
- TPG Telecom Limited*
- BKI Investment Company Limited*
- Milton Corporation Limited*
- Australian Pharmaceutical Industries Limited*
- Choiseul Investments Limited

* denotes current directorship

Special Responsibilities:

- Chairman of the Board
- Chairman of the Investment Committee
- Chairman of the Remuneration Committee
- Chairman of the Nomination Committee
- Member of the Audit Committee

Interest in Shares and Options:

- 1,725,193 Ordinary shares in Souls Private Equity Limited
- 153,151 listed options in Souls Private Equity Limited

DIRECTORS' REPORT (continued)

Directors (continued)

David J Fairfull, B.Com. (UNSW), A.C.I.S, C.P.A., Ffin, M.A.I.C.D. – Non-Executive Director

Mr. Fairfull is a merchant banker with over 40 years experience in mergers and acquisitions and underwriting projects. Mr Fairfull is the Company's representative Director on the following investee companies: Specialist Oncology Property Pty Limited and Heritage Brands Limited. During the past three years, Mr Fairfull has also served as a Director of the following listed companies:

- Washington H. Soul Pattinson and Company Limited*
- New Hope Corporation Limited*

* denotes current directorship

Special Responsibilities:

- Member of the Investment Committee
- Member of the Audit Committee
- Member of the Remuneration Committee
- Member of the Nomination Committee

Interest in Shares and Options:

- 8,700,001 Ordinary shares in Souls Private Equity Limited
- 1,087,501 listed options in Souls Private Equity Limited

David E Wills, B.Com. (UNSW), F.C.A., M.A.I.C.D. – Non-Executive Director

Mr Wills is a Chartered Accountant and was a partner of Coopers & Lybrand and then PricewaterhouseCoopers for 25 years. Prior to his retirement from the firm in 2004, he was Managing Partner of the Sydney office and Deputy Chairman of the Australian firm. Mr Wills is the Company's representative Director on the following investee companies: Cromford Group Pty Limited and InterRisk Australia Pty Limited. During the past three years, Mr Wills has also served as a Director of the following listed companies:

- Washington H. Soul Pattinson and Company Limited*
- Clover Corporation Limited*
- Quickstep Holdings Limited *
- Dyno Nobel Limited

* denotes current directorship

Special Responsibilities:

- Chairman of the Audit Committee
- Member of the Investment Committee
- Member of the Remuneration Committee

Interest in Shares and Options:

- 623,277 Ordinary shares in Souls Private Equity Limited
- 52,910 listed options in Souls Private Equity Limited

DIRECTORS' REPORT (continued)

Directors (continued)

Robert G Westphal, B.Com. (UNSW), F.C.A., Ffin, M.A.I.C.D. – Non-Executive Director

Mr Westphal was a Corporate Finance and Consulting partner with Ernst & Young for 25 years and has extensive experience in the valuation and assessment of business models.

Mr Westphal is also the Company's representative Director on a number of investee companies, including Ampcontrol Pty Limited, Supercorp Pty Limited, InterRisk Pty Limited and Belaroma Pty Limited. He has also held the position of the Chairman of Queenwood School for Girls Limited. Mr Westphal has a Bachelor of Commerce degree and is a Fellow of the Institute for Chartered Accountants in Australia as well as a member of the Financial Services Institute of Australasia. During the past three years, Mr Westphal has also served as a Director of the following listed companies:

- Washington H. Soul Pattinson and Company Limited*
- Xanadu Mines Limited *

* denotes current directorship

Special Responsibilities:

- Member of the Investment Committee
- Member of the Audit Committee
- Member of the Remuneration Committee

Interest in Shares and Options:

- 370,000 Ordinary shares in Souls Private Equity Limited
- 46,250 listed options in Souls Private Equity Limited

Graeme L. Crampton B.Ec, FCA, FAICD - Independent Non-Executive Director (appointed 19 September 2011)

Mr Crampton is a Chartered Accountant and former partner of a major firm of Chartered Accountants for more than 28 years and has extensive experience in the investment industry.

During the past three years, Mr Crampton has also served as a Director of the following listed company:

- Milton Corporation Limited *

* denotes current directorship

Special Responsibilities:

- Member of the sub-committee to assess any formal offer received from WHSP

Interest in Shares and Options:

- None

DIRECTORS' REPORT (continued)

Directors (continued)

Ross Strang LLB (Hons), MAICD - Independent Non-Executive Director (appointed 19 September 2011)

Mr Strang is a consultant to Kemp Strang, a Sydney commercial law firm. Ross is one of Kemp Strang's founders and was a partner in the practice for over 30 years. Ross has extensive experience in commercial real estate, construction and securities matters on a broad front and is well known in legal, commercial and community circles.

During the past three years, Mr Strang has also served as a Director of the following listed companies:

- Folkestone Limited *

* denotes current directorship

Special Responsibilities:

- Member of the sub-committee to assess any formal offer received from WHSP

Interest in Shares and Options:

- None

Company Secretary

Richard J Pillinger, BSc, CA

Mr Pillinger is a Chartered Accountant with extensive experience in public practice and commercial financial roles.

Principal Activities

The principal activity of the consolidated entity during the year was investment through the provision of investment capital to Australian and overseas companies.

The consolidated entity is a long term equity investor and invests primarily in private equity investments and listed ASX securities. There have been no significant changes in the nature of those activities during the year.

There were no other significant changes in the nature of the consolidated entity's principal activities during the year.

Operating Results

Souls Private Equity Limited recorded a net loss after tax of $8,302,000 for the year ended 31 July 2011 (2010: $492,000 profit). The key components of this result were:

- Total revenue for the year ended 31 July 2011 increased to $32,580,000 (2010: $29,108,000).
- Share of profits from associates increased by $4,478,000 to $5,736,000. The financial performance of all associates improved in the 2011 financial year.
- Unrealised losses on listed investments held for sale were recognised of $4,143,000 (2010: $3,704,000 gains). Included in this is the recognition of an unrealised loss of $2,888,000 following the recapitalisation of CMA Corporation Limited.
- Operating loss of Cromford Group increased by $4,093,000 in the year. This was adversely impacted by inventory and debtor write downs of $2,207,000.
- Impairment losses on investments of $1,166,000 were recognised at year ended 31 July 2011 (2010: Nil). This however was largely offset by a reversal in impairment of investments in prior years of $1,033,000 (2010: Nil)

DIRECTORS' REPORT (continued)

Financial Position

The net assets of the consolidated entity at reporting date were $105,957,000 (2009: $114,258,000). The consolidated entity has good liquidity and a listed share portfolio of major Australian companies that can be disposed of to fund investment opportunities.

Review of Operations

The principal objective of the consolidated entity is to maximise returns to shareholders over the long-term within risk parameters acceptable to the Board of Directors. This is achieved by investing in a combination of unlisted and listed Australian securities. In essence, the consolidated entity will invest in and support unlisted SME's which offer high prospects for capital growth over the long-term.

Further details regarding the review of operations can be found in the Investment Manager's Report.

Employees

The consolidated entity has 87 employees as at 31 July 2011 (2010: 90).

Significant changes in the State of Affairs

Other than as stated in the accompanying Financial Report, there were no significant changes in the state of affairs of the Company and consolidated entity during the reporting period.

Likely Developments and Expected Results

The operations of the consolidated entity will continue with planned investments in private equity and listed equity investments and its existing business operations. Our Investment Manager continues to review a large number of investment opportunities. No information is included on the expected results of those operations and the strategy for particular investments, as it is the opinion of the Directors that this information would prejudice the interests of the consolidated entity if included in this report.

Significant Events after Balance Date

On 19 September 2011, the Company received a proposal from Washington H. Soul Pattinson and Company Limited (WHSP) to acquire all the outstanding shares in SPEL not held by WHSP. Mr Graeme Crampton and Mr Ross Strang were appointed as independent Directors on 19 September to form a sub-committee for the purpose of assessing the proposal. On 7 October 2011 SPEL and WHSP signed a Scheme Implementation Agreement in which the independent directors recommended WHSP's acquisition of SPEL's shares and options subject to receipt of an Independent Expert opinion that the scheme is fair and reasonable and in the best interests of shareholders. The Scheme will be subject to approval by shareholders and optionholders.

From 31 July 2011 to the date of this report additional investment of $2,223,000, by way of loans, were provided by the Company to Cromford Group Pty Limited.

The Directors are not aware of any other matters or circumstances that have arisen since the end of the year to the date of this report that have significantly affected or may significantly affect:

(a) the operations of the Company and the entities that it controls

(b) the results of those operations; or

(c) the state of affairs of the consolidated entity in subsequent years

DIRECTORS' REPORT (continued)

Dividends

For the year ended 31 July 2011 no dividend has been recommended or declared (2010: nil cents per share).

Environmental Regulations

The consolidated entity's operations have complied with significant environmental regulations under the law of the Commonwealth or of a state or territory.

Meetings of Directors

The numbers of meetings of the Company's Board of Directors and each Board committee held during the year to 31 July 2011, and the numbers of meetings attended by each Director were:

	Board		Investment		Audit		Nomination	
	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend
RD Millner	9	10	9	10	3	3	-	-
DJ Fairfull	9	10	9	10	3	3	1	1
DE Wills	10	10	10	10	3	3	1	1
RG Westphal	10	10	10	10	3	3	1	1
R Strang	-	-	-	-	-	-	-	-
G Crampton	-	-	-	-	-	-	-	-

Mr R Millner was ineligible to attend the Nomination Committee as the Committee rules prevent Directors due for re-election that year from attending the meeting. No meetings of the remuneration committee were held during the year ended 31 July 2011 because the Company had no employees during the year.

Remuneration Report (Audited)

This remuneration report outlines the Director and executive remuneration arrangements of the Company in accordance with the requirements of the Corporations Act 2001 and its Regulations. For the purposes of this report, key management personnel of the Company are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company, directly or indirectly.

There is no link between remuneration paid to Directors and Company performance.

There are no direct employees of the Company and, therefore, no employment contracts are in place. Key executives are employed by the Investment Manager (Pitt Capital Partners Limited) or the administration services provider (Corporate and Advisory Services Pty Limited). Remuneration of key executives of these companies is determined by the policies of those companies and is not linked to the performance of the Company or the level of any management, success fees or administration fees paid by the Company.

DIRECTORS' REPORT (continued)

Remuneration Report (continued)

(a) Directors' remuneration

The maximum aggregate amount of non–executive Directors' fees is $300,000 until Shareholders, by ordinary resolution, approve some other maximum sum. This amount is to be divided amongst the Directors as they may determine.

These fees exclude any additional fee for any service based agreement which may be agreed from time to time, and also excludes statutory superannuation and the reimbursement of out of pocket expenses.

Details of the nature and amount of each Director's remuneration from the Company and controlled entities in connection with the management of the Company and controlled entities for the year to 31 July 2011 are set out below. A number of Directors are also Directors of a related company, Washington H. Soul Pattinson and Company Limited and any remuneration from Washington H. Soul Pattinson and Company Limited is not included in the tables below:

2011	Short-term Benefits (1) $	Post-Employment Benefits $	Share based Payments (2) $	Total $	Performance Related (3) %
RD Millner	50,000	4,500	-	54,500	-
DJ Fairfull	37,500	3,375	-	40,875	-
DE Wills (4)	62,500	5,625	-	68,125	-
RG Westphal	37,500	3,375	-	40,875	-
	187,500	16,875	-	204,375	-

2010	Short-term Benefits (1) $	Post-Employment Benefits $	Share based Payments (2) $	Total $	Performance Related (3) %
RD Millner	50,000	4,500	-	54,500	-
DJ Fairfull	37,500	3,375	-	40,875	-
DE Wills (4)	62,500	5,625	-	68,125	-
RG Westphal	37,500	3,375	-	40,875	-
	187,500	16,875	-	204,375	-

(1) All payments were in the form of cash and there were no bonus payments to Directors.

(2) These are non-cash payments.

(3) Performance assessment criteria are set out in the Corporate Governance report.

(4) Mr D Wills received $27,250 in his capacity as Director of Cromford Group Pty Limited, a controlled entity.

Fees for Non-Executive Directors reflect the demands on and responsibilities of our Directors. Non-Executive Directors are remunerated by way of base fees and statutory superannuation contributions and do not participate in schemes designed for the remuneration of executives. Non-executive Directors do not receive any options, bonus payments nor are provided with retirement benefits other than statutory superannuation.

DIRECTORS' REPORT (continued)

Remuneration Report (continued)

(a) Directors' remuneration (continued)

No other payments are made to Directors for services performed as Directors of the Company. Consequently, no compensation as defined in AASB 124 "Related party Disclosures" is paid by the Company to the Directors as key management personnel.

(b) Other Key Management Personnel

Names and positions held of other key management personnel in office during the year to 31 July 2011 were:

T Barlow	General Manager
R Pillinger	Company Secretary

Mr T Barlow is employed directly by the Investment Manager, Pitt Capital Partners Limited.

Mr R Pillinger is employed directly by Corporate & Administrative Services Pty Limited who provide financial, administrative and company secretarial services to the Company.

Details of the nature and amount of each other key management personnel's remuneration from the Company and controlled entities in respect of the year to 31 July were:

2011	Short-term Benefits (1) $	Post-Employment Benefits $	Total $	Performance Related %
T Barlow (2)	-	-	-	-
R Pillinger (3)	-	-	-	-
	-	-	-	-

2010	Short-term Benefits (1) $	Post-Employment Benefits $	Total $	Performance Related %
T Barlow (2)	-	-	-	-
R Pillinger (3)	-	-	-	-
A Fairfull (4)	24,000	2,160	26,160	-
	24,000	2,160	26,160	-

(1) All payments were in the form of cash and there were no bonus payments to other key management personnel.

(2) Mr Barlow is employed directly by Pitt Capital Partners Limited. No remuneration was received directly from the Company or consolidated entity. Refer to Note 24 (ii) for details of the management agreement between the Company and Pitt Capital Partners Limited.

(3) Mr Pillinger is employed directly by Corporate and Administrative Services Pty Limited. No remuneration was received directly from the Company or consolidated entity. The service agreement between the Company and Corporate and Administrative Services Pty Limited is open ended and has a notice period of one month for either party to terminate. There are no penalties associated with termination of the agreement. Refer to Note 24 (ii) for details of amounts paid to Corporate and Administrative Services Pty Limited.

(4) Mr Fairfull received remuneration in his capacity as Chairman of an investee entity, Hertiage Brands Limited. Mr Fairfull has resigned his position with Heritage Brands Limited following his resignation from Pitt Capital Partners Limited on 16 July 2010.

DIRECTORS' REPORT (continued)

Beneficial and relevant interest of Directors and other key management personnel in Shares of the Company

As at the date of this report, details of Directors and other key management personnel who held shares in the Company for their own benefit or who have an interest in holdings through a third party and the total number of such shares held are listed as follows:

Directors	Number of Shares	Number of Options (1)
RD Millner	1,725,193	153,151
DJ Fairfull	8,700,001	1,087,501
DE Wills	623,277	52,910
RG Westphal	370,000	46,250
R Strang	-	-
G Crampton	-	-
Other key management personnel:		
T Barlow	20,000	2,500
R Pillinger	-	-

(1) These options are listed options in the Company (ASX: SOEOA) expiring on 2 February 2015 exercisable at a price of $0.20 each.

Options

At 31 July 2011, the unissued ordinary shares of the Company under option are as follows:

Listed options: (ASX code: SOEOA)

Grant Date	Date of Expiry	Exercise Price	Number under Option
1 March 2010	2 February 2015	$0.20	74,024,813

During the year ended 31 July 2011: 6,471 ordinary shares of the Company were issued upon the exercise of listed options (SOEOA), each at $0.20. In 2010, 20,710 ordinary shares of the Company were issued upon the exercise of listed options (SOEO), each at $0.30 and 163,471 ordinary shares of the Company were issued upon the exercise of listed options (SOEOA), each at $0.20.

Option holders do not have the right to participate in any share issues of the Company.

There are no unlisted options on issue.

DIRECTORS' REPORT (continued)

Directors', Officers' and Auditors' Indemnity

The Constitution of the Company provides indemnity against liability and legal costs incurred by Directors and Officers to the extent permitted by Corporations Act.

During the year to 31 July 2011, the Company has paid premiums in respect of an insurance contract to insure each of the officers against all liabilities and expenses arising as a result of work performed in their respective capacities. The terms of the policy do not permit the value of the premium to be disclosed.

Proceedings on Behalf of the Company

No person has applied for leave of the Court under section 327 of the Corporations Act 2001 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 ended 31 July 2011.

Non-Audit Services

The Board of Directors is satisfied that the provision 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 below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the Board of Directors 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 auditor independence as set out in APES 110: Code of Ethics for Professional Accountants set by the Accounting Profession and Ethical Standards Board.

The following fees for non-audit services were paid to the external auditor during the year ended 31 July 2011:

Taxation compliance services: $10,893 excluding GST

Auditor's Independence Declaration

The auditor's independence declaration for the year ended 31 July 2011 has been received and can be found on page 75 which forms part of this report.

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

Robert D Millner
Director

Sydney
13 October 2011

CORPORATE GOVERNANCE

The Board of Souls Private Equity Limited (the Company) are committed to achieving and demonstrating the highest standards of corporate governance. Unless otherwise stated, the Company has followed the revised best practice recommendations effective from 1 January 2008 set by the ASX Corporate Governance Council during the reporting year.

This report summarises the Company's application of the 8 Corporate Governance Principles and Recommendations.

Principle 1 – Lay solid foundations for management and oversight

Recommendation 1.1: Companies should establish the functions reserved to the Board and those delegated to Senior Executives and disclose those functions

The Board of Directors (hereinafter referred to as the Board) are responsible for the corporate governance of the Company and its controlled entities. The Directors of the Company and its controlled entities are required to act honestly, transparently, diligently, independently, and in the best interests of all shareholders in order to increase shareholder value.

The Directors are responsible to the shareholders for the performance of the Company in both the short and the longer term and seek to balance sometimes competing objectives in the best interests of the Company as a whole. Their focus is to enhance the interests of shareholders and other key stakeholders and to ensure the Company is properly managed.

Role of the Board

The responsibilities of the Board include:

- contributing to the development of and approving the corporate strategy
- reviewing and approving business results, business plans, the annual budget and financial plans
- authorising and monitoring the investment portfolio
- ensuring regulatory compliance
- reviewing internal controls
- ensuring adequate risk management processes
- monitoring the Board composition, Director selection and Board processes and performance
- overseeing and monitoring:
    - organisational performance and the achievement of the Company's strategic goals and objectives
    - compliance with the Company's Code of Conduct
- monitoring financial performance including approval of the annual report and half-year financial reports and liaison with the Company's auditors
- appointment and contributing to the performance assessment of the portfolio manager and other external service providers
- enhancing and protecting the reputation of the Company
- reporting to shareholders.

CORPORATE GOVERNANCE (continued)

Principle 1 – Lay solid foundations for management and oversight (continued)

Role of the Board (continued)

Recommendation 1.2: Companies should disclose the process for evaluating the performance of Senior Executives

The Company does not have any employees and engages external service providers to fulfil management and administrative roles. Performance of these service providers is measured on an ongoing basis using management reporting tools and by reference to service agreements.

Principle 2 – Structure the Board to add value

The key elements of the Board composition include:

- ensuring, where practicable to do so, that the members of the Board have the appropriate skills to add value to the Company
- the Board of the Company currently comprises four Non-Executive Directors
- Non-Executive Directors bring a fresh perspective to the Board's consideration of strategic, risk and performance matters and are best placed to exercise independent judgement and review and constructively challenge the performance of management
- the Company is to maintain a mix of Directors on the Board from different backgrounds with complementary skills and experience
- the Board seeks to ensure that:
    - at any point in time, its membership represents an appropriate balance between Directors with experience and knowledge of the Company and Directors with an external perspective
    - the size of the Board is conducive to effective discussion and efficient decision making
- in recognition of the importance placed on the investment experience of the Directors and the Board's role in supervising the activities of the investment manager, the Board does not contain any independent Directors.

Recommendation 2.1: A majority of the Board should be Independent Directors

Recommendation 2.2: The Chair should be an Independent Director

When assessing the independence of Directors and the Chairman under recommendation 2.1 and 2.2 of the best practice recommendations released by the Australian Stock Exchange Corporate Governance Council, since the company listed on ASX, no Directors, although meeting other criteria, and bringing independent judgement to bear on their respective roles, are defined as independent Directors, primarily due to the fact that they are officers of Washington H. Soul Pattinson and Company Limited, who is a substantial shareholder of the Company.

The Company has not followed recommendation 2.1 and 2.2 as the Board are of the opinion that all Directors exercise and bring to bear an unfettered and independent judgement towards their duties. Souls Private Equity Limited listed on the Australian Securities Exchange on 16 December 2004 in response to an ever-increasing demand by small investors to participate in Soul Pattinson's private equity and listed SME portfolio investments and the Board is satisfied that all Directors, as officers of Washington H. Soul Pattinson and Company Limited, bring the appropriate skills to play an important role in the success and performance of the Company.

Recommendation 2.3: The roles of Chair and Chief Executive Officer should not be exercised by the same individual

The role of Chair and Chief Executive Officer is not occupied by the same individual.

CORPORATE GOVERNANCE (continued)

Principle 2 – Structure the Board to add value (continued)

Recommendation 2.4: The Board should establish a Nomination Committee

The Company established a Nomination Committee effective from 16 December 2004.

The Nomination Committee consists of Directors who are not up for re-election during the year:

RD Millner (Chairman)

DJ Fairfull

The main responsibilities of the Committee are to:

- assess the membership of the Board having regard to present and future needs of the Company
- propose candidates for Board vacancies in consideration of qualifications, experience and domicile
- oversee Board succession
- evaluate Board performance.

Recommendation 2.5: Companies should disclose the process for evaluating the performance of the Board, its Committees and Individual Directors

The Board undertakes an annual self assessment of its collective performance. The self assessment:

- compares the performance of the Board with the requirements of its Charter
- sets forth the goals and objectives of the Board for the upcoming year
- effects any improvements to the Board charter deemed necessary or desirable

The performance evaluation is conducted in such manner as the Board deems appropriate. In addition, each Board committee undertakes an annual self assessment on the performance of the committee and achievement of committee objectives.

The Chairman annually assesses the performance of individual Directors and meets privately with each Director to discuss this assessment.

Principle 3 – Promote ethical and responsible decision-making

Recommendation 3.1: Companies should establish a Code of Conduct

The Company has developed a Code of Conduct (the Code) which has been fully endorsed by the Board and applies to all Directors, employees and external service providers. The Code is regularly reviewed to ensure it reflects the highest standards of behaviour and professionalism and the practices necessary to maintain confidence in the Company's integrity.

In summary, the Code requires that at all times all Group personnel act with the utmost integrity, objectivity and in compliance with the letter and the spirit of the law and company policies. This requires them to:

- Act in accordance with ethical and professional standards
- Act with honesty and integrity in dealings with shareholders, customers, suppliers and competitors
- Ensure compliance with all laws and regulations
- Act in accordance with standards of workplace behaviour and equal opportunity
- Avoid actual or potential conflicts of interest between private and company matters
- Not engage in insider trading

CORPORATE GOVERNANCE (continued)

Principle 3 – Promote ethical and responsible decision-making (continued)

- Not accept unauthorised benefits as a result of their position in the Company
- Ensure company assets and confidential information are not used improperly
- Maintain and further enhance the Company's reputation and not act in a manner which may harm that reputation
- Report all breaches of the code

Recommendation 3.2: Companies should establish a policy concerning trading in company securities by Directors, Senior Executives and employees, and disclose the policy or a summary of that policy

The Company has developed a Share Trading Policy which has been fully endorsed by the Board and applies to all Directors, employees and external service providers.

The main principles are as follows:

- The policy relates to trading in shares of the Company and controlled and associated entities of the Company that are publicly listed.
- Trading is prohibited when Directors and employees are in possession of price sensitive information which is not available to the public.
- In respect of Directors and senior executives trading its shares, the Company has established the following share trading windows each for a period of 6 weeks commencing from-
    - The release of the Company's annual result to the ASX;
    - The release of the Company's half yearly result to the ASX;
    - The date of the Annual General Meeting: and
    - The release of a prospectus.

At time other than those referred to above, Directors and senior executives, may trade with the prior approval of the Chairman, or in his absence, two Directors. Subsequent confirmation of any such trades is to be given to the Chairman or the Directors who approved the trade.

Directors and senior executives are prohibited from using margin loans to finance the purchase of shares in the Company or from trading in any financial products issued or created over the Company's shares.

Principle 4 – Safeguard integrity in financial reporting

Recommendation 4.1: The Board should establish an Audit Committee

The members of the Audit Committee at the date of this annual financial report are:

DE Wills (Chairman)
RD Millner
DJ Fairfull

RG Westphal

Recommendation 4.2: The Audit Committee should be structured so that it:

- *consists only of Non-Executive Directors*
- *consists of a majority of Independent Directors*
- *is chaired by an independent chair, who is not Chair of the Board*
- *has at least three members*

CORPORATE GOVERNANCE (continued)

Principle 4 – Safeguard integrity in financial reporting (continued)

The Audit Committee consists only of four Non-Executive Directors. As outlined under Recommendation 2.1, no Directors are considered independent.

The Chairman of the Audit Committee is a Non-Executive Director who is not Chairman of the Board. The Chairman of the Audit Committee is also required to have accounting or related financial expertise, which includes past employment, professional qualification or other comparable experience. The other members of the Audit Committee are all financially literate and have a strong understanding of the industry in which the Company operates.

Recommendation 4.3: The Audit Committee should have a formal charter

The main responsibilities of the committee as defined in the Audit Committee Charter are to:

- review, assess and approve the annual report, half-year financial report and all other financial information published by the Company or released to the market
- reviewing the effectiveness of the organisation's internal control environment covering:
  - effectiveness and efficiency of operations
  - reliability of financial reporting
  - compliance with applicable laws and regulations
- oversee the effective operation of the risk management framework
- recommend to the Board the appointment, removal and remuneration of the external auditors, and review the terms of their engagement, the scope and quality of the audit and assess performance and consider the independence and competence of the external auditor on an ongoing basis. The Audit Committee receives certified independence assurances from the external auditors
- review and approve the level of non-audit services provided by the external auditors and ensure it does not adversely impact on auditor independence. The external auditor will not provide services to the Company where the auditor would have a mutual or conflicting interest with the Company; be in a position where they audit their own work; function as management of the Company; or have their independence impaired or perceived to be impaired in any way
- review and monitor related party transactions and assess their priority
- report to the Board on matters relevant to the committee's role and responsibilities

In accordance with the Audit Committee charter and Corporations Act requirements, the Company requires that the external audit engagement partner and review partner be rotated every five years. Under this policy, the audit partner will be changed in the next financial year.

In fulfilling its responsibilities, the Audit Committee requires the investment manager and the administrative and company secretarial service provider, namely Pitt Capital Partners Ltd and Corporate & Administrative Services Pty Ltd to state in writing to the Board that the Company's financial reports presents a true and fair view, in all material respects, of the Company's and its consolidated entities financial condition, operational results and are in accordance with the relevant accounting standards.

The external auditors, the investment manager and the administrative and company secretarial service provider, namely Pitt Capital Partners Ltd and Corporate & Administrative Services Pty Ltd are invited to attend meetings at the discretion of the Audit Committee.

The external auditor will attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

CORPORATE GOVERNANCE (continued)

Principle 5 – Make timely and balanced disclosure

Recommendation 5.1: Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies

The Chairman and Company Secretary have been nominated as being the persons responsible for communications with the Australian Stock Exchange (ASX). This role includes the responsibility for ensuring compliance with the continuous disclosure requirements in the ASX listing rules and overseeing and co-ordinating information disclosure to ASX. The Chairman is responsible for disclosure to analysts, brokers and shareholders, the media and the public.

The Company has written policies and procedures on information disclosure that focus on continuous disclosure of any information concerning the Company that a reasonable person would expect to have a material effect on the price of the Company's securities.

Principle 6 – Respect the rights of shareholders

Recommendation 6.1: Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy

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

Shareholders are updated with the Company's operations via monthly ASX announcements of the net tangible asset (NTA) backing of the portfolio and other disclosure information. All recent ASX announcements and annual reports are available on the ASX website and the Company website, or alternatively, by request via email, facsimile or post. In addition, a copy of the annual report is distributed to all shareholders who elect to receive it.

The Board encourages participation by shareholders at the Annual General Meeting to ensure a high level of accountability and to ensure that shareholders remain informed about the Company's performance and goals.

Principle 7 – Recognise and manage risk

Recommendation 7.1: Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies

Recommendation 7.2: The Board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks

The Board is committed to the identification and quantification of risk throughout the Company's operations.

Considerable importance is placed on maintaining a strong control environment. There is an organisational structure with clearly drawn lines of accountability. Adherence to the Code of Conduct is required at all times and the Board actively promotes a culture of quality and integrity.

Investment risk is the main risk faced by the Company. The Board operates to minimise its exposure to investment risk, in part, by implementing stringent processes and procedures to effectively manage investment risk.

Management of investment risk is fundamental to the business of the Company being an investor in a range of Australian and overseas entities along with Australian listed securities. An Investment Committee has been established to perform, among other roles, investment risk mitigation.

CORPORATE GOVERNANCE (continued)

Principle 7 – Recognise and manage risk (continued)

Investment Committee

The Company has established an Investment Committee effective from 16 December 2004.

The Investment Committee consists of the following members:

RD Millner (Chairman)

DJ Fairfull

DE Wills

RG Westphal

The main responsibilities of the committee are to:

- assess the information and recommendation received by the portfolio manager regarding the present and future investment needs of the Company
- assess risks identified within the investment portfolio
- assess the performance of the portfolio manager
- evaluating investment performance

The Investment Manager is responsible for monitoring this risk and reporting to the Board of Directors on a monthly basis on all companies within the investment portfolio. In the event of a significant risk being identified, the Investment Manager reports immediately to the Board. The close working relationship between the Board and the Investment Manager ensures that this reporting process works effectively in addressing identified risks as soon as possible.

This reporting includes the most up to date available financial information relating to all investee companies incorporating financial results, cash flow information, compliance with banking covenants (where applicable) and any significant events within each company.

Controlled entities which undertake manufacturing or other industrial activities are required to provide a report to the Company on Occupational Health and Safety each month. These reports are considered by the Board on a monthly basis and any concerns or deficiencies identified are immediately addressed with management of the controlled entity.

Recommendation 7.3: The Board should disclose whether it has received assurance from the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks

The investment manager and the administrative and company secretarial service provider, namely Pitt Capital Partners Ltd and Corporate & Administrative Services Pty Ltd have made the following certifications to the Board in accordance with Section 295A of the Corporations Act:

- that the Company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company and its consolidated entities in accordance with all mandatory professional reporting requirements
- that the above statement is founded on a sound system of internal control and risk management which implements the policies adopted by the Board and that the Company's risk management and internal control is operating effectively and efficiently in all material respects in relation to financial reporting risks.

CORPORATE GOVERNANCE (continued)

Principle 8 – Remunerate fairly and responsibly

Recommendation 8.1: The Board should establish a Remuneration Committee

The Remuneration Committee consists of the following members:

RD Millner (Chairman)

DJ Fairfull

DE Wills

RG Westphal

The Remuneration Committee oversees and reviews packages and other terms of engagement with external service providers.

The Company does not have any employees and engages external service providers to fulfil management and administrative roles. Fees payable to service providers are approved by the Board as a whole with reference to market rates and service agreements in place.

Recommendation 8.2: Companies should clearly distinguish the structure of Non-Executive Directors' remuneration from that of Executive Directors and Senior Executives

Fees for Non-Executive Directors reflect the demands on and responsibilities of our Directors. Non-Executive Directors are remunerated by way of base fees and statutory superannuation contributions and do not participate in schemes designed for the remuneration of executives. Non-Executive Directors do not receive any options, bonus payments nor are provided with retirement benefits other than statutory superannuation.

The Remuneration Committee's terms of reference include responsibility for reviewing any transactions between the organisation and the Directors, or any interest associated with the Directors, to ensure the structure and terms of the transaction are in compliance with the *Corporations Act 2001* and are appropriately disclosed.

Diversity

In line with recent ASX Corporate Governance proposals, the Board are reviewing diversity within the Group. Depending on the results of the assessment, the Board will amend current policies to formalise diversity considerations into a plan to take into account diversity criteria including race, gender and geographic location.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 JULY 2011

	Note	**2011 $'000**	2010 $'000
Revenue	2 (a)	**32,580**	29,108
Other gains / (losses)	2 (b)	**(4,661)**	5,153
Expenses	2 (c)	**(42,541)**	(35,114)
Finance costs		**(24)**	(14)
Share of net profits of associates accounted for using the equity method	12	**5,736**	1,258
(Loss) / profit before income tax benefit		**(8,910)**	391
Income tax benefit	3	**608**	101
(Loss) / profit after income tax benefit		**(8,302)**	492
Other comprehensive income		**-**	-
Total comprehensive (loss) / income for the period		**(8,302)**	492
Total comprehensive (loss) / income attributable to:			
Owners of the parent		**(8,302)**	492
Non-controlling interests		**-**	-
		(8,302)	492
Basic (loss) / earnings per share (cents)	20	**(1.40)**	0.08
Diluted (loss) / earnings per share (cents)	20	**(1.40)**	0.08

These financial statements should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 JULY 2011

	Note	**2011 $'000**	2010 $'000
ASSETS			
Cash and cash equivalents	5	**1,268**	883
Trade and other receivables	6	**6,869**	6,504
Current tax assets	7	**-**	436
Investments in securities	8	**26,334**	39,179
Inventories	9	**5,252**	6,773
Prepayments	10	**113**	312
Property, plant & equipment	11	**17,997**	17,864
Investments accounted for using the equity method	12	**50,063**	44,974
Other long term receivables	13	**1,197**	635
Deferred tax assets	14	**9,045**	7,057
TOTAL ASSETS		**118,138**	124,617
LIABILITIES			
Trade and other payables	15	**6,280**	5,918
Employee provisions	16	**631**	496
Deferred tax liabilities	17	**5,270**	3,945
TOTAL LIABILITIES		**12,181**	10,359
NET ASSETS		**105,957**	114,258
SHAREHOLDERS' EQUITY			
Issued capital	18	**144,909**	144,908
Reserves	21	**63**	63
Accumulated losses		**(30,015)**	(30,713)
TOTAL EQUITY		**105,957**	114,258

These financial statements should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 JULY 2011

	Share Capital $'000	Reserves $'000	Accumulated Losses $'000	Total Equity $'000
Total equity at 1 August 2009	**144,928**	**54**	**(31,205)**	**113,777**
Issue of shares, net of cost	(20)	-	-	(20)
Change in controlled entities equity	-	9	-	9
Total comprehensive income for the year	-	-	492	492
Total equity at 31 July 2010	**144,908**	**63**	**(30,713)**	**114,258**
Total equity at 1 August 2010	**144,908**	**63**	**(30,713)**	**114,258**
Issue of shares, net of cost	1	-	-	1
Total comprehensive loss for the year	-	-	(8,302)	(8,302)
Total equity at 31 July 2011	**144,908**	**63**	**(30,713)**	**114,258**

These financial statements should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 JULY 2011

	Note	**2011 $'000**	2010 $'000
Cash flows from operating activities			
Receipts from customers		**29,422**	26,813
Payments to suppliers and employees		**(38,076)**	(36,478)
Proceeds from sale of listed investments		**8,294**	1,912
Purchase of listed investments		**-**	(82)
Dividends and distributions received		**1,701**	1,761
Income tax refunded		**381**	308
Finance costs		**(24)**	(14)
Interest received		**205**	168
Net cash (outflow) / inflow from operating activities	19(a)	**1,903**	(5,612)
Cash flows from investing activities			
Payments for associated entities		**(90)**	(2,023)
Dividends received from associated entities		**1,770**	3,241
Payments for property, plant and equipment		**(2,637)**	(1,022)
Proceeds from sale of associate entities		**-**	935
Proceeds from sale of unlisted investments		**-**	1,653
Loans to other entities		**(662)**	(535)
Loans repaid from other entities		**100**	1,300
Net cash inflow / (outflow) from investing activities		**(1,519)**	3,549
Cash flows from financing activities			
Controlled entities issue of shares net of costs		**1**	(20)
Net cash inflow / (outflow) from financing activities		**1**	(20)
Net increase / (decrease) in cash held		**385**	(2,083)
Cash and cash equivalents at the beginning of the period		**883**	2,966
Cash and cash equivalents at the end of the period		**1,268**	883

These financial statements should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This financial report is a general purpose financial report 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 covers the consolidated entity of Souls Private Equity Limited and controlled entities. Souls Private Equity Limited is a listed public company, incorporated and domiciled in Australia.

The financial report of Souls Private Equity Limited and controlled entities complies with all Australian equivalents to International Financial Reporting Standards (AIFRS) in their entirety. Compliance with AIFRS ensures the financial report also complies with International Financial Reporting Standards ("IFRS") in their entirety.

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

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Group.

Management anticipates that all of the relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Group's financial statements is provided below.

Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Group's financial statements.

IFRS 9 / AASB 9 Financial Instruments (effective from 1 January 2013)

The IASB aims to replace IAS 39 (AASB 139) Financial Instruments: Recognition and Measurement in its entirety. The replacement standard (AASB 9) is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning 1 January 2013. Further chapters dealing with impairment methodology and hedge accounting are still being developed.

Management have yet to assess the impact that this amendment is likely to have on the financial statements of the Group. However, they do not expect to implement the amendments until all chapters of AASB 9 have been published and they can comprehensively assess the impact of all changes.

AASB 10 Consolidated Financial Statements

AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 Consolidated and Separate Financial Statements dealing with the accounting for consolidated financial statements and SIC-12 *Consolidation – Special Purpose Entities*. The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control. This may lead to more entities being consolidated into the group.

Management have yet to assess the impact that this amendment is likely to have on the financial statements of the Group.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2011 (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

AASB 11 Joint Arrangements

AASB 11 replaces AASB 131 Interests in Joint Ventures and SIC-13 Jointly- controlled Entities – Non-monetary Contributions by Ventures. AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition AASB 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets is accounted for using the equity method. This may result in a change in the accounting for any joint arrangements held by the Group.

AASB 12 Disclosure of Interests in Other Entities

AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structures entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.

Basis of Preparation

Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs (except where stated at (c) below) modified by the revaluation of selected non-current assets, and financial assets and financial liabilities for which the fair value basis of accounting has been applied.

<u>Accounting Policies</u>

(a) Principles of consolidation

The consolidated financial statements include the financial statements of Souls Private Equity Limited ("the Company"), being the parent entity, and its controlled entities. All inter-company balances and transactions between entities in the consolidated financial statements have been eliminated.

Where controlled entities are acquired or sold during the year, their results are included only from the date control was obtained or lost.

Business combinations

Business combinations occur where an acquirer obtains control over one or more businesses and results in the consolidation of its assets and liabilities.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The acquisition method requires that for each business combination one of the combining entities must be identified as the acquirer (i.e. parent entity). The business combination will be accounted for as at the acquisition date, which is the date that control over the acquiree is obtained by the parent entity. At this date, the parent shall recognise, in the consolidated accounts, and subject to certain limited exceptions, the fair value of the identifiable assets acquired and liabilities assumed. In addition, contingent liabilities of the acquiree will be recognised where a present obligation has been incurred and its fair value can be reliably measured.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2011 (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Principles of consolidation (continued)

The acquisition may result in the recognition of goodwill or a gain from a bargain purchase. The method adopted for the measurement of goodwill will impact on the measurement of any non-controlling interest to be recognised in the acquiree where less than 100% ownership interest is held in the acquiree.

The acquisition date fair value of the consideration transferred for a business combination plus the acquisition date fair value of any previously held equity interest shall form the cost of the investment in the separate financial statements. Consideration may comprise the sum of the assets transferred by the acquirer, liabilities incurred by the acquirer to the former owners of the acquiree and the equity interests issued by the acquirer.

Fair value uplifts in the value of pre-existing equity holdings are taken to the statement of comprehensive income. Where changes in the value of such equity holdings had previously been recognised in other comprehensive income, such amounts are recycled to profit or loss.

Included in the measurement of consideration transferred is any asset or liability resulting from a contingent consideration arrangement. Any obligation incurred relating to contingent consideration is classified as either a financial liability or equity instrument, depending upon the nature of the arrangement. Rights to refunds of consideration previously paid are recognised as a receivable. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or a liability is remeasured each reporting period to fair value through the statement of comprehensive income unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to the business combination are expensed to the statement of comprehensive income.

(b) Financial instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified ‘at fair value through profit or loss’, in which case transaction costs are expensed to profit or loss immediately.

Classification and subsequent measurement

Finance instruments are subsequently measured at either of fair value, amortised cost using the effective interest rate method, or cost. *Fair value* represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as:

a. the amount at which the financial asset or financial liability is measured at initial recognition;
b. less principal repayments;
c. plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the *effective interest method*; and
d. less any reduction for impairment.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2011 (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial instruments (continued)

The *effective interest method* is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

The consolidated entity does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of accounting standards specifically applicable to financial instruments.

(i) Financial assets at fair value through profit or loss

Financial assets are classified at 'fair value through profit or loss' when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a consolidated entity of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Loans and receivables are included in current assets, except for those which are not expected to mature within 12 months after the end of the reporting period. (All other loans and receivables are classified as non-current assets.)

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the consolidated entity's intention to hold these investments to maturity. They are subsequently measured at amortised cost.

Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period. (All other investments are classified as current assets.)

If during the period the consolidated entity sold or reclassified more than an insignificant amount of the held-to-maturity investments before maturity, the entire held-to-maturity investments category would be tainted and reclassified as available-for-sale.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

Available-for-sale financial assets are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period. (All other financial assets are classified as current assets.)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2011 (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial instruments (continued)

(v) Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

Fair value

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

Impairment

At each reporting date, the consolidated entity assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant and prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the statement of comprehensive income.

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 entity 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 expired. 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 profit or loss.

(c) Investments and other financial assets

Listed Shares Held for Sale

Investments comprising a portfolio of ASX listed securities and other securities acquired solely for trading purposes are initially recorded at cost and revalued to market value at each reporting date. The market value of listed equity securities is determined by reference to the bid price of the security, as quoted on its primary stock exchange on the day of valuation. Realised gains and losses on disposal and unrealised market value adjustments are reflected in the income statement. The assets are classified as "fair value through profit or loss" or "held-for-trading".

Investments in Associates

Investments in associate companies are recognised in the financial statements by applying the equity method of accounting. The associate is an entity in which the Company has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Company's share of net assets of the associate. After application of the equity method, the Company determines whether it is necessary to recognise any additional impairment loss with respect to the Company's net investment in the associate. The consolidated income statement reflects the Company's share of the results of the operations of the associate.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2011 (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Investments and other financial assets (continued)

Investments in Controlled Entities

Investments in controlled entities are initially recognised in the financial statements at cost. Subsequent to initial recognition they are carried at the lower of cost and recoverable amount.

Other Investments

Unlisted investments are classified as “available-for-sale” and carried at fair value. The carrying amount is reviewed annually by Directors to ensure it is not in excess of the recoverable amount of these investments. Fair value is assessed from the underlying net assets or Directors valuations. Changes in fair value are recognised directly in equity. Impairment losses are recognised in the statement of comprehensive income.

The consolidated entity holds no financial assets classified as “held-to-maturity”. For information on loans and receivables, refer to Note 1 (l).

(d) Taxes

Income Tax

Current tax for the year is calculated on profit from ordinary activities adjusted for non-assessable and non-deductible items and is based on tax rates and tax laws that have been enacted or substantively enacted, at the reporting date.

Deferred tax is accounted for using the comprehensive balance sheet liability method whereby deferred tax assets and liabilities are recognised on all temporary differences arising from differences between the carrying amounts of assets and liabilities in the financial statements and their corresponding tax base. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of transaction affects neither accounting nor taxable profit or loss.

Deferred tax relates to the movement in the net deferred tax asset/liability for the year and is recognised as an expense or revenue in profit from ordinary activities, unless the deferred tax relates to an amount that is credited or debited directly to equity, in which case the deferred tax is also recognised in equity.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset or liability is recovered or settled.

Deferred tax assets are recognised for deductible temporary differences, unused tax losses and unused tax credits only if it is probable that future taxable amounts will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Souls Private Equity Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. Each entity in the consolidated entity recognises its own current and deferred tax liabilities, except for any deferred tax liabilities resulting from unused tax losses and tax credits, which are immediately assumed by the parent entity. The current tax asset or liability of each group entity is then subsequently assumed by the parent entity. Total current tax assets and total current tax liabilities of the parent entity and each group entity are offset for presentation purposes. The Group has notified the Australian Tax Office that it has formed an income tax consolidated group to apply from 1 August 2007. The tax consolidated group has entered a tax sharing agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2011 (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except:

i) where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

ii) receivables and payables are stated with the amount of GST included.

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

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

(f) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of weighted average costs.

(g) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable any accumulated depreciation and impairment losses.

Property

Freehold land and buildings are measured on the cost basis. Costs include expenditure which is directly attributable to the acquisition of the land and development of the buildings. Land is not subject to depreciation. Buildings are depreciated over their estimated useful lives.

Plant and equipment

Plant and equipment are carried at cost. All assets are depreciated over their useful lives to the consolidated entity.

Depreciation

All assets excluding freehold land are depreciated on a straight line basis over their useful lives to the consolidated entity. The following rates are used for each class of property, plant and equipment:

Buildings	2.5%	-	4.0%
Plant, machinery and motor vehicles	5%	-	30%
Office equipment, furniture and fittings	10%	-	25%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Gains and losses

Gains and losses on disposal are determined by comparing proceeds with the carrying amount. These gains and losses are included in the Statement of Comprehensive Income.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2011 (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Goodwill

Goodwill on consolidation is initially recorded at the amount by which the purchase price for an ownership interest in a controlled entity exceeds the fair value attributed to its net assets at the date of acquisition.

Goodwill on consolidation is not amortised under AASB 3 “Business Combinations”. Instead, an impairment test is carried out each year in accordance with AASB 136 “Impairment of Assets”.

(i) Impairment of non-financial assets

At each reporting date, the consolidated entity reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the assets, being the higher of the assets 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.

Impairment testing is performed annually for goodwill. Where it is not possible to estimate the recoverable amount of an individual asset, the consolidated entity estimates the recoverable amount of the cash generating unit to which it belongs.

(j) Employee benefits

Provision is made for the consolidated entity’s liability for employee benefits arising from services rendered by employees to reporting date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. Discount rates approximate market yields on national government bonds with terms to maturity that match the expected timing of cash flows.

(k) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

<u>Sale of Investments</u>

Control of the right to equity has passed to the buyer.

<u>Sales Revenue</u>

Revenue from the sale of goods is recognised upon the delivery of goods to customers.

<u>Interest</u>

Control of the right to receive the interest proceeds. Interest from cash on deposit is recognised in accordance with the terms and conditions that apply to the deposit.

<u>Dividend</u>

Control of the right to receive the dividend proceeds. Dividends from listed entities is recognised as income on the date the shares are traded “ex-dividend”. De-merger dividends arising from company de-consolidations are treated as a return of capital and not as a dividend.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2011 (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Receivables

Receivables are recognised at amounts to be received in the future for goods and services rendered, whether or not billed by the consolidated entity. Assets are commonly settled within 30 days for other debtors. Related party receivables are payable at call. No interest is charged on debtors or related party receivables.

Loans with fixed or determinable payments that are not quoted in an active market are stated at amortised cost using the effective interest rate method. These amounts are unsecured.

Collectability of receivables and loans is assessed on a regular basis by considering the payment history of the debtor or the financial status of related parties. Any impairment to receivables is recognised in profit or loss.

(m) Trade creditors and accruals

Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the consolidated entity.

Liabilities are commonly settled:

i) Within 3 days (transaction date + 3 days) for equity purchases; and

ii) Within 30 days for other creditors and accruals.

These amounts are unsecured.

(n) Earnings per share

Basic EPS is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net profit attributable to members, adjusted for:

i) Costs of servicing equity (other than dividends);

ii) The after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and

iii) Other non-discretionary changes in revenues or expenses during the year that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive ordinary shares, adjusted for any bonus element.

(o) Cash and cash equivalents

For purposes of the Statement of cash flows, cash and cash equivalents includes deposits at call with original maturities of three months or less that are readily convertible into known amounts of cash on hand and which are used in the cash management function on a day-to-day basis, net of outstanding bank overdrafts.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2011 (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Issued capital

Issued and paid up capital is recognised at the fair value of the consideration received by the Company. Any transaction costs arising from the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(q) Operating segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the Board of Directors.

Operating segments have been identified based on the information provided to the chief operating decision makers – being the executive management team.

The consolidated entity aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in each of the following respects:

- Nature of the products and services,
- Nature of the production processes,
- Type or class of customer for the products and services,
- Methods used to distribute the products or provide the services, and if applicable,
- Nature of the regulatory environment.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements. Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category for “all other segments”.

(r) Presentation of financial statements

Statement of Financial Position assets and liabilities are presented in order of liquidity. This presentation most accurately reflects the operational cycle of the consolidated entity.

(s) Rounding

The amounts contained in this report and in the half-year financial report have been rounded to the nearest $1,000 (where rounding is applicable) under the option available to the Company under ASIC Class Order 98/100. The Company is an entity to which the Class Order applies.

(t) Comparative figures

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2011 (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Critical accounting estimates and judgements

The preparation of financial report requires the use of certain critical estimates based on historical knowledge and best available current information. This requires the Directors and management to exercise their judgement in the process of applying the Company's accounting policies.

Key estimate –

(i.) Private equity valuation

Private equity investments are regularly valued by the Investment Manager using valuation techniques and guide lines endorsed by the Australian Private Equity & Venture Capital Association Limited (AVCAL) that they deem appropriate to each investment. Valuation techniques may involve methods such as price/earnings analysis or discounted cash flow techniques. All valuation methods require assumptions to be made and the Company is satisfied that those assumptions are realistic and support the carrying value of each investment.

(ii.) Income tax

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. In accordance of AASB 112: Income Taxes deferred tax liabilities have been recognised for Capital Gains Tax on unrealised gains in the investments in associates at the current tax rate of 30%.

As the Company may not dispose of those private equity investments, this tax liability may not be crystallised at the amount disclosed in Note 17. In addition, the tax liability that arises on disposal of those private equity investments may be impacted by changes in tax legislation relating to treatment of capital gains and the rate of taxation applicable to such gains at the time of disposal.

Deferred tax assets have been recognised on temporary differences and unutilised realised and unrealised tax losses to the amount disclosed in Note 14. The level of Deferred Tax Assets recognised is limited to the amount which the Directors believe it is probable they will be utilised by future taxable profits.

(iii.) Impairment of non-financial assets

The consolidated entity assesses impairment at each reporting date by evaluating conditions specific to the consolidated entity that may lead to impairment of non-financial assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

Value-in-use is calculated based on the present value of cash flow projections over a 5-year period plus a terminal value calculation. The cash flows are discounted using a pre tax rate of 13% and annual growth rates of 3%. Where considered appropriate, additional discounts for lack of liquidity may be applied.

There are no other key assumptions or sources of estimation uncertainty that have a risk of causing a material adjustment to the carrying amount of certain assets and liabilities within the next reporting period.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2011 (continued)

2. (LOSS) / PROFIT FOR THE PERIOD

	Note	2011 $'000	2010 $'000
(a) Revenue:			
Sales revenue		**30,674**	27,124
Fully franked dividends - other corporations		**1,622**	1,586
Unfranked dividends - other corporations		**-**	4
Trust distributions		**79**	226
Interest income - third parties		**205**	168
Total revenue		**32,580**	29,108
(b) Other (losses) / gains:			
(Loss)/gain on disposal of listed investments		**(408)**	229
Gain on loss of control of subsidiary		**-**	513
Profit on disposal of fixed assets		**3**	-
Loss on disposal of private equity investment		**-**	(228)
Unrealised (loss)/gain on listed investments held for trading		**(4,143)**	3,704
Impairment loss on plant and equipment of subsidiary	(b)(i)	**(1,166)**	-
Reversal of impairment loss on investment	(b)(ii)	**1,033**	-
Reversal of impairment loss on long term advances and receivables		**-**	935
		(4,681)	5,153
Other income		**20**	-
Total other (losses) / gains		**(4,661)**	5,153

(i) Impairment loss on plant and equipment of subsidiary

On review of the carrying value of the net assets of a 100% owned subsidiary of the Company, Cromford Group Pty Limited, an impairment expense of $1,166,000 has been recorded in the profit and loss account for the year ended 31 July 2011. This impairment has been recognised against the carrying value of Cromford's plant and equipment in the Statement of Financial Position of the consolidated entity.

Recoverable amount is determined by performing a value-in-use calculation based on the present value of cash flow projections over a 5 year period plus a terminal value calculation. Calculations are discounted at a pre tax rate of 13% and annual growth rates of 5% are applied.

(ii) Reversal of impairment loss on investments held for sale

In reviewing the carrying value of investments in associates at the end of the year, an impairment reversal of $1,033,000 was booked due to the uplift in the current valuation of Belaroma Coffee Pty Ltd. The reassessment of future profitability of this business has allowed part of the impairment recognised in the 2009 financial year to be reversed.

Recoverable amount is determined by performing a value-in-use calculation based on the enterprise value of the company. Enterprise value is calculated by applying a multiple of 5.5 to the projected normalised EBITDA for the 2012 year plus the value of property held by the company less net debt. A 25% discount has been applied to the valuation to take into account the lack of liquidity of the shares in Belaroma.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2011 (continued)

2. (LOSS) / PROFIT FOR THE PERIOD (continued)

(c) Expenses:

	2011 $'000	2010 $'000
Cost of sales	**31,724**	25,680
Depreciation	**1,338**	1,495
Directors fees	**204**	204
Management fees	**2,138**	2,143
Professional fees	**218**	350
Administration expenses	**3,283**	3,075
Selling and marketing expenses	**2,729**	2,167
Bad and doubtful debt expense	**907**	-
Total expenses	**42,541**	35,114
Rental expenses on operating leases:		
Minimum lease payments	**233**	121
Total lease payments	**233**	121

Rental expenses are included in Administration expenses above.

3. INCOME TAX BENEFIT

The aggregated amount of income tax benefit attributable to the loss / profit for the year differs from the amounts prima facie payable on losses from ordinary activities. The difference is reconciled as follows:

(a) The components of tax benefit comprise:

	2011 $'000	2010 $'000
Current tax	**55**	189
Deferred tax liability	**1,325**	(1,377)
Deferred tax asset	**(1,988)**	1,339
(Over)/Under provision in prior years	**-**	(252)
	(608)	(101)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2011 (continued)

	2011 $'000	2010 $'000

3. INCOME TAX BENEFIT (continued)

	2011 $'000	2010 $'000
(b) Prima facie tax on (loss) / profit before income tax at 30% (2010: 30%)	**(2,673)**	117
Tax effect amounts:		
- Tax benefit not recognised	**2,730**	1,487
- Franked dividends from other entities	**(487)**	(476)
- Share of profits of associates	**(1,721)**	(377)
- Tax on investments in associates	**1,500**	(596)
- Sundry items	**43**	(4)
- (Over)/Under provision in prior years	**-**	(252)
Income tax benefit attributable to profit / (loss)	**(608)**	(101)
The applicable weighted average effective tax rates are as follows:	**7%**	(26%)

The large fluctuation in average effective tax rate is due to the change in the Group's before tax result which went from profit in 2010 to a loss in 2011.

(c) Tax Losses

Unused tax losses for which no deferred tax asset has been recognised	**62,444**	53,344
Potential tax benefit at 30%	**18,733**	16,003

Refer to Note 1(t) (ii) for more information on recognition of deferred tax assets on unused tax losses.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2011 (continued)

	2011 $'000	2010 $'000

4. DIVIDENDS

Dividends paid during the year

No dividends have been paid or declared for the year ended 31 July 2011 (2010: Nil).

Franking Account Balance

Balance of the franking account after allowing for repayment of the income tax asset shown in the financial statements and receipt of dividends recognised as receivables.

	2011 $'000	2010 $'000
30 % Class C franking credits	**9,002**	7,548

The consolidated amounts include franking credits that would be available to the Company if distributable amounts of subsidiaries were paid as dividends.

5. CASH AND CASH EQUIVALENTS

	2011 $'000	2010 $'000
Cash at bank	**1,264**	879
Cash on hand	**4**	4
	1,268	883

6. TRADE AND OTHER RECEIVABLES

	2011 $'000	2010 $'000
Trade debtors	**6,691**	6,442
Sundry debtors	**178**	62
	6,504	6,504

Refer to Note 27 (e) for ageing analysis of trade debtors.

7. CURRENT TAX BALANCES

	2011 $'000	2010 $'000
Current tax asset	**-**	436

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2011 (continued)

	2011 $'000	2010 $'000
8. INVESTMENTS IN SECURITIES		
Financial assets at fair value through profit and loss classified as held for trading listed securities at fair value:		
- Shares in corporations	**26,334**	39,179
	26,334	39,179

Changes in fair value of financial assets at fair value through profit and loss are recorded in other gains / losses in the statement of comprehensive income. Refer to Note 1 (b) for information on how fair value is determined.

9. INVENTORIES

	2011 $'000	2010 $'000
Finished goods – at cost	**2,842**	4,634
Raw materials – at cost	**2,410**	2,139
	5,252	6,773

10. PREPAYMENTS

	2011 $'000	2010 $'000
Prepayments	**113**	312

11. PROPERTY, PLANT AND EQUIPMENT

	2011 $'000	2010 $'000
Land at cost	**3,867**	3,867
Buildings at cost	**8,633**	8,609
Accumulated depreciation	**(985)**	(621)
	7,648	7,988
Plant, machinery and motor vehicles at cost	**16,022**	13,415
Impairment of asset	**(1,166)**	-
Accumulated depreciation	**(8,540)**	(7,634)
	6,316	5,781
Office equipment, furniture & fittings at cost	**678**	672
Accumulated depreciation	**(512)**	(444)
	166	228
Total	**17,997**	17,864

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2011 (continued)

11. PROPERTY, PLANT AND EQUIPMENT (continued)

Reconciliation of the carrying amounts of each class of asset at the beginning and end of the financial year:

	Land $'000	Buildings $'000	Plant, Machinery & Motor Vehicles $'000	Office Equipment, Furniture & Fittings $'000	Total $'000
Balance at 31 July 2009	887	6,227	10,985	286	18,385
Additions	-	7	939	76	1,022
Disposals	-	-	-	(48)	(48)
Transfers in / (out)	2,980	2,084	(5,064)	-	-
Depreciation expense	-	(330)	(1,079)	(86)	(1,495)
Balance at 31 July 2010	3,867	7,988	5,781	228	17,864
Additions	-	24	2,607	6	2,637
Disposals	-	-	-	-	-
Impairment of assets	-	-	(1,166)	-	(1,166)
Transfers in / (out)	-	-	-	-	-
Depreciation expense	-	(364)	(906)	(68)	(1,338)
Balance at 31 July 2011	**3,867**	**7,648**	**6,316**	**166**	**17,997**

Transfers were made between classes of assets during the previous financial year to more accurately reflect the allocation of assets following the development of Cromford Group Pty Limited's Moss Vale facility.

The disposals during the previous financial year were assets held by Heritage Brands Limited at the date it ceased to be accounted for as a subsidiary.

Impairment of plant, machinery and motor vehicles

On review of the carrying value of the net assets of a 100% owned subsidiary of the Company, Cromford Group Pty Limited, an impairment expense of $1,166,000 has been recorded in the profit and loss account for the year ended 31 July 2011. This impairment has been recognised against the carrying value of Cromford's plant and equipment in the Statement of Financial Position of the consolidated entity.

Recoverable amount is determined by performing a value-in-use calculation based on the present value of cash flow projections over a 5 year period plus a terminal value calculation. Calculations are discounted at a pre tax rate of 13% and annual growth rates of 5% are applied.

Refer to Note 1(t) (iii) for more information on assessment of impairment of assets owned by cash generating units.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2011 (continued)

12. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

Movements during the year in equity accounted investment in associated entities:

2011	Carrying value at 31 Jul 10 $'000	Additions/ (Disposal) $'000	Share of profit/ (loss) $'000	Reversal of Impairment $'000	Dividend received $'000	Dividends- Other class of shares $'000	**Carrying value at 31 Jul 11 $'000**
Pitt Capital Partners Ltd	6,649	-	306	-	(900)	(318)	**5,737**
Specialist Oncology Property Pty Ltd	2,109	-	250	-	(81)	-	**2,278**
Austgrains Pty Ltd	921	-	(56)	-	-	-	**865**
Ampcontrol Pty Ltd	26,235	-	4,644	-	(629)	-	**30,250**
Supercorp Pty Ltd	2,585	90	155	-	-	-	**2,830**
Belaroma Coffee Pty Ltd	2,502	-	310	1,033	(160)	-	**3,685**
InterRISK Australia Pty Ltd	2,975	-	547	-	-	-	**3,522**
Heritage Brands Ltd	998	-	(102)	-	-	-	**896**
Total	**44,974**	**90**	**6,054**	**1,033**	**(1,770)**	**(318)**	**50,063**

2010	Carrying value at 31 Jul 09 $'000	Additions/ (Disposal) $'000	Share of profit/ (loss) $'000	Dividend received $'000	**Carrying value at 31 Jul 10 $'000**
Pitt Capital Partners Limited	9,446	-	(297)	(2,500)	**6,649**
Specialist Oncology Property Pty Ltd	1,834	-	329	(54)	**2,109**
Austgrains Pty Limited	2,532	-	(1,611)	-	**921**
Ampcontrol Pty Ltd	23,756	-	3,166	(687)	**26,235**
Supercorp Pty Ltd	2,426	181	(22)	-	**2,585**
Belaroma Coffee Company Pty Ltd	2,305	-	197	-	**2,502**
InterRISK Australia Pty Ltd	2,637	5	333	-	**2,975**
Heritage Brands Ltd	-	1,835	(837)	-	**998**
Total	**44,936**	**2,021**	**1,258**	**(3,241)**	**44,974**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2011 (continued)

12. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD (continued)

Details of investments in unlisted entities at reporting date was:

Entity	Business	Beneficial Interest % 2011	2010
Pitt Capital Partners Ltd	Corporate Advisory	**25.00**	25.00
Specialist Oncology Property Pty Ltd	Specialist medical services	**26.48**	31.45
Austgrains Pty Ltd	Agricultural supplies	**48.00**	48.00
Ampcontrol Pty Ltd	Electrical engineering	**45.00**	45.00
Supercorp Pty Ltd	Financial services administration	**34.58**	30.21
Belaroma Coffee Pty Ltd	Beverage	**40.00**	40.00
InterRISK Australia Pty Ltd	Insurance Broker	**40.00**	40.00
Heritage Brands Ltd	Hair care and cosmetics distributor	**25.10**	25.10

All entities that are recognised as associates are incorporated in Australia.

	2011 $'000	2010 $'000
Equity accounted profits of associates are broken down as follows:		
Share of associate's profit after income tax	**6,054**	1,258
Less: Share of dividends paid to other class of shares	**(318)**	-
	5,736	1,258
Summarised Presentation of Aggregate Assets, Liabilities and Performance of Associates		
Share of total assets	**107,857**	92,354
Share of total liabilities	**66,645**	54,950
Revenues	**118,161**	95,916

Pitt Capital Partners Limited and Heritage Brands Limited have the same reporting date as the Company. The reporting dates of the other associated entities are:

Specialist Oncology Property Pty Limited	30 June 2011
Austgrains Pty Limited	30 June 2011
Ampcontrol Pty Limited	30 June 2011
Supercorp Pty Limited	30 June 2011
Belaroma Coffee Company Pty Limited	30 June 2011
InterRISK Australia Pty Ltd	30 June 2011

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2011 (continued)

	2011 $'000	2010 $'000
13. OTHER LONG TERM RECEIVABLES		
Loans to associated entities [(i)]	**1,197**	635
Loans to other entities	**11,007**	11,007
Impairment loss on long term advances	**(11,007)**	(11,007)
	1,197	635
Provision for Impairment:		
Balance at 1 August	**11,007**	11,007
Charged to statement of comprehensive income	**-**	-
Balance at 31 July	**11,007**	11,007

As at reporting date all long term receivables past due have been fully impaired.

(i) For details of the additional loans to associated entities refer to Note 24(i) and Note 24(iii).

14. DEFERRED TAX ASSET

	2011 $'000	2010 $'000
The deferred tax asset balance comprises the following timing differences and unused tax losses:		
Share issue costs	**4**	7
Timing differences	**138**	509
Impairment loss on investments	**503**	503
Impairment loss on long term advances and receivables	**317**	317
Prior years income tax losses	**5,721**	5,721
Current year income losses	**2,362**	-
	9,045	7,057

Movements in deferred tax assets	Opening balance	Charged to income / transferred	Closing balance
Consolidated			
Share issue costs	4	3	7
Timing differences	39	470	509
Impairment loss on investments	503	-	503
Impairment loss on long term advances and receivables	605	(288)	317
Prior years income tax losses	7,245	(1,524)	5,721
Balance at 31 July 2010	8,396	(1,339)	7,057
Share issue costs	7	(3)	4
Timing differences	509	(371)	138
Impairment loss on investments	503	-	503
Impairment loss on long term advances and receivables	317	-	317
Prior years income tax losses	5,721	-	5,721
Current year income losses	-	2,362	2,362
Balance at 31 July 2011	**7,057**	**1,988**	**9,045**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2011 (continued)

	2011 $'000	2010 $'000

15. TRADE AND OTHER PAYABLES

Sundry creditors and accruals	**6,280**	5,918

16. EMPLOYEE BENEFITS

Aggregate employee benefits	**631**	496
Analysis of provisions:		
Current	**373**	281
Non current	**258**	215
	631	496

17. DEFERRED TAX LIABILITIES

The deferred tax liability balance comprises the following temporary differences:		
Depreciation	**42**	159
Tax on investments in associates	**5,203**	3,704
Interest receivable & prepayments	**25**	82
	5,270	3,945
Reconciliation:		
Opening balance	**3,945**	5,322
Credit to statement of comprehensive income	**1,325**	(1,377)
Closing balance	**5,270**	3,945

Movements in deferred tax liabilities	Opening balance	Charged to income	Closing balance
Consolidated			
Depreciation	219	(60)	159
Tax on investments in associates	4,299	(595)	3,704
Interest receivable and prepayments	804	(722)	82
Balance at 31 July 2010	5,322	(1,377)	3,945
Consolidated			
Depreciation	159	(117)	42
Tax on investments in associates	3,704	1,499	5,203
Interest receivable and prepayments	82	(57)	25
Balance at 31 July 2011	**3,945**	**1,325**	**5,270**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2011 (continued)

	2011 $'000	2010 $'000
18. ISSUED CAPITAL		
(a) Issued and paid-up capital:		
593,719,107 ordinary shares fully paid (2010: 593,712,636)	**144,909**	144,908

	2011 Number of Shares	2011 $'000	2010 Number of Shares	2010 $'000
(b) Movement in ordinary shares:				
Balance at the beginning of the year	**593,712,636**	**144,908**	593,528,455	144,928
Issued during the year				
- share options exercised ($0.30 per option and $0.20 per option)	**6,471**	**1**	184,181	39
- cost of issue of bonus options		**-**		(59)
Balance at the end of the year	**593,719,107**	**144,909**	593,712,636	144,908

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held, and have no par value.

At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

	2011 Number	2010 Number
(c) Movement in options		
Balance at the beginning of the year	**74,031,284**	73,725,203
Share options exercised	**(6,471)**	(184,181)
Share options expired	**-**	(73,704,493)
Bonus share options issued	**-**	74,194,755
Balance at the end of the year	**74,024,813**	74,031,284

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2011 (continued)

18. ISSUED CAPITAL (continued)

At 31 July 2011, the unissued ordinary shares of the Company under option are as follows:

Listed options: (ASX code: SOEOA)

Grant Date	Date of Expiry	Exercise Price	Number under Option
1 March 2010	2 February 2015	$0.20	74,024,813

During the year ended 31 July 2011: 6,471 ordinary shares of the Company were issued upon the exercise of listed options (SOEOA), each at $0.20. In 2010, 20,710 ordinary shares of the Company were issued upon the exercise of listed options (SOEO), each at $0.30 and 163,471 ordinary shares of the Company were issued upon the exercise of listed options (SOEOA), each at $0.20.

Option holders do not have the right to participate in any share issues of the Company.

There are no unlisted options on issue.

Capital Management

The consolidated entity's objective in managing capital is to continue to provide shareholders with attractive investment returns and ensure that the consolidated entity can fund its operations and continue as a going concern.

The consolidated entity's capital consists of shareholders equity plus net debt. The movement in equity is shown in the consolidated Statement of Changes in Equity. At 31 July 2011 net debt was $ nil (2010: $nil).

There are no externally imposed capital requirements. In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2011 (continued)

19. CASH FLOW RECONCILIATION

(a) Reconciliation of cash flow from operations with profits / (losses) after income tax

	2011 $'000	2010 $'000
Net (loss)/profit after income tax	**(8,302)**	492
Non cash items:		
- Share of net profits of associate accounted for using equity method	**(5,736)**	(1,258)
- Unrealised losses / (gains) on listed investments held for sale	**4,143**	(3,704)
- Loss / (Profit) on disposal of shares	**408**	(229)
- Depreciation	**1,338**	1,495
- Profit on disposal of private equity investment	**-**	228
- Loss of control of subsidiary	**-**	(513)
- Impairment loss on investments	**1,166**	-
- Reversal of Impairment loss on investments	**(1,033)**	-
- Bad and doubtful debts	**907**	-
- Impairment loss on long term advances	**-**	(935)
Change in assets and liabilities, net of the effects of purchase of subsidiaries		
(Increase) in trade and other receivables	**(1,272)**	(3,078)
Decrease in investments in securities	**8,294**	1,830
Decrease / (Increase) in inventories	**1,521**	(2,187)
Decrease / (Increase) in other assets	**199**	(210)
(Increase) / Decrease in deferred tax assets	**(1,988)**	1,339
Increase in trade and other payables	**362**	2,153
Decrease in current tax assets	**436**	350
Increase/ (Decrease) in employee benefits	**135**	(8)
Increase / (Decrease) in deferred tax liabilities	**1,325**	(1,377)
Net cash inflow / (outflow) from operating activities	**1,903**	(5,612)

(b) Acquisition of controlled entities

The Company did not acquire any new controlled entities during the year to 31 July 2011 or during the year to 31 July 2010.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2011 (continued)

19. CASH FLOW RECONCILIATION (continued)

(c) Disposal of controlled entities

2011

i. The Company did not dispose of any controlled entities during the year to 31 July 2011.

2010

ii. As a result of capital raisings by Heritage Brands Limited (Heritage) during the period, Souls Private Equity Limited's shareholding in Heritage was reduced from 50.3% to 47.9% on 1 December 2009 and further reduced to 25.1% from 1 July 2010. From the date of change in shareholding to below 50%, Heritage ceased to be accounted for as a subsidiary of SPEL. Under AASB 3 – Business Combinations, a loss of control is accounted for as a disposal of the subsidiary entity with any gain or loss on disposal recognised in the Statement of Comprehensive Income.

20. EARNINGS PER SHARE

The following reflects the income and share data used in the calculation of basic and diluted earnings per share:

	2011 $'000	2010 $'000
(a) Reconciliation of earnings to net profit or loss		
Net (loss) / profit	**(8,302)**	492
Net loss attributable to non-controlling interest	**-**	-
Earnings used in calculating basic and diluted earnings per share	**(8,302)**	492
(b) Weighted average number of ordinary shares used in the calculation of basic earnings per share	**593,715,653**	593,595,892
Weighted average number of options outstanding [(1)]	**-**	-
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	**593,715,653**	593,595,892
Basic (loss) / earnings per share (cents)	**(1.40)**	0.08
Diluted (loss) / earnings per share (cents)	**(1.40)**	0.08

(1) Effect of dilutive securities

Options on issue at 31 July 2011 and 31 July 2010 are not considered to be potential ordinary shares based on market circumstances during the year and have not been included in the determination of diluted earnings per share.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2011 (continued)

	2011 $'000	2010 $'000
21. RESERVES		
(a) Share Option Reserve		
Share Option Reserve	**63**	63

The share option reserve records items recognised as expenses on valuation of employee share options issued to a previous Director of the Company. These options have expired and were not exercised prior to expiry.

	2011 $'000	2010 $'000
(b) Foreign Currency Translation Reserve		
Foreign Currency Translation Reserve:		
Opening balance	**-**	(9)
Change on loss of control of controlled entity	**-**	9
Closing balance	**-**	-

The foreign currency translation reserve records exchange differences arising on translation of a foreign controlled subsidiary

22. AUDITOR'S REMUNERATION

	2011 $'000	2010 $'000
Remuneration of the auditor of the parent entity for:		
- Auditing and reviewing the financial reports of the parent entity	**94**	93
- Auditing and reviewing the financial reports of controlled entities	**76**	85
- Taxation services	**18**	16
	188	194

23. SUPERANNUATION COMMITMENTS

The Company contributes superannuation payments on behalf of Directors of the consolidated entity in accordance with relevant legislation. Superannuation funds are nominated by the individual Directors and are independent of the Company. Amounts totalling $16,875 (2010:$16,875) were charged to the statement of comprehensive income during the year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2011 (continued)

24. RELATED PARTY TRANSACTIONS

Related parties of the Company fall into the following categories:

(i) Controlled Entities

Transactions between the Company and its controlled entities consist of loans advanced from the Company to its controlled entities.

Controlled entities during the year to 31 July 2011 were:

(i.) PCP Holdings 1 Pty Limited

(ii.) PCP Holdings 2 Pty Limited

(iii.) Cromford Group Pty Limited ("CROMFORD")

(iv.) Food and Beverage Company Limited ("FBC")

(1) CROMFORD

The Company provides unsecured loans to Cromford to fund capital and working capital requirements.

The Company made several additional loans to Cromford totalling $8,680,000 to fund expansion of capacity of the Moss Vale factory and working capital.

Total loan amount due from Cromford to the Company at the end of the reporting year was $17,614,087 (2010: $8,934,117) with no fixed repayment date. Interest accrued on the loan amount during the year was $1,004,476 (2010: $1,383,166). The total interest payable at the end of the year was $2,387,672 (2010: $1,383,196). No repayments were made in 2011 (2010: $nil).

(2) FBC

At 31 July 2010, the written down value of the unsecured loan due from FBC was $3,168,982. Repayment of $98,844 was received from FBC during the year giving a balance on the loan of $3,070,138. No additional loans have been made to FBC during the 2011 financial year.

Advances made by the Company to FBC in prior years were on-loaned to associates and related entities of FBC. Total amount advanced to those entities through FBC in prior years was $11,357,000 of which $11,257,000 was considered non-recoverable and was previously impaired. The balance on these loans of $100,000 was repaid to FBC during 2011. No additional loans have been made by FBC during the 2011 financial year.

No dividends were received from controlled entities during the year (2010: $nil)

(ii) Directors/Officers Related Entities

Persons who were Directors / Officers of Souls Private Equity Limited during the year to 31 July 2011 were:

Directors:	RD Millner
	DJ Fairfull
	DE Wills
	RG Westphal
General Manager:	T Barlow
Company Secretary:	RJ Pillinger

Remuneration paid to Directors during the year only includes remuneration paid by the Company in connection with the management of the Company and controlled entities.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2011 (continued)

24. RELATED PARTY TRANSACTIONS (continued)

(ii) Directors/Officers Related Entities (continued)

Pitt Capital Partners Limited

At the time of the float of the Company in December 2004, Pitt Capital Partners Limited which is 25% owned by the Company and an entity in which Messrs. RD Millner, DJ Fairfull, DE Wills, RG Westphal have an indirect interest, was appointed as investment manager for 10 years. Pitt Capital Partners Limited is responsible for identifying, sourcing, investigating, researching, analysing and evaluating investment opportunities for the Company, including acquisition and disposal of permitted investments, carrying out day-to-day management and reporting functions. The Company pays Pitt Capital Partners Limited a monthly management fee of one twelfth of 1.75% of the net asset value as at the last business day of each month, excluding any unrealised gains or losses arising from revaluation of any private equity investments. Management fee for the year to 31 July 2011 was $2,137,578 (2010: $2,143,423) excluding GST, $nil (2010: $nil) was outstanding at 31 July 2011.

The agreement between Pitt Capital Partners Limited and Souls Funds Management Limited for the provision of general investment management services with respect to listed portfolio investments was terminated in November 2009 following the disposal of Pitt Capital Partners' holding in Souls Funds Management. The indirect interest in Souls Funds Management of Messrs. RD Millner, DJ Fairfull, DE Wills, and RG Westphal ceased from November 2009.

The obligation to pay Souls Funds Management Limited rested with Pitt Capital Partners Limited out of the management fees received from the Company. Following the termination of the agreement with Souls Funds Management, Pitt Capital Partners has assumed responsibility for management of the listed portfolio investments. The management fee charged by Pitt Capital Partners to the Company has been reduced by an amount equal to the fee previously payable to Souls Funds Management for these services.

Dividends of $900,000 were received by the Company from Pitt Capital Partners Limited during the year (2010: $2,500,000).

Corporate and Administrative Services Pty Limited

The Company has appointed Corporate & Administrative Services Pty Limited, an entity in which Messrs. RD Millner, DJ Fairfull, DE Wills, RG Westphal have an indirect interest to provide the Company with administration, company secretarial services and preparation of all financial accounts.

Administration and secretarial fees paid for services provided to the company and its controlled entities for the year to 31 July 2011 were $114,840 (2010: $114,840) excluding GST and are at standard market rates.

No administration fees were owed by the Company to Corporate & Administrative Services Pty Limited at 31 July 2011 (2010: $nil).

(iii) Associate Entities

Associate entities are defined as those entities over which the Company is considered to have significant influence. A list of associate entities is shown in Note 12.

Austgrains Limited

In July 2010 the Company loaned $146,619 to Austgrains Limited. The interest rate on this loan is 5% per annum and the loan was still outstanding at 31 July 2011.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2011 (continued)

25. INTERESTS OF KEY MANAGEMENT PERSONNEL

(a) Key management personnel remuneration information has been included in the Remuneration Report section of the Directors' report.

The totals of remuneration paid to key management personnel during the year are as follows:

	2011 $'000	2010 $'000
Short-term employment benefits	**187,500**	211,500
Post-employment benefits	**16,875**	19,035
Share-based payments	**-**	-
	204,375	230,535

(b) Share and Option Holdings

Aggregate number of listed securities of the Company held by Key Management Personnel or their related entities:

Shares	Balance at 01/08/10	Granted as compensation	Net Change Other	Balance at 31/07/11
2011				
RD Millner	1,725,193	-	-	1,725,193
DJ Fairfull	8,700,001	-	-	8,700,001
DE Wills	423,277	-	200,000	623,277
RG Westphal	370,000	-	-	370,000
T Barlow	20,000	-	-	20,000
R Pillinger	-	-	-	-
Total	11,238,471	-	200,000	11,438,471

Shares	Balance at 01/08/09	Granted as compensation	Net Change Other	Balance at 31/07/10
2010				
RD Millner	1,225,193	-	500,000	1,725,193
DJ Fairfull	8,700,001	-	-	8,700,001
DE Wills	423,277	-	-	423,277
RG Westphal	370,000	-	-	370,000
T Barlow	-	-	-	20,000
R Pillinger	-	-	-	-
A Fairfull	28,000	-	-	-
Total	10,746,471	-	500,000	11,238,471

Key Management Personnel, or their associated entities, being shareholders of the Company are entitled to receive dividends from the Company.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2011 (continued)

25. INTERESTS OF KEY MANAGEMENT PERSONNEL (continued)

(b) Share and Option Holdings (continued)

Aggregate number of listed options of the Company held by Key Management Personnel or their related entities:

Listed Options	Balance at 01/08/10	Granted as compensation	Options Expired	Bonus Options Issued	Balance at 31/07/11
2011					
RD Millner	153,151	-	-	-	**153,151**
DJ Fairfull	1,087,501	-	-	-	**1,087,501**
DE Wills	52,910	-	-	-	**52,910**
RG Westphal	46,250	-	-	-	**46,250**
T Barlow	2,500	-	-	-	**2,500**
R Pillinger	-	-	-	-	**-**
Total	1,342,312	-	-	-	**1,342,312**

Listed Options	Balance at 01/08/09	Granted as compensation	Options Expired	Bonus Options Issued	Balance at 31/07/10
2010					
RD Millner	87,524	-	(87,524)	153,151	153,151
DJ Fairfull	1,037,500	-	(1,037,500)	1,087,501	1,087,501
DE Wills	27,909	-	(27,909)	52,910	52,910
RG Westphal	10,000	-	(10,000)	46,250	46,250
T Barlow	-	-	-	2,500	2,500
R Pillinger	-	-	-	-	-
A Fairfull	-	-	-	3,500	-
Total	1,162,933	-	(1,162,933)	1,345,812	1,342,312

1 - All listed options (ASX code: SOEO) expired on 16 December 2009, bonus options (ASX code: SOEOA) were issued in their place on 1 March 2010. All Key Management Personnel were entitled to receive bonus options based on their shareholdings at the time of issue on the same terms as all other shareholders.

All options are listed securities and can be traded or exercised at any time.

The Company's closing share price at 29 July 2011 was $0.078 per share.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2011 (continued)

26. FINANCIAL REPORTING BY SEGMENTS

The Company has identified its operating segments based on the internal reports that are reviewed and used by the Investment Manager and the Board of Directors (the Chief Operating Decision Makers) in assessing performance of the investment portfolio.

The principal activity of the consolidated entity is investment through the provision of investment capital to Australian companies. The operating segments are identified based on the external revenues generated by each investment and also by the level of control exercised by the company over the investments.

The reportable segments are split between Cromford Group Pty Limited (Cromford), Other SME Investments and Other Investments.

Cromford is involved in the manufacture and distribution of polyethylene film and dampcourse used in building and agricultural industries. It also manufactures extruded pipes for use in the plumbing, construction, drainage and irrigation industries.

Other SME Investments include all associate companies, listed investments in CMA Corporation and CBD Energy Limited and subsidiaries which do not form reportable segments. Other Investments consist of cash and the remainder of the Listed Share Portfolio.

Financial information about each of these segments is reported to the Investment Manager and Board of Directors on a monthly basis.

All revenue of the consolidated entity is generated in Australia and all assets of the group are held within Australia.

The consolidated entity does not have any single customer which accounts for over 10% of the revenue of the group.

Accounting policies and inter-segment transactions

The accounting policies used by the Company in reporting segments are the same as those contained in Note 1 to the accounts.

The following items are not allocated to operating segments as they are not considered part of the core operations of any segment and form part of the reconciliation to net profit or loss:

- Portfolio management fees
- Corporate administration costs
- Taxation expense or deferred tax balances

The following represents profit and loss and asset information for reportable segments for the years ended 31 July 2011 and 31 July 2010.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2011 (continued)

26. FINANCIAL REPORTING BY SEGMENTS (continued)

31 July 2011	Segment			
	Cromford $'000	Other SME Investments $'000	Other Investments $'000	Total $'000
Segment Revenue				
Revenue	30,715	8	1,857	32,580
Segment Results				
Results before non cash items	(5,557)	(17)	1,877	(3,697)
Equity accounted net profits	-	5,736	-	5,736
Unrealised asset revaluation	-	(119)	(4,025)	(4,144)
Inventory write downs	(1,300)	-	-	(1,300)
Reversal of impairment loss on investments	-	1,033	-	1,033
Impairment loss on assets	(1,166)	-	-	(1,166)
Depreciation	(1,338)	-	-	(1,338)
Profit on sale of plant and equipment	3	-	-	3
Loss on disposal of shares	-	-	(408)	(408)
Bad and doubtful debt expense	(907)	-	-	(907)
Segment operating profit / (loss)	(10,265)	6,633	(2,556)	(6,188)
Reconciliation of segment operating profit/(loss) to operating profit before tax				
Management fees				(2,138)
Corporate administration costs				(584)
Operating loss before tax				(8,910)
Assets				
Segment assets	30,696	3,1462	5,188	59,030
Equity accounted investments	-	50,063	-	50,063
Total segment assets	30,696	53,209	25,188	109,093
Reconciliation of segment assets to total assets				
Deferred tax assets				9,045
Total assets				118,138
Liabilities				
Segment liabilities	6,642	135	134	6,911
Reconciliation of segment liabilities to total liabilities				
Deferred tax liabilities				5,270
Total liabilities				12,181

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2011 (continued)

26. FINANCIAL REPORTING BY SEGMENTS (continued)

31 July 2010	Segment			
	Cromford	Other SME Investments	Other Investments	Total
	$'000	$'000	$'000	$'000
Segment Revenue				
Revenue	26,516	629	1,963	29,108
Segment Results				
Results before non cash items	(3,521)	(37)	1,964	(1,594)
Equity accounted net profits	-	1,258	-	1,258
Unrealised asset revaluation	-	(118)	3,822	3,704
Gain on disposal of private equity	-	285	-	285
Reversal of impairment loss on long term receivables	-	935	-	935
Depreciation	(1,485)	(10)	-	(1,495)
Gain on disposal of shares	-	-	229	229
Segment operating profit / (loss)	(5,006)	2,313	6,015	3,322
Reconciliation of segment operating profit				
Management fees				(2,143)
Corporate administration costs				(788)
Operating profit before tax				391
Assets				
Segment assets	31,855	6,018	34,277	72,150
Equity accounted investments	-	44,974	-	44,974
Total segment assets	31,855	50,992	34,277	117,124
Reconciliation of segment assets to total assets				
Current tax assets				436
Deferred tax assets				7,057
Total assets				124,617
Liabilities				
Segment liabilities	6,187	145	82	6,414
Reconciliation of segment liabilities to total liabilities				
Deferred tax liabilities				3,945
Total liabilities				10,359

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2011 (continued)

27. MANAGEMENT OF FINANCIAL RISK

The Company's financial instruments consist of: private equity investments; investments in listed securities; cash; and loans to and from subsidiary and associated companies.

The consolidated entity has other financial instruments of accounts receivable and accounts payable which arise directly from its operations.

The risks associated with the holding of these financial instruments include investment risk, market risk, interest rate risk, foreign currency risk, credit risk and liquidity risk.

(a) Investment Risk

The Company has established a set of Investment Criteria against which all new private equity investments are measured. The Investment Committee reviews all proposals against these criteria before they are presented to the Board.

The final decision on whether to enter into a new private equity investment rests with the Board subject to, among other considerations, meeting investment criteria and extensive due diligence.

Under the Investment Criteria, no single investment is permitted to dominate the portfolio.

Private equity investments considered to be impaired have been written down to fair value.

(b) Market Risk

Market risk is the risk that changes in market prices will affect the fair value of the financial instrument.

The Company is a short to medium term investor in listed shares and is therefore exposed to market risk through the movement of the share prices of the companies in which it is invested.

As the market value of individual companies fluctuates throughout the day, the fair value of the portfolio changes continuously. The change in the fair value of the portfolio is recognised through the statement of comprehensive income. Listed investments represent 22% (2010: 31%) of total assets.

Given the recent fluctuations in listed share prices, a sensitivity level of 25% movement from market prices at 31 July has been applied in the following calculations.

A 25% movement in the market value of each of the companies within the listed investment portfolio would result in a $6.6 million movement (2010: $9.8 million - based on a 25% movement) in the net profit of the Company at 31 July.

The net asset backing before provision for tax on unrealised capital gains would move by 1.1 cents per share at 31 July 2011 (2010: 1.6 cents per share).

The performance of the companies within the listed investment portfolio is monitored by the Investment Committee and the Board as a whole.

The consolidated entity seeks to reduce market risk at the investment portfolio level by ensuring that it is not, in the opinion of the Investment Committee, overly exposed to one consolidated entity or one particular sector of the market.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2011 (continued)

27. MANAGEMENT OF FINANCIAL RISK (continued)

(b) Market Risk (continued)

At 31 July, the spread of listed investments is in the following sectors:

	Amount		% of Total Investment	
	2011 $'000	2010 $'000	**2011 %**	2010 %
Sector				
Banks	**14,168**	15,274	**53.81%**	38.99%
Private Equity Investment	**3,144**	5,916	**11.94%**	15.10%
Telecommunications Services	**2,843**	6,797	**10.80%**	17.35%
Food & Staples Retailing	**2,143**	2,273	**8.14%**	5.80%
Materials	**2,071**	2,006	**7.86%**	5.12%
Food, Beverages & Tobacco	**1,686**	1,719	**6.40%**	4.39%
Diversified Financials	**278**	227	**1.05%**	0.57%
Transportation	**-**	2,034	**-**	5.19%
Retailing	**-**	1,513	**-**	3.86%
Insurance	**-**	803	**-**	2.12%
Media	**-**	590	**-**	1.51%
	26,333	39,179	**100.00%**	100.00%

Securities representing over 5% of the listed investment portfolio at 31 July were:

Company				
Commonwealth Bank of Australia	**9,460**	10,080	**35.92%**	25.73%
Australia & New Zealand Banking Group Ltd	**4,708**	5,194	**17.88%**	13.26%
Telstra Corporation Ltd	**2,843**	6,797	**10.80%**	17.35%
CBD Energy Limited	**2,769**	2,653	**10.52%**	6.77%
Wesfarmers Ltd	**2,143**	2,273	**8.14%**	5.80%
BHP Billiton Ltd	**2,071**	2,006	**7.86%**	5.12%
Coca Cola Amatil Ltd	**1,686**	1,719	**6.40%**	4.39%
CMA Corporation Limited	**375**	3,263	**1.42%**	8.33%
Transurban Group Triple Stapled Sec	**-**	2,034	**-**	5.19%
	26,055	36,019	**98.94%**	91.94%

The relative weightings of the individual securities and relevant market sectors are reviewed at each meeting of the Investment Committee and the Board, and risk can be managed by reducing exposure where necessary. There are no set parameters as to a minimum or maximum amount of the portfolio that can be invested in a single company or sector.

The consolidated entity trades investment transactions through a number of major broking firms with trades evenly placed amongst those firms.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2011 (continued)

27. MANAGEMENT OF FINANCIAL RISK (continued)

(c) Interest Rate Risk

The consolidated entity's exposure to interest rate risk, which is the risk that a financial instrument value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

	Weighted Average Interest Rate %	Variable Interest Rate $'000	Variable Interest Rates Maturing Within 1 Year $'000	Within 1-5 Years $'000	Non-Interest Bearing $'000	Total $'000
2011						
Financial Assets						
Cash	4.75	1,268	-	-	-	1,268
Investments in securities	-	-	-	-	26,334	26,334
Receivables	-	-	-	-	6,869	6,869
Long term advances	11.12	-	172	1,025	-	1,197
		1,268	172	1,025	33,203	35,668
Financial Liabilities						
Payables	-	-	-	-	6,280	6,280
		-	-	-	6,280	6,280
2010						
Financial Assets						
Cash	4.40	883	-	-	-	883
Investments in securities	-	-	-	-	39,179	39,179
Current tax asset	-	-	-	-	436	436
Receivables	-	-	-	-	6,504	6,504
Long term advances	10.61	-	147	488	-	635
		883	147	488	46,119	47,637
Financial Liabilities						
Payables	-	-	-	-	5,918	5,918
		-	-	-	5,918	5,918

Interest rate risk arises only on liquid assets of cash and notes. The variable interest rates earned on these are reviewed regularly and due to their liquid nature, assets can be transferred if they are considered to be exposed to excessive interest rate risk.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2011 (continued)

27. MANAGEMENT OF FINANCIAL RISK (continued)

(c) Interest Rate Risk (continued)

Interest rate Sensitivity Analysis:

The Company has performed a sensitivity analysis relating to its exposure to interest rate risk at reporting date. This sensitivity demonstrates the effect on current year results and equity which could result from a change in this risk.

	2011 $'000	2010 $'000
Change in profit:		
Increase in interest rate by 2%	**4**	2
Decrease in interest rate by 2%	**(4)**	(2)
Change in equity:		
Increase in interest rate by 2%	**4**	2
Decrease in interest rate by 2%	**(4)**	(2)

A 2% change in interest rate is considered to be a feasible movement within a 12 month period given the current uncertain economic situation.

The above interest rate sensitivity analysis has been performed on the assumption that all other variables remain unchanged.

(d) Foreign Currency Risk

The consolidated entity is exposed to fluctuations in foreign currencies arising from the sale and purchase of goods in its controlled entities. These entities regularly review the requirement for foreign currency hedging. At present no foreign currency hedging is in place as foreign currency risk exposure is not considered material.

(e) Credit risk

The risk that a financial loss will occur because counterparty to a financial instrument fails to discharge an obligation is known as credit risk.

The credit risk on the consolidated entity's financial assets is the carrying amount of those assets as disclosed in the statement of financial position and notes to the financial statements. The consolidated entity's principal credit risk exposures arise from cash and outstanding receivables.

Cash is only placed with banks with a minimum rating of 'AA'.

Credit risk from outstanding amounts due from customers is mitigated by policies applied across the consolidated entity stating that:

- All potential customers are rated for credit worthiness taking into account their size, market position and third party credit ratings where available
- Purchase limits are set for all customers based on credit worthiness and outstanding balances are regularly checked against these limits
- Customers that do not meet the consolidated entity's strict credit policies are limited to paying on or prior to delivery of products

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2011 (continued)

27. MANAGEMENT OF FINANCIAL RISK (continued)

(e) Credit Risk (continued)

At 31 July 2011, trade and other receivables (net of provisions) are categorised as follows:

	2011 $'000	2010 $'000
Current	**6,869**	6,504
Overdue – not provided	**-**	-
Total	**6,869**	6,504

Trade terms vary between controlled entity and customer.

The majority of trade terms are between 30 and 60 days. The maximum exposure to credit risk is the carrying value of balances in the statement of financial position.

(f) Liquidity Risk

Liquidity risk is the risk that the Company is unable to meet its financial obligations as they fall due.

The Company has a zero level of gearing and manages liquidity risk by closely monitoring forecast and actual cash flows and matching the maturity profiles of financial assets.

Furthermore, 22% of the assets of the consolidated entity are in the form of readily tradable listed investments which can be sold on-market if necessary.

The table below reflects an undiscounted contractual maturity analysis for financial liabilities and cash flows realisable from financial assets. Actual timing may therefore differ from that disclosed.

Financial Liability and Financial Asset Maturity Analysis

	Within 1 Year		**1 to 5 Years**		**Over 5 Years**		**Total**	
Consolidated Group	**2011 $'000**	2010 $'000	**2011 $'000**	2010 $'000	**2011 $'000**	2010 $'000	**2011 $'000**	2010 $'000
Financial liabilities due for payment								
Trade and other payables	**6,280**	5,918	**-**	-	**-**	-	**6,280**	5,918
Total expected outflows	**6,280**	5,918	**-**	-	**-**	-	**6,280**	5,918
Financial assets — cash flows realisable								
Cash and cash equivalents	**1,268**	883	**-**	-	**-**	-	**1,268**	883
Trade, term and loans receivables	**6,869**	6,504	**-**	-	**-**	-	**6,869**	6,504
Held for trading investments	**26,334**	39,179	**-**	-	**-**	-	**26,334**	39,179
Other long term receivables	**172**	-	**1,025**	635	**-**	-	**1,197**	635
Total anticipated inflows	**34,643**	46,566	**1,025**	635	**-**	-	**35,668**	47,201
Net inflow on financial instruments	**28,363**	40,648	**1,025**	635	**-**	-	**29,388**	41,283

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2011 (continued)

27. MANAGEMENT OF FINANCIAL RISK (continued)

(g) Net Fair Values

The carrying amounts of financial instruments in the statement of financial position approximate their net fair value determined in accordance with the accounting policies disclosed in note 1 to the accounts.

Financial Instruments Measured at Fair Value

The financial instruments 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 used in making the measurements. The fair value hierarchy consists of the following levels:

- quoted prices in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

2011	Level 1 $'000	Level 2 $'000	Level 3 $'000	Level 4 $'000
At 31 July 2010, Financial Instruments Measured at Fair Value are categorised as follows:				
Financial assets:				
Financial assets at fair value through profit or loss:				
Investments - held for trading	26,334	-	-	26,334
2010				
Financial assets:				
Financial assets at fair value through profit or loss:				
Investments - held for trading	39,179	-	-	39,179

Included within Level 1 of the hierarchy are listed investments. The fair values of these financial assets have been based on the closing quoted bid prices at reporting date, excluding transaction costs.

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 have been adopted to determine the fair values of these investments.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2011 (continued)

	2011 $'000	2010 $'000

28. LEASE COMMITMENTS

Operating Lease Commitments

Non-cancellable operating leases contracted for but not capitalised in the financial statements

	2011 $'000	2010 $'000
Payable - minimum lease payments		
- not later than 12 months	**282**	280
- between 12 months and 5 years	**275**	262
	557	542

Operating leases are for office and warehouse equipment. Each individual lease is separately contracted and are for periods ranging from 12 months to 30 months. Renewals for leases may be negotiated at the end of the contracted periods.

The consolidated entity has no capital commitments at 31 July 2011 (2010: Nil).

29. PARENT COMPANY INFORMATION

	2011 $'000	2010 $'000
Information relating to the parent entity of the Group, Souls Private Equity Limited:		
Total assets	**91,043**	123,271
Total liabilities	**879**	141
Net assets	**90,164**	123,130
Issued capital	**144,909**	144,908
Reserves	**(54,745)**	(21,778)
Total shareholders' equity	**90,164**	123,130
(Loss) / Profit for the year	**(32,967)**	7,548
Other comprehensive income	**-**	-
Total comprehensive (loss) / income	**(32,967)**	7,548

The total comprehensive loss for the year includes an impairment of the parent entity's investment in Cromford of $32,151,000 to bring the investment down to the net asset value of Cromford as determined following the impairment review. This impairment is reflected in the parent entity only and does not impact the financial results of the Group.

Contingent Liabilities

The Company acts as guarantor (on a Joint and Several basis with one other party) over the Trade Finance Facility of Austgrains Pty Limited. The amount of the guarantee is limited to $6,000,000. Austgrains Pty Limited uses the funds from the facility to purchase grain. At 31 July 2011 this facility has been drawn down in excess of $6,000,000, however, all covenants had been complied with at that time.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2011 (continued)

29. PARENT COMPANY INFORMATION (continued)

Contingent Assets

There are no contingent assets at 31 July 2011.

Contractual Commitments

There are no contractual commitments at 31 July 2011.

Controlled entities at year end:

	County of incorporation	Date of acquisition	Percentage Owned 2011 %	2010 %
PCP Holdings 1 Pty Limited	Australia	10 December 2004	100.00	100.00
PCP Holdings 2 Pty Limited	Australia	10 December 2004	100.00	100.00
Cromford Group Pty Limited	Australia	28 February 2005	100.00	100.00
Food and Beverage Company Limited	Australia	1 December 2006	100.00	100.00

The operating results and cash flows of all controlled entities from the date of acquisition have been included in the Statement of comprehensive income and Statement of cash flows. Assets and liabilities of all controlled entities have been included in the Statement of financial position.

The main activity of:

- Both PCP Holdings 1 Pty Limited and PCP Holdings 2 Pty Limited are that of investment companies each holding 12.5% equity interest in Pitt Capital Partners Limited.
- Cromford Group Pty Limited is the manufacture and distribution of polyethylene film and dampcourse used in the building and agricultural industries. It also manufactures extruded pipes for use in the plumbing, construction, drainage and irrigation industries.
- Food and Beverage Company Limited is as a caterer in food and beverage businesses with investments in Krispy Kreme Australia and Belaroma Coffee.

30. EVENTS SUBSEQUENT TO REPORTING DATE

On 19 September 2011, the Company received a non-binding and indicative proposal from Washington H. Soul Pattinson and Company Limited (WHSP) which could lead to a formal offer being made to acquire all the outstanding shares in SPEL not held by WHSP. Mr Graeme Crampton and Mr Ross Strang were appointed as independent Directors on 19 September to form a sub-committee for the purpose of assessing any formal offer that may be received.

Loans to Controlled Entities

From 31 July 2011 to the date of this report additional investments of $2,223,000, by way of loans, were provided by the Company to Cromford Group Pty Limited.

Other than above, there has been no event of which the Directors are aware which has had a material effect on the consolidated entity or its financial position.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2011 (continued)

31. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Contingent Liabilities

The Company acts as guarantor over the Trade Finance Facility of Austgrains Pty Limited (on a Joint and Several basis with another shareholder of Austgrains). The amount of the guarantee is limited to $6,000,000. Austgrains Pty Limited uses the funds from the facility to purchase grain. At 31 July 2011 this facility has been drawn down in excess of $6,000,000, however, all covenants had been complied with at that time.

Contingent Assets

There are no contingent assets at 31 July 2011.

32. AUTHORISATION

The financial report was authorised for issue on 13 October 2011 by the Board of Directors.

Directors' Declaration

The Directors of the Company declare that:

1. the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001* and:

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

   (b) comply with International Financial Reporting Standards, as stated in note 1 to the financial statements

   (c) give a true and fair view of the financial position as at 31 July 2011 and of the performance for the year ended on that date of the consolidated entity;

2. 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.

3. this declaration has been made after receiving the declaration required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 from the General Manager and Company Secretary for the financial year ending 31 July 2011.

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

Robert D Millner

Director

Sydney

13 October 2011

Auditor's Independence Declaration

GrantThornton

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Auditor's Independence Declaration
To the Directors of Souls Private Equity Pty Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Souls Private Equity Pty Limited for the year ended 31 July 2011, 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.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

A G Rigele
Director - Audit & Assurance

Sydney, 13 October 2011

Independent Audit Report

GrantThornton

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Independent Auditor's Report
To the Members of Souls Private Equity Pty Limited

Report on the financial report

We have audited the accompanying financial report of Souls Private Equity Pty Limited (the "Company"), which comprises the consolidated statement of financial position as at 31 July 2011, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors responsibility for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view of the financial report in accordance with Australian Accounting Standards and the Corporations Act 2001. This responsibility includes such internal controls as the Directors determine are necessary to enable the preparation of the financial report to be free from material misstatement, whether due to fraud or error. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards which require us to 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.

Independent Audit Report

Grant Thornton

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 Company'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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

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

Independence

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

Auditor's opinion

In our opinion:

a the financial report of Souls Private Equity Pty Limited is in accordance with the Corporations Act 2001, including:

  i giving a true and fair view of the consolidated entity's financial position as at 31 July 2011 and of its performance for the year ended on that date; and

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

b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

Report on the remuneration report

We have audited the remuneration report included in pages 15 to 18 of the directors' report for the year ended 31 July 2011. 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.

Independent Audit Report

Grant Thornton

Auditor's opinion on the remuneration report

In our opinion, the remuneration report of Souls Private Equity Pty Limited for the year ended 31 July 2011, complies with section 300A of the Corporations Act 2001.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

A G Rigele
Director - Audit & Assurance

Sydney, 13 October 2011

ASX Additional Information

Equity Holders

At 26 September 2011, there were 5,173 holders of ordinary shares (SOE) and 5,770 holders of options (SOEOA) in the capital of the Company. These holders were distributed as follow:

No. held	No. of Shareholders	No. of Option holders
1 – 1,000	62	1,008
1,001 – 5,000	349	3,212
5,001 – 10,000	1,013	786
10,001 – 100,000	3,222	700
100,001 and over	527	64
Holding less than a marketable parcel of 3,333 shares / 55,555 options	212	5,655

Votes of Members

Article 17.6 of the Company's Constitution provides:

Subject to this Constitution, the Listing Rules and the rights or restrictions on voting which may attach to or be imposed on any class of Shares:

a) on a show of hands every Member present will have one vote; and

b) on a poll every Member present will have one vote for each fully paid Share held by that member and a fraction of a vote for each partly paid Share, equivalent to the proportion which the amount paid (not credited) is of the total amounts paid and payable (excluding amounts credited) for the Share, ignoring any amounts paid in advance of a call.

ASX Additional Information (continued)

The 20 largest holdings of the Company's shares as at 26 September 2011 are listed below:

Name	Shares Held	%
Washington H. Soul Pattinson & Company Limited	79,339,419	13.36%
Cogent Nominees Pty Limited	67,419,849	11.36%
RBC Dexia Investor Services Australia Nominees Pty Limited <PIPOOLED A/C>	63,798,931	10.75%
HSBC Custody Nominees (Australia) Limited	12,863,491	2.17%
UBS Wealth Management Australia Nominees Pty Ltd	11,474,919	1.93%
Luton Pty Ltd	9,280,246	1.56%
Richvale Pty Limited	8,300,000	1.40%
Mr Alastair Galloway	6,100,000	1.03%
Mr Victor John Plummer	6,000,000	1.01%
Citicorp Nominees Pty Limited	5,903,011	1.00%
Lets Retire Pty Ltd <Neville Super Fund A/C>	5,347,605	0.90%
Beta Gamma Pty Limited	5,000,000	0.84%
EDM Transport Pty Ltd <EDM Super A/C>	4,996,500	0.84%
Farjoy Pty Limited	4,804,132	0.80%
Di Iulio Homes Pty Limited <Di Iulio Super Fund A/C>	4,266,576	0.72%
Gowing Bros Limited	4,235,000	0.71%
Nimpod Pty Ltd	3,500,000	0.59%
Mr Noel Francis	3,330,740	0.56%
Mr Anthony Charles Patrick Cotterell <Ancott A/C>	2,500,000	0.42%
Mt Vincent Paul Godfrey Cotterell <Vincot A/C>	2,300,000	0.39%
Total top 20 security holders	**310,760,419**	**52.34%**
Total number of shares on issue	**593,719,107**	

ASX Additional Information (continued)

The 20 largest holdings of the Company's options as at 26 September 2011 are listed below:

Name	Options Held	%
Farjoy Pty Ltd	11,029,144	14.90%
Washington H. Soul Pattinson & Company Limited	9,917,428	13.40%
Mr Timothy Frank Robertson	1,203,970	1.63%
Luton Pty Ltd	1,097,531	1.48%
EDM Transport Pty Ltd <EDM Super a/c>	1,060,639	1.43%
Richvale Pty Limited	1,037,500	1.40%
Mr Milton Yannis	799,999	1.08%
Jenkvest Pty Ltd	756,850	1.02%
A S Vallner Consulting Pty Ltd	711,914	0.96%
Mr Phillip Thuaux	699,323	0.95%
Lets Retire Pty Ltd <Neville Super Fund A/C>	668,451	0.90%
Mr Christopher James Piggott + Mrs Shirley Janice Piggott	651,250	0.88%
Mr Neville Caughey Davy	636,841	0.86%
Mr Glen Martin Devine	632,753	0.86%
Bimedent Pty Ltd	617,500	0.83%
Nimpod Pty Ltd	564,313	0.76%
Gowing Bros Limited	529,375	0.72%
Mr Steven John McCarthy	500,000	0.68%
Supaette Pty Ltd	500,000	0.68%
Berne No 132 Nominees Pty Ltd	500,000	0.68%
Total top 20 option holders	**34,114,781**	**46.09%**
Total number of options on issue	**74,024,813**	

ASX Additional Information (continued)

Substantial Shareholders

As at 26 September the names and holdings of substantial shareholders as disclosed in a notice received by the Company are:

Substantial Shareholders	No. of Shares	% of Total
Washington H. Soul Pattinson & Company Limited	79,339,419	13.36
Perpetual Limited	55,605,214	9.37
Select Asset Management Limited	55,445,309	9.34

Other Information:

- There is no current on-market buy-back in place.
- There were 10 transactions in listed securities undertaken by the Company and the total brokerage paid or accrued during the year was $37,495.

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Souls Private Equity Limited