

**MERCHANT OPPORTUNITIES FUND**  
**(FORMERLY ENTRUST INVESTMENT FUND)**

**ARSN 111 456 387**

**ANNUAL FINANCIAL REPORT**  
**For the year ended 30 June 2012**

**Merchant Opportunities Fund**  
**ARSN 111 456 387**  
**For the year ended 30 June 2012**

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**Merchant Opportunities Fund**  
**ARSN 111 456 387**  
**Corporate Directory**

**Responsible Entity**

Entrust Funds Management Ltd

**Directors of the Responsible Entity**

Graeme Mark Yukich	-	Executive Chairman
David John Franklyn	-	Managing Director
Andrew Christopher Fry	-	Executive
Bradley William Gordon	-	Executive

**Secretary**

Andrew Christopher Fry

**Registered Office**

Level 17  
140 St Georges Terrace  
PERTH WA 6000

**Auditor of the Fund**

KPMG  
235 St Georges Terrace  
PERTH WA 6000

**Merchant Opportunities Fund**  
**ARSN 111 456 387**  
**Directors' Report**  
**For the year ended 30 June 2012**

The Directors of Entrust Funds Management Limited (ABN 33 106 768 012), the Responsible Entity of Merchant Opportunities Fund (previously Entrust Investment Fund) ("the Fund"), submit their report for the Fund for the year ended 30 June 2012, and the auditor's report thereon.

**DIRECTORS**

The names of the directors of the Responsible Entity in office during the period and until the date of this report are:

*Graeme Mark Yukich – B.Comm, CA, Dip.FP*

Mr Yukich was appointed a director of the Responsible Entity on 22 October 2003. He is managing director of Entrust Private Wealth Management Pty Ltd, previously the parent company of the Responsible Entity. Mr Yukich has extensive experience in the areas of stock broking and financial services and has been advising clients on their financial needs for over 20 years.

*Andrew Christopher Fry – B.Comm, CA*

Mr Fry was appointed a director of the Responsible Entity on 22 October 2003. He is a director and Senior Investment Adviser of Entrust Private Wealth Management Pty Ltd, previously the parent company of the Responsible Entity. Mr Fry has considerable experience in the areas of stock broking and financial services both in a management and investment advisory capacity.

*Bradley William Gordon – SIA (Aff.) Fdn.DFP*

Mr Gordon was appointed a director of the Responsible Entity on 22 October 2003. He is a director and Senior Investment Adviser of Entrust Private Wealth Management Pty Ltd, previously the parent company of the Responsible Entity. Mr Gordon has extensive experience in the financial services industry, in stockbroking, financial planning and trustee services.

*David John Franklyn – B.Econs, Grad.Dip Applied Finance and Investment*

Mr Franklyn was appointed a director of the Responsible Entity on 2 August 2004. Mr Franklyn has extensive experience in the financial services industry, including the analysis and research of companies and has a broad understanding of many industry groups.

The directors were in office from the beginning of the period until the date of this report, unless otherwise stated.

**PRINCIPAL ACTIVITIES**

The principal activity of the Fund during the year was to invest funds in accordance with the provisions of the Fund's Constitution.

The Fund is a diversified managed investment fund, investing in listed and unlisted Australian shares. The Fund holds an investment in the Esplanade Property Fund, a managed investment scheme managed by the same responsible entity.

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**For the year ended 30 June 2012**

There has been no significant change in the nature of this activity during the year, however on 12 April 2012 Merchant Funds Management Pty Ltd was appointed the investment manager of the Fund, and along with this, is now responsible for the day to day management of the Fund.

Merchant Funds Management Pty Ltd is a corporate authorised representative of the company (holder of an Australian Financial Services License).

The appointment of the Investment Manager is for three years, but is capable of being terminated by Entrust Funds Management Limited or Merchant Funds Management Pty Ltd under the terms of the agreement. Entrust Funds Management Limited will maintain a supervisory role during this period (whilst it remains the responsible entity).

The Fund did not have any employees during the year.

## **SCHEME INFORMATION**

Merchant Opportunities Fund is an Australian registered scheme, and was constituted on 18 October 2004. Entrust Funds Management Limited, the Responsible Entity of the Fund, is incorporated and domiciled in Australia. Merchant Funds Management Pty Ltd was appointed the investment manager of the Fund on 12 April 2012, and along with this, is responsible for the day to day management of the Fund.

The registered office of the Responsible Entity is located at Level 17, 140 St Georges Terrace, Perth WA 6000.

## **REVIEW OF RESULTS AND OPERATIONS**

### **Results**

The net operating income of Merchant Opportunities Fund is presented in the Statement of comprehensive income. Net loss before finance costs attributable to unitholders for the year ended 30 June 2012 was \$1,940,597 (2011: profit of \$5,900,844).

### **Distributions**

The distribution to unitholders was 1.5 cents per unit (2011: 2.5 cents per unit) for the year ended 30 June 2012.

### **Indirect cost ratio**

The indirect cost ratio (ICR) is the ratio of the Fund's management costs over the Scheme's average net assets attributable for the year, expressed as a percentage.

Management costs include management fees and other expenses or reimbursements deducted in relation to the Fund, but do not include transactional and operational costs such as brokerage. Management costs are not paid directly by the unitholders of the Fund.

**Merchant Opportunities Fund**  
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**Directors' Report (continued)**  
**For the year ended 30 June 2012**

The ICR for the Fund for the year ended 30 June 2012 is 2.25% (2011: 2.00%)

**UNIT PRICE HISTORY**

The ex-distribution exit prices and the highest and lowest exit prices for Merchant Opportunities Fund are shown below. All exit prices are exclusive of exit fees.

	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
As at 30 June	0.6955	0.8063
Year to 30 June		
High	0.7956	0.8844
Low	0.6509	0.6398

**UNITS ON ISSUE**

17,359,455 units of Merchant Opportunities Fund were on issue at 30 June 2012 (2011: 25,564,054). During the year 691,031 (2011: 720,068) units were issued by the Fund and 8,895,630 units (2011: 5,357,104) were redeemed.

**SCHEME ASSETS**

At 30 June 2012 Merchant Opportunities Fund held assets to a total value of \$12,764,550 (2011: \$21,110,819). The basis for valuation of the assets is disclosed in Note 2 to the financial statements. The Responsible Entity does not hold any units in the Fund as at 30 June 2012.

**FEES PAID TO THE RESPONSIBLE ENTITY AND ASSOCIATES**

The following fees were paid to the Responsible Entity and its associates out of Fund property during the financial year:

Management fee for the financial period paid to the Responsible Entity & Merchant Funds Management Pty Ltd	\$150,556	(2011: \$204,968)
Preparation of Financial Reports	\$16,000	(2011: \$16,125)
Compliance Fees	\$10,250	(2011: \$9,764)
Expenses incurred by the Responsible Entity and reimbursed by the Fund in accordance with the Fund's constitution	\$35	(2011: \$16,975)

The interests in the Scheme held by the Responsible Entity and its associates out of Scheme property at the end of the year are disclosed in Note 14 to the financial statements.

**Merchant Opportunities Fund**  
**ARSN 111 456 387**  
**Directors' Report (continued)**  
**For the year ended 30 June 2012**

**SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS**

Other than the appointment of Merchant Funds Management Pty Ltd as the Investment Manager of the Fund (including being responsible for the day to day management of the Fund) there were no significant changes to the state of affairs of Merchant Opportunities Fund during the year, other than those changes identified in the financial statements for the year ended 30 June 2012.

**LIKELY DEVELOPMENTS AND EXPECTED RESULTS**

The investment strategy of the Fund will be maintained in accordance with the Fund's Constitution and investment objectives.

**ENVIRONMENTAL REGULATION AND PERFORMANCE**

The Fund's operations are not subject to any environmental regulations under Commonwealth, State or Territory legislation.

**INDEMNIFICATION AND INSURANCE OF OFFICERS OR AUDITORS**

The Constitution of the Responsible Entity requires it to indemnify all current and former officers of the Responsible Entity (but not including auditors) out of the property of the Responsible Entity against:

- (a) any liability for costs and expenses which may be incurred by that person in defending civil or criminal proceedings in which judgement is given in that persons favour, or in which the person is acquitted, or in connection with an application in relation to such proceedings in which the court grants relief to the person under the Corporations Act 2001; and
- (b) a liability incurred by the person, as an officer of the Responsible Entity or of a related body corporate, to another person (other than a Responsible Entity or a related body corporate) unless the liability arises out of conduct involving a lack of good faith.

During the financial year, the Responsible Entity paid an insurance premium in respect of a contract insuring each of the officers of the responsible Entity. The amount of the premium is, under the insurance contract, confidential. The liabilities insured include costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Responsible Entity or related body corporates. This insurance premium does not cover auditors.

The Fund has not indemnified or insured officers and auditors.

**EVENTS SUBSEQUENT TO BALANCE DATE**

There have been no events subsequent to balance date which would have a material effect on the Trust's financial statements at 30 June 2012.

**Merchant Opportunities Fund**  
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**Directors' Report (continued)**  
**For the year ended 30 June 2012**

**AUDITOR'S INDEPENDENCE DECLARATION**

The lead auditor's independence declaration is set out on page 7 and forms part of the directors' report for the year ended 30 June 2012.

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



Graeme Yukich  
Director

Perth  
18 September 2012





***Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 200***

To: the directors of Entrust Funds Management Limited, responsible entity of Merchant Opportunities Fund

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2012 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

  
Grant Robinson  
Partner

Perth

18 September 2012

**Merchant Opportunities Fund**  
**ARSN 111 456 387**  
**Statement of comprehensive income**  
**For the year ended 30 June 2012**

	Note	2012 \$	2011 \$
<b>Revenue</b>			
Interest income	7	122,902	115,924
Dividend and distribution income	7	437,025	667,933
Net gain/(loss) on financial instruments through profit and loss	8	(2,198,956)	5,546,212
Commissions		57,948	6,818
<b>Total income</b>		(1,581,081)	6,336,887
<b>Expenses</b>			
Responsible Entity and Fund Manager fees	4(a)	(150,556)	(204,968)
Auditors' remuneration	4(b)	(42,197)	(44,013)
Consultants Fees		(385)	(25,228)
Custodian and administration fees		(55,114)	(49,932)
Compliance fees		(30,500)	(29,054)
Legal Fees		(4,826)	(28,614)
Other expenses		(75,938)	(54,234)
Operating expenses before finance costs		(359,516)	(436,043)
<b>Profit/(Loss) from operating activities</b>		(1,940,597)	5,900,844
<b>Finance costs</b>			
Distribution to unitholders	5(a)	(260,392)	(639,101)
<b>Changes in net assets attributable to unitholders / total comprehensive income/(loss)</b>		(2,200,989)	5,261,743

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

**Merchant Opportunities Fund**  
**ARSN 111 456 387**  
**Statement of financial position**  
**As at 30 June 2012**

	<b>Note</b>	<b>2012</b> \$	<b>2011</b> \$
<b>Assets</b>			
Cash and cash equivalents	11(a)	281,795	3,530,453
Loans and receivables:			
Interest, dividends and other receivables	6	147,250	44,142
Financial assets held at fair value through profit and loss:			
Equity investments and units in listed and unlisted schemes	6	11,835,505	17,536,224
Convertible loan	6	500,000	-
<b>Total assets</b>		12,764,550	21,110,819
<b>Liabilities</b>			
Financial liabilities measured at amortised cost:			
Accrued expenses	6,9	52,385	37,980
Accounts Payable	6	310,763	-
Distribution payable	5(a),6	260,392	639,101
Responsible entity and fund manager fees payable	6	21,154	28,482
<b>Total liabilities (excluding net assets attributable to Unitholders)</b>		644,694	705,563
<b>Net assets attributable to unitholders</b>	10(b)	12,119,856	20,405,256
<b>Represented by:</b>			
Net assets attributable to unitholders at redemption price	10(b)	12,119,856	20,405,256

The above statement of financial position should be read in conjunction with the accompanying notes.

**Merchant Opportunities Fund**  
**ARSN 111 456 387**  
**Statement of changes in equity**  
**For the year ended 30 June 2012**

The Fund's net assets attributable to unitholders are classified as a liability under AASB 132 *Financial Instruments: Presentation*. As such the Fund has no equity, and no items of changes in equity have been presented for the current or comparative year.

**Merchant Opportunities Fund**  
**ARSN 111 456 387**  
**Statement of cash flows**  
**For the year ended 30 June 2012**

	Note	2012 \$	2011 \$
<b>Cash flows from operating activities</b>			
Proceeds from sale of investments		12,301,435	10,926,694
Purchase of investments		(9,017,564)	(4,817,694)
Interest received		100,052	125,480
Dividends and distributions received		405,209	502,679
Receipts from commissions		49,768	-
GST Received/Paid		(4,085)	20,726
Payments to suppliers		(163,485)	(222,832)
Payments to responsible entity and investment manager		(196,476)	(223,985)
<b>Net cash flows from operating activities</b>	11(b)	3,474,854	6,311,068
<b>Cash flows from financing activities</b>			
Cash distributions paid		(101,079)	(4,220)
Proceeds from application monies		18,150	5,000
Payments on redemption of redeemable units	10(b)	(6,640,583)	(4,246,615)
<b>Net cash flows used in financing activities</b>		(6,723,512)	(4,245,835)
Net increase/(decrease) in cash and cash equivalents		(3,248,658)	2,065,233
Cash and cash equivalents at 1 July 2011		3,530,453	1,465,220
<b>Cash and cash equivalents at 30 June 2012</b>	11(a)	281,795	3,530,453

The above statement of cash flow should be read in conjunction with the accompanying notes.

**Merchant Opportunities Fund**  
**ARSN 111 456 387**  
**Notes to the financial statements**  
**For the year ended 30 June 2012**

**Note 1 Reporting Entity**

Merchant Opportunities Fund (the Fund) is an Australian Registered Scheme, and was constituted on 18 October 2004 under the Corporations Act 2001. Entrust Funds Management Limited, the Responsible Entity of the Fund, is incorporated and domiciled in Australia. The registered office of the Responsible Entity is located at Level 17, 140 St Georges Terrace, Perth WA 6000.

Merchant Funds Management Pty Ltd was appointed the Investment Manager of the Fund on 12 April 2012, and along with this, is responsible for the day to day management of the Fund.

The financial report of the Fund is for the year ended 30 June 2012.

**Note 2 Basis of Preparation**

**(a) Statement of compliance**

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The financial report of the Fund complies with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

The financial report was approved by the Board of Directors of the Responsible Entity on 18 September 2012.

**(b) Basis of Measurement**

The financial statements have been prepared on the historical cost basis except for financial instruments at fair value through profit and loss, which are measured at fair value.

**(c) Functional and presentation currency**

These financial statements are presented in Australian dollars, which is the Fund's functional currency.

**(d) Use of estimates and judgements**

The preparation of the financial statement in conformity with IFRS's requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from estimates. Estimates and underlying assumptions are reviewed on an ongoing basis, revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Note 12 and 13 contain information about the estimation of fair values of financial instruments.

**Merchant Opportunities Fund**  
**ARSN 111 456 387**  
**Notes to the financial statements (continued)**  
**For the year ended 30 June 2012**

**Note 2 Basis of Preparation (continued)**

**(e) Changes in accounting policies**

There were no changes in the accounting policies of the Fund during the year.

**Note 3 Significant Accounting Policies**

The accounting policies set out below have been applied to all periods presented in these financial statements. The Fund has not early adopted any accounting standard.

**(a) Financial instruments**

**(i) Classification**

On 1 July 2005 the Fund classified all its listed and unlisted managed investment schemes investments into the fair value through profit or loss category.

Financial assets that are classified as loans and receivables include balances due from brokers and accounts receivable.

Financial liabilities that are measured at amortised cost include balances due to brokers and accounts payable.

**(ii) Recognition**

The Fund recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are recognised using trade date accounting. From this date any gains or losses arising from changes in the fair value of the financial assets or financial liabilities are recorded. Other financial assets and liabilities are recognised on the date they are originated.

**(iii) Measurement**

Financial instruments are measured initially at fair value (transaction price) plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately, while on other financial instruments they are amortised.

**Merchant Opportunities Fund**  
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**Notes to the financial statements (continued)**  
**For the year ended 30 June 2012**

**Note 3 Significant Accounting Policies (continued)**

Subsequent to initial recognition, all instruments classified at fair value through profit and loss are measured at fair value with changes in their fair value recognised in the profit or loss.

Financial assets classified as loans and receivables are carried at amortised cost using the effective interest rate method, less impairment losses (see note 3(a)(v)), if any.

Financial liabilities, other than those at fair value through profit or loss, are measured at amortised cost using the effective interest rate.

Financial liabilities arising from the redeemable units issued by the Fund are carried at the redemption amount representing the investor's right to a residual interest in the Fund's assets, effectively fair value at reporting date.

**(iv) Fair value measurement principles**

The fair value of financial instruments is based on their quoted market prices at the balance sheet date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

If a quoted market price is not available on a recognised stock exchange or from a broker/dealer for non exchange traded financial instruments, the fair value of the instrument is estimated using valuation techniques, including use of recent arms length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow techniques or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Most of the unlisted investments were acquired as part of a capital raising process. As these are investments in seed, start-up or an early stage situation, these investments are valued based on purchase price, which is the price of recent investment activity. Following the relevant investment transaction date, the fair value of unlisted investments are assessed to determine whether changes in circumstances or events would imply a change in investment's fair value.

Investments in other unlisted managed investment schemes are recorded at the exit price or NTA as reported by managers of these schemes.

**(v) Impairment**

Financial assets that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, impairment testing is carried out and an impairment loss is recognised in the statement of comprehensive income as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.



**Merchant Opportunities Fund**  
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**Notes to the financial statements (continued)**  
**For the year ended 30 June 2012**

**Note 3 Significant Accounting Policies (continued)**

**(vi) Derecognition**

The Fund derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset and the transfer qualifies for derecognition in accordance with AASB 139.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

**(b) Convertible Loans**

Convertible loans are hybrid contracts measured at fair value through profit or loss as permitted under AASB 39.

The convertibility feature of the loan which meets the definition of an embedded derivative under AASB 39 is separated from the host contract and is measured at fair value through profit and loss.

**(c) Revenue**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Fund and the revenue can be reliably measured. Specific revenues are recognised as follows:

*Dividend and distribution income*

Dividends and distributions from listed entities are recognised as income on the date the share or unit is quoted ex-dividend or ex-distribution.

In some cases the Fund may receive or choose to receive dividends or distributions in the form of additional shares or units rather than cash. In such cases the Fund recognises the dividend or distribution income for the amount of the cash dividend alternative with the corresponding debit treated as an additional investment.

*Interest income*

Income from interest bearing securities is recognised as the interest accrues using the effective interest rate method.

*Changes in the fair value of assets*

Gains or losses on financial assets at fair value through profit and loss are calculated as the difference between the fair value at sale, or at year end, and the fair value at the previous valuation point. This includes both realised and unrealised gains and losses.

**Merchant Opportunities Fund**  
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**Notes to the financial statements (continued)**  
**For the year ended 30 June 2012**

**Note 3 Significant Accounting Policies (continued)**

**(d) Expenses**

All expenses, including management fees and custodian fees, are recognised in the statement of comprehensive income on an accruals basis.

Included in other operating expenses are legal, advisory and other fees which are broken down in the statement of comprehensive income.

**(e) Cash and cash equivalents**

Cash and cash equivalents, comprise cash at bank and short term deposits with an original maturity of three months or less, are subject to an insignificant risk of changes in value and are held for the purpose of meeting short term cash commitments rather than for investment or other purposes.

**(f) Taxation**

Under the current legislation, the Fund is not subject to income tax provided the unitholders are entitled to the income of the Fund and the Fund fully distributes its taxable income (including assessable realised capital gains).

**(g) Distributions**

In accordance with the Fund's Constitution, the distributable income of the Fund is the amount determined by the Responsible Entity to be appropriate after reviewing the income of the Fund, the investment opportunities available and the market and any other matters that the Responsible Entity believes are relevant. The amounts the Responsible Entity determines in each financial year shall not be less than the net income (as defined in Section 95(1) of the Tax Act) of the Fund for the financial year (excluding any amount included in assessable income under section 160AQT or 6AC of the Tax Act).

Distributable income is calculated and distributed at the end of the financial year and at any other time that the Responsible Entity elects. Realised capital losses are not distributed to unitholders but are retained in the Fund to be offset against any future realised capital gains. If realised capital gains exceed realised capital losses the excess is distributed to unitholders.

**(h) Change in net assets attributable to unitholders**

The amount of the Fund's income for a financial year not distributed to unitholders as determined by the Responsible Entity in accordance with the Fund's Constitution, is transferred to net assets attributable to unitholders. The amount transferred to net assets attributable to unitholders as determined by the Responsible Entity may include amounts of unrealised gains and losses in the fair value of investments, accrued income not yet assessable and expenses provided for or accrued but not yet deductible, net capital losses and tax free or tax deferred income.

**Merchant Opportunities Fund**  
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**Notes to the financial statements (continued)**  
**For the year ended 30 June 2012**

**Note 3 Significant Accounting Policies (continued)**

These items are included in the determination of distributable income in the period for which they are assessable for taxation purposes.

**(i) Unit prices**

Unit prices are determined in accordance with the Fund's Constitution and are calculated as the net portfolio value of the Fund less performance fees accrued and distributions paid divided by the number of units on issue.

**(j) Terms and conditions on units**

Each unit issued confers upon the unitholder an equal interest in the Fund, and is of equal value. A unit does not confer any interest in any particular asset or investment of the Fund. Unitholders have various rights under the Constitution and the Corporations Act 2001, including the right to:

- have their units redeemed;
- receive income distributions;
- attend and vote at meetings of unitholders; and
- participate in the termination and winding up of the Fund.

The rights, obligations and restrictions attached to each unitholder are identical in all respects.

**(k) Goods and services tax**

Expenses incurred by the Fund are recognised net of the amount of GST that can be recovered from the Australian Taxation Office (ATO). Amounts recognised as payables at balance date include the amount of GST payable.

Reduced input tax credits (RITC) recoverable by the Fund from the ATO are recognised as receivables in the statement of financial position. Cash flows are included in the statement of cash flows on a gross basis.

**(l) Significant accounting judgements, estimates and assumptions**

Except for the determination of fair values in the valuation of financial assets at fair value through profit and loss and recoverability of receivables (see note 3(c) (iii)), there are no other significant accounting judgements, estimates or assumptions made by management.

**(m) Redeemable units**

All redeemable units issued by the Fund provide the investors with the right to require redemption for cash and give rise to a financial liability. In accordance with the product disclosure documents the Fund is contractually obliged to redeem units at redemption price, which includes an allowance for transaction costs that would be incurred by the Fund on disposal of its assets required to fund redemptions.

**Merchant Opportunities Fund**  
**ARSN 111 456 387**  
**Notes to the financial statements (continued)**  
**For the year ended 30 June 2012**

**Note 3 Significant Accounting Policies (continued)**

As a result of the transaction cost factor, there will be a difference between the carrying amount of the net assets of the Fund (excluding the unitholders funds classified as a financial liability) and the contractual amount payable to unitholders which is based on redemption price. The adjustments arising from the different unit pricing under Australian Accounting Standard's valuation principles are presented in the statement of financial position as part of the net assets attributable to unitholders.

**(n) Finance costs**

Distributions paid and payable on units are recognised in the Statement of comprehensive income as financial costs and as a liability where not paid. Distributions paid are included in cash flows from financing activities in the statement of cash flows.

**(o) New standards and interpretations not yet adopted**

The following amendment to an accounting standard has been identified as those which may impact the Fund in the period of initial application. They are available for early adoption at 30 June 2012, but have not been applied in preparing this financial report:

- AASB 9 *Financial Instruments* includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 *Financial Instruments: Recognition and Measurement*. AASB 9 will become mandatory for the Scheme's 30 June 2015 financial statements. Retrospective application is generally required, although there are exceptions. The Fund has not yet determined the potential effect of the standard.

AASB 9 deals with recognition, derecognition, classification and measurement of financial assets and financial liabilities. Its requirements represent a significant change from the existing requirements in AASB 139 in respect of financial assets. The standard contains two primary measurement categories for financial assets: at amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminated the existing AASB 139 categories of held to maturity, available for sale and loans and receivables.

For an investment in an equity instrument that is not held for trading, AASB 9 permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognised in other comprehensive income would ever be reclassified to profit or loss. However, dividends on such investments are recognised in profit or loss, rather than other comprehensive income, unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with change in fair value recognised in profit or loss.

**Merchant Opportunities Fund**  
**ARSN 111 456 387**  
**Notes to the financial statements (continued)**  
**For the year ended 30 June 2012**

**Note 3 Significant Accounting Policies (continued)**

**(o) New standards and interpretations not yet adopted (continued)**

AASB 9 requires that the effects of changes in credit risk of liabilities designated as at fair value through profit and loss are presented in other comprehensive income unless such treatment would create or enlarge an accounting mismatch in profit or loss. Other requirements of AASB 9 relating to classification and measurement of financial liabilities are unchanged from AASB 139.

- AASB 10 *Consolidated Financial Statements* includes new requirements to determine whether or not entities that the Fund has an interest in needs to be consolidated. AASB 10 will become mandatory for the Fund's 30 June 2014 financial statements. Retrospective application is required. This will not affect the preparation of the financial statements of the Fund.
- AASB 11 *Joint Arrangements* includes new requirements for the accounting of interests in joint arrangements. AASB 11 will become mandatory for the Fund's 30 June 2014 financial statements. Retrospective application is required. The Fund has not yet determined the potential effect of the standard.
- AASB 12 *Disclosure of Interest in Other Entities* includes significant new disclosures for interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. AASB 12 will become mandatory for the Fund's 30 June 2014 financial statements. Retrospective application is required. The Fund has not yet determined the potential effect of the standard.
- AASB 13 *Fair Value Measurement* includes a definition of fair value and provides guidance on fair value measurement. AASB 13 will become mandatory for the Fund's 30 June 2014 financial statements. This standard is applied prospectively. The Fund has not yet determined the potential effect of the standard.

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**ARSN 111 456 387**  
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	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
<b>Note 4 Expenses</b>		
<b>(a) Responsible Entity and Investment Manager fees</b>		
Management fees	150,556	204,968
Total responsible entity fees	<u>150,556</u>	<u>204,968</u>
<b>(b) Auditor's remuneration</b>		
Audit services: KPMG		
- audit and review of the financial reports	33,257	30,913
- other regulatory audit services	8,940	8,480
Audit services: Moore Stephens		
- other regulatory audit services	-	4,620
	<u>42,197</u>	<u>44,013</u>
<b>Note 5 Distributions Paid and Payable</b>		
<b>(a) Distributions payable</b>		
- for period ended 30 June	260,392	639,101
Total distributions	<u>260,392</u>	<u>639,101</u>
<b>(b) Per unit distribution</b>		
- for period ended 30 June (cents per unit)	1.50	2.50
	<u>1.50</u>	<u>2.50</u>

**Merchant Opportunities Fund**  
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**2012**                      **2011**  
**\$**                              **\$**

**Note 6 Financial assets and liabilities**

The following table details the categories of financial assets and liabilities held by the Fund at reporting date:

**Assets**

*Classified as fair value through the profit and loss upon initial recognition*

-Equity investments	10,427,664	15,899,310
-Managed investment schemes: related entity	1,407,841	1,636,914
-Convertible loan	500,000	-
<b>Total financial assets at fair value through the profit or loss</b>	<b>12,335,505</b>	<b>17,536,224</b>

**Cash and cash equivalents (Note 11a)**

<b>281,795</b>	<b>3,530,453</b>
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**Loans and receivables**

Dividends receivable	63,631	31,816
Interest receivable	22,849	-
Other receivable	56,885	7,500
GST receivable	3,885	4,826
<b>Total loans and receivables</b>	<b>147,250</b>	<b>44,142</b>

**Total assets**

<b>12,764,550</b>	<b>21,110,819</b>
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**Liabilities**

Financial liabilities measured at amortised cost	644,694	705,563
<b>Total liabilities</b>	<b>644,694</b>	<b>705,563</b>

Loans and receivables presented above represents interest, dividends and other receivables as detailed in the statement of financial position.

Financial liabilities measured at amortised cost presented above represents accounts payable, accrued expenses and distributions payable as detailed in the statement of financial position.

**Merchant Opportunities Fund**  
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**Note 7 Interest and dividend income**

The following table details the interest income earned by the Fund during the period:

	2012 \$	2011 \$
Interest income on financial assets:		
-cash and cash equivalents	100,052	115,924
-Convertible loan	22,849	-
<b>Total interest income</b>	<b>122,902</b>	<b>115,924</b>

The following table details the dividend and distribution income earned by the Fund during the period:

	2012 \$	2011 \$
Dividend and distribution income from equity securities and units in listed and unlisted schemes classified as fair value through profit and loss	437,025	667,933
<b>Total dividend and distribution income</b>	<b>437,025</b>	<b>667,933</b>

**Note 8 Gains and losses from financial assets and liabilities**

The following table details the gains and losses from financial assets and liabilities at fair value through the profit and loss:

	2012 \$	2011 \$
Classified as fair value through the profit and loss:		
-Equity investments and listed managed investment scheme.	(2,198,956)	5,546,212
<b>Net gain(loss) from financial assets and liabilities classified as fair value through the profit and loss</b>	<b>(2,198,956)</b>	<b>5,546,212</b>

Gains and losses presented above exclude interest income, dividend income and distribution income.

The following table details the gains and losses from financial assets and liabilities through the profit and loss for the year ended:

	2012 \$	2011 \$
Realised gain/(loss)	(1,159,656)	1,554,812
Unrealised gain/(loss)	(1,039,300)	3,991,400
<b>Net gain/(loss) from financial assets and liabilities classified as fair value through profit or loss</b>	<b>(2,198,956)</b>	<b>5,546,212</b>



**Merchant Opportunities Fund**  
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**Notes to the financial statements (continued)**  
**For the year ended 30 June 2012**

	<b>2012</b>	<b>2011</b>
	\$	\$
<b>Note 9 Accrued expenses</b>		
Audit fees	27,385	25,980
Accounting fees	25,000	12,000
	<u>52,385</u>	<u>37,980</u>

**Note 10 Net Assets Attributable to Unitholders**

**(a) Units on issue**

The Fund's units on issue are represented by fully paid ordinary units.

The Fund considers its capital to be Unitholder's Funds.

The objective of the Fund is to provide unitholders with above average returns over the medium to long term through capital growth and also income through annual distributions. The Fund aims to achieve this through investing in unlisted equities and equities listed on the ASX in line with the investment strategy while maintaining sufficient liquidity to meet Unitholder's redemptions.

The Fund does not have any externally imposed capital requirements.

Units are issued at the unit application price at the end of the month. The unit application price is calculated in accordance with the Fund's constitution.

Units can be redeemed at the end of each month. The redemption price at which the units are redeemed is calculated at the end of the month in accordance with the Fund's constitution. To protect the interests of all Unitholders, no more than 15% of total units on issue may be redeemed in any month, although this restriction can be waived by the Responsible Entity.

Each unitholder is entitled to attend and vote at any meeting convened by the Responsible Entity. Unitholders are entitled to one vote per unit held. Unitholders are entitled to receive all distributions declared and paid by the Fund. Upon winding up the holders are entitled to a return of capital based on the net asset value per share of the Fund.

	<b>2012</b>	<b>2011</b>
	<b>Number</b>	<b>Number</b>
Units on issue as at beginning of reporting period	25,564,054	30,201,090
Units issued during the reporting period	691,031	720,068
Units redeemed or otherwise cancelled during reporting period	(8,895,630)	(5,357,104)
Units on issue as at the end of the reporting period	<u>17,359,455</u>	<u>25,564,054</u>

**Merchant Opportunities Fund**  
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**For the year ended 30 June 2012**

	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
<b>Note 10 Net Assets Attributable to Unitholders (continued)</b>		
<b>(b) Movement in net assets attributable to unitholders</b>		
Net assets attributable to unitholders at beginning of reporting period	20,405,256	18,933,332
Change in net assets attributable to unitholders:		
Profit from operating activities	(1,940,597)	5,900,844
Distribution expense	(260,392)	(639,101)
Units issued during the reporting period	18,150	8,000
Units issued during reporting period (distribution reinvestment)	538,022	448,796
Units redeemed or otherwise cancelled during the reporting period	(6,640,583)	(4,246,615)
Net assets attributable to unitholders at the end of reporting period	<u>12,119,856</u>	<u>20,405,256</u>

**Merchant Opportunities Fund**  
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**For the year ended 30 June 2012**

**2012**                      **2011**  
**\$**                                      **\$**

**Note 11 Cash and Cash Equivalents**

**(a) Cash and cash equivalents**

Cash balance comprises:

- Current deposits with banks	281,795	3,530,453
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**(b) Reconciliation of cash flows from operating activities**

Profit/(Loss) from operating activities	(1,940,597)	5,900,844
<i>Adjustments for:</i>		
Net Changes in financial assets	5,200,719	397,532
<i>Changes in operating assets and liabilities:</i>		
Decrease/(increase) in loans and receivables	(104,049)	1,880
(Decrease)/increase in accrued expenses	14,405	13,730
(Decrease)/increase in trade and other creditors	304,376	(2,918)
<b>Net cash flows from operating activities</b>	<b>3,474,854</b>	<b>6,311,068</b>

**(c) Non-cash operating, financing and investing activities**

Non-cash operating, financing and investing activities carried out during the year on normal commercial terms and conditions included:

Reinvestment of dividend and distribution income	63,631	165,256
Reinvestment of unitholder's distributions (Note 10b)	538,022	448,796

**Merchant Opportunities Fund**  
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**For the year ended 30 June 2012**

**Note 12 Financial instruments and associated risk**

**Investment overview and strategy**

The Responsible Entity maintained its investment approach for this Fund up until 31 December 2011 which consisted of the following investment principles:

- The Fund will aim to hold a concentrated portfolio of between 10 and 40 companies.
- The Responsible Entity seeks companies to invest in that have strong, ethical trustworthy management.
- The Responsible Entity will invest in companies that it has identified as being undervalued by the market.
- The Responsible Entity adopts a medium to long term investment horizon.
- Single investments can only represent more than 10% of the Fund's portfolio if approved by the Investment Committee.

The investment strategy is built around thorough fundamental financial analysis and regular contact with management of companies/managed investment schemes that the Responsible Entity proposes to invest in, and invests in. The objective is to understand the company/managed investment scheme well, to recognise the risk factors and to determine an appropriate valuation of the company/managed investment scheme.

Broadly, the Fund has endeavoured to have approximately 70% of the portfolio in "good value / good quality" small industrial companies, typically with a stable earnings history, strong balance sheet and with a market capitalisation between \$50m and \$1,000m. The remaining 30% of the portfolio is invested in "special situations" – opportunities whereby the RE seeks to become actively involved in unlocking the value in the investment.

As from 1 January 2012, the Responsible Entity determined to modify the investment mandate of this Fund to increase its focus on "special opportunities" and to also seek to increase the Fund's exposure to small and emerging resource sector opportunities. The mandate was also widened to allow more active investment in unlisted securities. From 1 January 2012 until 12 April 2012 the portfolio was adjusted with many of the core long term holdings sold and cash reserves increased.

On 12 April 2012 unitholders in the Fund approved the appointment of Merchant Funds Management as the Investment Manager, with the name of the Fund changed to the Merchant Opportunities Fund (MOF).

The objectives of Merchant Funds Management, the investment manager of the Fund as from 12 April 2012 are:

- To generate an absolute return greater than the prevailing Bank Bill Swap Rate (BBSW) plus a gross margin of 3%.
- To manage the Fund in a disciplined and focused manner with the aim of providing capital growth over the medium to long term.

**Merchant Opportunities Fund**  
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**For the year ended 30 June 2012**

**Note 12 Financial instruments and associated risk (continued)**

- To provide access to investment opportunities to which individual investors may not normally gain access.
- To protect capital during periods of extreme volatility.
- To create a Western Australian based absolute return Fund focused on Australian listed and unlisted equities.

The Guiding Principles of the Investment Manager are similar to those employed by the previous manager with the following exceptions:

- The Fund will hold between 10 and 30 separate investments
- No single investment (apart from cash) can represent over 30% of the Fund's portfolio value unless approved by the Investment Committee.
- The Fund aims to protect capital in periods of extreme volatility through moving to cash or utilising hedging strategies as it sees fit.
- The Fund will seek and execute short term trading opportunities as appropriate and commensurate with the risk weightings of the Funds parameters.

Investments in assets are determined by the Fund Manager in consultation with the Investment Committee ("the Committee") and the board of the Responsible Entity ("Board"). The Investment Committee and the Board meet on a regular basis to discuss potential investments in the Fund, any changes to the weighting of the portfolio and to agree on the strategy going forward. Current market conditions are a focus of the Committee and the Board, with focus on the implications these conditions will have on the Fund. Where the Board and the Committee identify an area of risk the Fund will change its focus or strategy or change the weighting of the portfolio to minimise identified risks.

The Fund invests in securities in accordance with its investment strategy and the Fund Managers' investment criteria.

The impact of the financial risks to which the Fund is exposed are market risk, credit risk and liquidity risk. Each of these are discussed below. Disclosures in regard to these risks are prepared on the basis of the Fund's directly held investments and not on a look through basis.

**Merchant Opportunities Fund**  
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**Notes to the financial statements (continued)**  
**For the year ended 30 June 2012**

**Note 12 Financial instruments and associated risk (continued)**

**Market risk**

Market risk embodies the potential for loss and gains and, in the case of the Fund's is limited to price risk on its investments and interest rate risk on its cash and cash equivalents. The Fund is not exposed to currency risk as it only invests in Australian currency denominated investments.

The Fund's investment strategy is in simple terms to purchase good quality investments at a reasonable price. The Fund's market risk is managed on a daily basis by the Fund Manager and the Investment Manager. Any risks identified by the Fund Manager are discussed with members of the Committee and the Board to determine appropriate action.

This is further enhanced by the Investment Committee which meets at least monthly. The Investment Manager is in regular contact with the Investment Committee members outside the Investment Committee meetings.

The Fund Manager maintains regular contact with the companies and managed investment schemes it invests in to better understand those entities and to assist the manager recognise any risk factors that the investment may be subject to.

Details of the Fund's investment portfolio at the balance sheet date are listed below.

**Interest rate risk**

The majority of the Fund's assets are non-interest bearing. All assets exposed to interest rate fluctuations are short term therefore limiting the exposure of the Fund to interest rate risk. Any excess cash and cash equivalents are invested in regular interest bearing accounts available on call to enable the Fund to act quickly on potential investment opportunities. The Fund does not have any interest bearing financial liabilities.

It is the intention of the Responsible Entity to invest the funds in equity assets not interest bearing assets.

***Interest rate sensitivity***

An increase of 50 basis points in interest rates as at the reporting date would have increased the net assets attributable to unitholders and profit from operating activities of the Fund by \$3,090 (2011:\$17,652). A decrease of 50 basis points would have had an equal but opposite effect.

**Merchant Opportunities Fund**  
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**Notes to the financial statements (continued)**  
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**Note 12 Financial instruments and associated risk (continued)**

**Other price risk**

Other price risk is the risk that value of the instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate or currency risk), whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

As a majority of the Fund's financial instruments are carried at fair value with fair value changes recognised in the Statement of comprehensive income, all changes in market value of investments will directly affect the investment income of the Fund.

Price risk is managed by the Fund Manager by constructing a diversified portfolio of assets traded in differing sectors of the market.

The Fund is permitted to invest in securities quoted on ASX or unlisted securities, cash or interest in cash management trusts, debentures bonds and unsecured notes, derivative and short selling of securities, warrants and options and other financial products as permitted by the Responsible Entity's AFSL.

The following table details the sector breakdown

<b>Total investment assets by industry sector</b>	<b>2012</b>		<b>2011</b>	
	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>
Consumer staples	-	-	1,493,000	8.51
Consumer discretionary	-	-	865,094	4.93
Energy	3,575,092	28.98	-	-
Finance	1,503,288	11.41	9,685,286	55.24
Health care	4,049,754	32.83	3,761,933	21.45
Industrials	1,354,539	10.98	1,636,966	9.33
Materials	1,313,279	10.65	-	-
Information Technology	635,000	5.15	-	-
Telecommunications	-	-	93,945	.54
	<u>12,335,505</u>	<u>100.00</u>	<u>17,536,224</u>	<u>100.00</u>

**Merchant Opportunities Fund**  
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**Notes to the financial statements (continued)**  
**For the year ended 30 June 2012**

**Note 12 Financial instruments and associated risk (continued)**

The following table details the breakdown of the investment assets held by the fund:

	<b>30 June 2012</b>	<b>30 June 2011</b>
<b>Investment assets</b>		
- Listed equity investments	8,982,664	15,899,310
- Unlisted managed investment schemes	2,852,841	1,636,914
- Convertible loan	500,000	-
<b>Total investment assets</b>	<b>12,335,505</b>	<b>17,536,224</b>

*Sensitivity analysis*

The objective of the Fund is to exceed the return of the S&P/ASX Small Ordinaries Accumulation Index over the medium to long term. A 5% increase in this index at 30 June 2012 would have increased the net assets attributable to unitholders and profit from operating activities by \$449,133 (2011: \$794,966). An equal change in the opposite direction would have decreased the net assets attributable to unitholders and reduced the profit from operating activities by an equal amount.

A 5% increase in unlisted managed investment scheme and convertible loan at 30 June 2012 would have increased the net assets attributable to unitholders and profit from operating activities by \$167,642 (2011: \$81,846). An equal change in the opposite direction would have decreased the net assets attributable to unitholders and reduced the profit from operating activities by an equal amount.

**Credit risk**

Credit risk is the risk that counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund, resulting in financial loss to the Fund.

The carrying amounts of financial assets best represent the maximum credit risk exposure at balance sheet date.

At reporting date the Fund's financial assets exposed to credit risk amounted to the following:

	<b>30 June 2012</b>	<b>30 June 2011</b>
Cash and cash equivalents	281,795	3,530,453
Interest, dividends, distributions and other receivables	147,250	44,142
Convertible loan	500,000	-
<b>Total</b>	<b>929,045</b>	<b>3,574,595</b>



**Merchant Opportunities Fund**  
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**Notes to the financial statements (continued)**  
**For the year ended 30 June 2012**

**Note 12 Financial instruments and associated risk (continued)**

Credit risk arising on transactions with brokers relates to transactions awaiting settlement. The Fund uses a range of brokers when entering into equity transactions. As a result should one broker fail to settle transactions the Fund's exposure to this broker is diluted. The Fund uses only brokers that are known to the manager, have a good record in the industry and have a history and reputation for quality service and settling on equity transactions.

Distributions and dividends receivables are only recognised once declared. The credit risk that the Fund is exposed to in respect to unsettled transactions, convertible loan and receivables is considered low.

The convertible loan bears an interest rate of 8% per annum and is repayable on or before 14 May 2013. The Fund may request, in writing, that the Borrower repay the loan by converting the loan into shares at a discount of 18% to the volume weighted average price period as per the loan agreement.

All assets are held by the Fund's custodian, The Trust Company ("Custodian"). Bankruptcy or insolvency by the custodian may cause the Fund's right to securities held by the custodian to be delayed or limited. The Fund monitors the position of the Custodian in terms of its market participant stature on a quarterly basis and National Australia Bank ("Bank") with whom it places its cash with. The credit risk associated with the custodian and the Bank is considered low as the Custodian is owned by a major financial institution. The Responsible Entity monitors the position of the Bank and the custodian through ASX releases and media commentary on a regular basis.

The carrying amounts of financial assets best represent maximum credit risk exposure at the balance sheet date.

**Liquidity risk**

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations arising from its financial liabilities that are settled by delivering cash or another financial asset, or that such obligations will have to be settled in a manner disadvantageous to the Fund.

The Fund provides a monthly redemption facility.

Liquidity risk is managed on a daily basis by the fund manager in respect to trades awaiting settlement, monthly redemption requests and short term liabilities of the Fund. The portfolio of the Fund is updated to reflect purchases and sales of securities.

The Fund's listed securities are considered to be readily realisable as they are all listed on ASX.

The Fund's redemption policy allows for redemptions at the end of the month only. The Fund historically has held a proportion of its assets in cash to ensure it can meet all redemption requests.

**Merchant Opportunities Fund**  
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**Notes to the financial statements (continued)**  
**For the year ended 30 June 2012**

**Note 12 Financial instruments and associated risk (continued)**

Set out below is the contractual maturity profile of the Fund's financial liabilities:

**30 June 2012**

	<b>Contractual cashflows</b>	<b>Less than 1 month</b>	<b>On call</b>
<b>Financial liabilities</b>			
-Accrued expenses	52,385	52,385	-
-Accounts Payable	310,763	310,763	
-Responsible entity and Fund Manager fees payable	21,154	21,154	-
-Net assets attributable to unitholders	12,119,856	-	12,119,856
<b>Total liabilities</b>	<b>12,504,158</b>	<b>384,302</b>	<b>12,119,856</b>

**30 June 2011**

	<b>Contractual cashflows</b>	<b>Less than 1 month</b>	<b>On call</b>
<b>Financial liabilities</b>			
-Accrued expenses	37,980	37,980	-
-Responsible entity fees payable	28,482	28,482	-
-Net assets attributable to unitholders	20,405,256	-	20,405,256
<b>Total liabilities</b>	<b>20,471,718</b>	<b>66,462</b>	<b>20,405,256</b>

The tables above do not include the distribution payable as this is substantially reinvested in units of the Fund, therefore not posing a liquidity risk.

**Operational risk**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Fund's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Fund's operations.

The objective of the Responsible Entity of the Fund is to manage operational risk so as to balance limiting of financial losses and damage to the Fund's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

**Merchant Opportunities Fund**  
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**Notes to the financial statements (continued)**  
**For the year ended 30 June 2012**

**Note 12 Financial instruments and associated risk (continued)**

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the Responsible Entity. This responsibility is supported by the development of overall Fund standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions.
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

**Estimation of fair values**

The major methods and assumptions used in estimating the fair values of financial instruments were disclosed in note 3(a)(iv) of the significant accounting policies.

At 30 June 2012, the carrying amounts of debt and equity investments which fair values were determined directly, in full or in part, by reference to published price quotations amounted to \$12,335,505 (2011: \$17,536,224). Where the securities are unlisted, the pricing is determined by the purchase price which is typically the capital raising price.

**Fair Value measurements recognised in the statement of financial position**

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1 fair value measurements are those instruments valued based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those instruments valued based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

**Merchant Opportunities Fund**  
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**Notes to the financial statements (continued)**  
**For the year ended 30 June 2012**

**Note 12 Financial instruments and associated risk (continued)**

- Level 3 fair value measurements are those instruments valued based on techniques using significant observable inputs. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

<b>30 June 2012</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial assets classified as fair value through profit and loss	8,982,664	1,907,841	1,445,000	12,335,505

<b>30 June 2011</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial assets classified as fair value through profit and loss	15,899,310	1,636,914	Nil	17,536,224

**Reconciliation of level 3 fair value measurements of financial assets**

	Fair value through profit or loss
	\$
1 July 2011	-
Total gains or losses in profit or loss:	-
Purchases	1,445,000
Sales	-
Transfers into Level 3	-
Transfers out of Level 3	-
30 June 2012	1,445,000
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period:	-

No comparative is presented as there are no investments classified as Level 3 during the year ended 30 June 2011.

**Merchant Opportunities Fund**  
**ARSN 111 456 387**  
**Notes to the financial statements (continued)**  
**For the year ended 30 June 2012**

**Note 13 Fair value information**

The Fund's equity investments are carried at bid prices as provided by ASX or in the case of the unlisted investments at either the latest capital raising price or the most recent third party sale price. For other financial instruments, including amounts due to/from brokers, accounts payable and receivable, the carrying amounts approximate fair value due to the immediate or short term nature of these financial instruments.

**Note 14 Related Party Transactions**

**(a) Responsible Entity**

The Responsible Entity of Merchant Opportunities Fund is Entrust Funds Management Limited (ABN 33 002 163 180). Merchant Funds Management Pty Ltd (ABN 32 154 493 277) was appointed the Investment Manager of the Fund on 12 April 2012, and along with this, is responsible for the day to day management of the Fund.

**(b) Details of Directors and Other Key Management Personnel**

*(i) Directors*

*The directors of Entrust Funds Management Limited (the Responsible Entity) during the year were:*

Graeme Mark Yukich	Chairman (executive)
Andrew Christopher Fry	Director (executive)
Bradley William Gordon	Director (executive)
David John Franklyn	Director (executive)

*(ii) Other Key Management Personnel*

Neither Merchant Opportunities Fund nor Entrust Funds Management Limited employ persons deemed to be key management personnel of the Fund. Compensation of Directors is paid by Entrust Funds Management Limited. The Directors do not receive any compensation directly from Merchant Opportunities Fund, and there are no agreements in place between the Directors and the Fund.

**(c) Loans to Directors**

The Fund has not made, guaranteed or secured, directly or indirectly any loans to the Directors or their personally related entities at any time during the period.

**Merchant Opportunities Fund**  
**ARSN 111 456 387**  
**Notes to the financial statements (continued)**  
**For the year ended 30 June 2012**

**Note 14 Related Party Transactions (continued)**

**(d) Investments**

Details of investments in the Fund held by directors, including their related entities are set out below. These investments are based on an arm's length transaction.

**2012**

<b>Director/ Related Entity</b>	<b>Note</b>	<b>Number of units held at balance date</b>	<b>% Interest held</b>	<b>Number of units acquired during year</b>	<b>Number of units disposed of during year</b>	<b>Distribution paid or payable  \$</b>
David John Franklyn		-	-	12,083	401,789	-
Davington Pty Ltd	(i)	30,915	0.18	16,050	502,765	464
Bradley William Gordon Superannuation Fund	(ii)	-	-	552	18,366	-

**2011**

<b>Director/ Related Entity</b>	<b>Note</b>	<b>Number of units held at balance date</b>	<b>% Interest held</b>	<b>Number of units acquired during year</b>	<b>Number of units disposed of during year</b>	<b>Distribution paid or payable  \$</b>
David John Franklyn		389,706	1.52	9,027	-	9,743
Davington Pty Ltd	(i)	517,630	2.02	11,989	-	12,941
Bradley William Gordon Superannuation Fund	(ii)	17,814	0.07	413	-	445

(i) Graeme Yukich is a Director and equity holder of Davington Pty Ltd, which holds the units in Merchant Opportunities Fund.

(ii) Bradley Gordon is a member of the Bradley William Gordon Superannuation Fund, which holds the units in Merchant Opportunities Fund.

**Merchant Opportunities Fund**  
**ARSN 111 456 387**  
**Notes to the financial statements (continued)**  
**For the year ended 30 June 2012**

**Note 14 Related Party Transactions (continued)**

**(e) Fees**

The Responsible Entity, Entrust Funds Management Limited, and the Fund Manager, Merchant Funds Management Pty Ltd, received all management and performance fees that have been deducted from the Fund during the period. Total management and performance fees paid to the Responsible Entity and Fund Manager during the period were \$150,556 (2011: \$204,968). The total compliance and accounts preparation fees paid to the Responsible Entity during the period was \$26,250 (2011: \$25,889). Expenses incurred by the Responsible Entity during the period and reimbursed by the Fund in accordance with the Fund's constitution was \$35 (2011: \$16,975).

Entrust Funds Management Limited provides investment services to Merchant Opportunities Fund, and outsources custodial and administrative functions.

Transactions between Merchant Opportunities Fund and Entrust Funds Management Limited result from normal dealings with that company as the Fund's Responsible Entity. Entrust Funds Management Limited is an Australian Financial Services license holder.

**(f) Related party investments of the Fund**

Details of the Fund's investment in other registered Funds of which Entrust Funds Management Ltd is also the Responsible Entity are set out below:

	Fair value of unit holdings		% Interest held		Distributions received or receivable from related parties		Number of units acquired during the year	Number of units acquired during the year
	2012	2011	2012	2011	2012	2011	2012	2011
	\$	\$	%	%	\$	\$		
Esplanade Property Fund	1,407,841	1,636,914	7.45	7.28	63,631	31,816	673,347	-

The Responsible Entity has not disposed of any units during the year (2011: nil).

The principal activity of the Esplanade Property Fund is investment in domestic listed and unlisted property trusts.

**(g) Related party transactions**

All transactions with related parties are conducted on normal commercial terms and conditions. From time to time the Responsible Entity or their director-related entities may invest in or withdraw from the Trust. These investments or withdrawals are on the same terms and conditions as those entered into by other Trust investors and are trivial and domestic in nature.

**Merchant Opportunities Fund**  
**ARSN 111 456 387**  
**Notes to the financial statements (continued)**  
**For the year ended 30 June 2012**

**Note 14 Related Party Transactions (continued)**

**(h) Other transactions within the Fund**

Apart from those details disclosed in this note, no director of the Responsible Entity has entered into a material contract with the Fund since the end of the previous year and there were no material contracts involving directors' interests subsisting at year end.

**Note 15 Contingencies**

There are no contingent liabilities or contingent assets at 30 June 2012 and 30 June 2011.

**Note 16 Events subsequent to reporting date**

There have been no events subsequent to balance date which would have a material effect on the Fund's financial statements at 30 June 2012.



**Merchant Opportunities Fund**  
**ARSN 111 456 387**  
**Directors' Declaration**  
**For the year ended 30 June 2012**

In accordance with a resolution of the Directors of Entrust Funds Management Limited, the Responsible Entity of the Merchant Opportunities Fund, I state that:

In the opinion of the Directors:

- (a) the financial statements and notes of the Fund are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the Fund's financial position as at 30 June 2012 and of its performance for the period ended on that date; and
  - (ii) complying with Accounting Standards in Australia (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2 (a).
- (c) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

Signed in Accordance with a Resolution of the Directors of  
Entrust Funds Management Limited



Graeme Yukich  
Director

Perth  
18 September 2012



## **Independent auditor's report to the unitholders of Merchant Opportunities Fund (formerly Entrust Investment Fund)**

### **Report on the financial report**

We have audited the accompanying financial report of Merchant Opportunities Fund (the Scheme), which comprises the statement of financial position as at 30 June 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, notes 1 to 16 comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

#### *Directors' responsibility for the financial report*

The directors of Entrust Funds Management Limited (the Responsible Entity) are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001*, and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In note 2(a), the directors of the Responsible Entity also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

#### *Auditor's responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Scheme's financial position, and of its performance.



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 Merchant Opportunities Fund is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Scheme's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a).



  
Grant Robinson  
Partner

Perth

18 September 2012