

MERCHANT OPPORTUNITIES FUND

ARSN 111 456 387

INTERIM FINANCIAL REPORT
For the six months ended 31 December 2014

Merchant Opportunities Fund
ARSN 111 456 387
For the six months ended 31 December 2014

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Merchant Opportunities Fund
ARSN 111 456 387
Corporate Directory

Responsible Entity

Capricorn Investment Partners Limited

Directors of the Responsible Entity

David McKay French	-	Executive Director
Owen Evans	-	Non-Executive Director
Michael Peet	-	Non-Executive Director

Secretary

Richard Symons

Registered Office

C/- Capricorn Investment Partners Limited
Suite 1B, 103 Bolsover Street
Rockhampton QLD 4700

Auditors of the Fund

HLB Mann Judd
Level 4, 130 Stirling Street
PERTH WA 6000

Merchant Opportunities Fund
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Directors' Report
For the six months ended 31 December 2014

The Directors of Capricorn Investment Partners Limited (ABN 26 095 998 771), the Responsible Entity of Merchant Opportunities Fund (“the Fund”), submit their report together with the Interim Financial Report for the Fund for the six months ended 31 December 2013 and the independent auditor’s review 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:

David McKay French – B.Econs, Dip.Corp Management

David French is Managing Director and Head of Financial Planning. Starting with just himself and a desk, David was responsible for building The Rock Investment Planning from scratch. This entity was subsequently purchased and became Capricorn Investment Partners Limited. David has worked in finance and economics since 1990 and in investment markets since 1994. David was rated as high as number 3 in Australia as an investment analyst, holds a Bachelor of Economics, a Diploma in Corporate Management and is PS146 compliant. David has also completed a range of other courses relating to valuation of companies and investments. David deals with all financial planning, investing and superannuation matters for new and existing clients.

Mr. Owen Evans - BA (Hons), MSc(Econ) (appointed 8 August 2014)

Mr Evans is an experienced investment professional with almost 30 years’ experience in research, valuation and funds management. He has been rated number one analyst for building materials, construction and emerging companies while at UBS Australia and judged Money Management Fund Manager of the Year in 2005 and 2006 as Chief Investment officer at MIR Australia. Between 1997 and 2010, Mr Evans was sole analyst on the IPO’s of Bristle, AWB, Transfield Services, Worley Parsons and NRW. He is currently principal of Yaz Investment Pty Ltd, and provides consulting services for mid-sized Australian Companies such as Adelaide Brighton, Brickworks Ltd, Calibre Global and Dulux. He also provides investment consulting advice for global fund managers. Mr Evans is currently non-Executive President of the Manly Warringah Basketball Association and is a past director Director of the Sydney Harbour Foreshore Authority.

Graeme Fowler – B Bus, CPA, MAICD (resigned 1 December 2014)

Mr Fowler was previously Chief Executive Officer of listed accounting and financial services aggregator Crowe Horwath Australasia Ltd (formerly WHK Group Limited). He brings specific experience in the successful aggregation of professional services firms. He spent over 15 years in senior management roles with BT Financial Group including Group Chief Financial Officer of BT Global Funds Management, CEO of BT Funds Management NZ, and CEO of BT Portfolio Services (including BT Wrap). Mr Fowler is also a non-executive director of Countplus Limited.

Mr Fowler is a business studies graduate of the University of Technology, Sydney, and a Certified Practising Accountant.

During the past three years, Mr Fowler served as a director of Countplus Limited (appointed 19 August 2010).

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Directors' Report (continued)
For the six months ended 31 December 2014

Mr. Michael Peet (appointed 11 December 2014)

Michael has been in the Australian Financial Markets Industry for over 20 years. Positions held include Equity Analyst, Fund Manager, Consultant and Investment Advisor. He is currently employed at Commonwealth Bank of Australia in the Institutional Banking and Markets Division where he holds the position of Director, Head of Emerging Companies Research for CBA's Institutional Stockbroking operations. He was previously employed by CIPL, Alliance Bernstein, UBS and County NatWest Securities. Michael is currently on the Board of Trustees for Samuel Smith & Son's Investment Trust, Gensix.

PRINCIPAL ACTIVITIES

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

The Fund is a diversified investment fund, investing in listed and unlisted Australian shares.

There has been no significant change in the nature of this activity during the six months.

SCHEME INFORMATION

Merchant Opportunities Fund is an Australian registered scheme, and was constituted on 18 October 2004. Capricorn Investment Partners, the Responsible Entity of the Fund, is incorporated and domiciled in Australia.

The registered office of the Responsible Entity is located at c/ Capricorn Investment Partners Limited, Suite 1B, 103 Bolsover Street, Rockhampton Queensland 4700.

REVIEW OF RESULTS AND OPERATIONS

Results

The net operating income of Merchant Opportunities Fund is presented in the Statement of Comprehensive Income. The operating loss for the six months ended 31 December 2014 was \$1,742,733 (31 December 2013: Profit \$802,823).

Distributions

No distribution will be paid for the six months ended 31 December 2014. No distributions were paid for the six months ended 31 December 2013.

SCHEME ASSETS

At 31 December 2014 Merchant Opportunities Fund held net assets of \$10,266,183 (30 June 2014: \$12,008,916).

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Directors' Report (continued)
For the six months ended 31 December 2014

AUDITOR'S INDEPENDENCE DECLARATION

HLB Mann Judd, our auditors, have provided a written independence declaration to the Directors of the Responsible Entity in relation to their review of the Interim Financial Report for the six months ended 31 December 2014. This independence declaration, which forms part of the Directors' Report, can be found at page 7.

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

A handwritten signature in black ink, appearing to be 'DF', enclosed within a circular scribble.

David French
Executive Director

Rockhampton
12 March 2015

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Merchant Opportunities Fund

Report on the Condensed Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Merchant Opportunities Fund ("the Fund"), which comprises the condensed interim statement of financial position as at 31 December 2014, the condensed interim statement of comprehensive income, condensed interim statement of changes in equity and the condensed interim statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' responsibility for the half-year financial report

The directors of Capricorn Investment Partners Limited ("the Responsible Entity") are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Fund's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Fund, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Merchant Opportunities Fund is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the Fund's financial position as at 31 December 2014 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



HLB Mann Judd
Chartered Accountants



W M Clark
Partner

Perth, Western Australia
12 March 2015

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of the Merchant Opportunities Fund for the half-year ended 31 December 2014, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- a) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- b) any applicable code of professional conduct in relation to the review.

Perth, Western Australia
12 March 2015



W M Clark
Partner

Merchant Opportunities Fund
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Directors' Declaration
For the six months ended 31 December 2014

In accordance with a resolution of the Directors of Capricorn Investment Partners Limited, the Responsible Entity of Merchant Opportunities Fund, I state that:

In the opinion of the Directors:

- (a) the financial statements and notes set out on pages 9 to 18 are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Fund's financial position as at 31 December 2014 and of its performance for the six months ended on that date; and
 - (ii) complying with Australian Accounting Standard AASB 134 "Interim Financial Reporting", and Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

On behalf of the Board
Capricorn Investment Partners Limited



David French
Executive Director

Rockhampton
12 March 2015

Merchant Opportunities Fund
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Condensed Interim Statement of Comprehensive Income
For the six months ended 31 December 2014

	Notes	31 Dec 2014 \$	31 Dec 2013 \$
Revenue			
Interest income		3,584	3,778
Net change in fair value of financial assets		(2,501,113)	922,361
Distributions received		870,066	-
		<u>(1,627,463)</u>	<u>926,139</u>
Expenses			
Responsible Entity and Fund Manager fees		(53,109)	(52,341)
Auditors' remuneration		(13,962)	(12,013)
Custodian fees		(21,230)	(20,645)
Compliance fees		(10,230)	(8,781)
Other expenses		(16,739)	(29,536)
		<u>(115,270)</u>	<u>(123,316)</u>
(Loss)/profit from operating activities		(1,742,733)	802,823
Other Comprehensive Income		-	-
Total Comprehensive (Loss)/Income For The Period	2(b)	<u>(1,742,733)</u>	<u>802,823</u>

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

Merchant Opportunities Fund
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Condensed Interim Statement of Financial Position
As at 31 December 2014

	Notes	31 Dec 2014 \$	30 June 2014 \$
Assets			
Cash and cash equivalents		128,424	48,449
Loans and receivables:			
Interest, dividends and other receivables		16,564	28,214
Financial assets at fair value through profit and loss:			
Equity investments and units in listed and unlisted schemes		10,070,668	11,960,272
Convertible Loan		90,000	50,000
Total assets		10,305,656	12,086,935
Liabilities			
Financial liabilities measured at amortised cost:			
Accounts payable		11,238	55,000
Accrued expenses		19,500	10,930
Responsible Entity and Fund Manager fees payable		8,735	12,089
Total Liabilities		39,473	78,019
Net assets attributable to unitholders	2(b)	10,266,183	12,008,916

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

Merchant Opportunities Fund
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Condensed Interim Statement of Cash Flows
For the six months ended 31 December 2014

	31 Dec 2014	31 Dec 2013
	\$	\$
Cash Flows from Operating Activities		
Proceeds from sale of financial assets	1,663,076	577,064
Payments for purchase of financial assets	(1,692,397)	(359,212)
Interest received	5,162	605
Dividends and distributions received	249,777	40,803
GST received	-	1,098
Payments to suppliers	(89,179)	(105,965)
Payments to Responsible Entity and Fund Manager	(56,464)	(50,798)
Net Cash Flows from Operating Activities	<u>79,975</u>	<u>103,595</u>
Cash Flows from Financing Activities		
Payments for redemption of units	-	(100,392)
Net Cash Flows used in Financing Activities	<u>-</u>	<u>(100,392)</u>
Net increase in cash and cash equivalents	79,975	3,203
Cash and cash equivalents at 1 July	48,449	14,396
Cash and cash equivalents at 31 December	<u><u>128,424</u></u>	<u><u>17,599</u></u>

The above condensed interim statement of cash flows should be read in conjunction with the accompanying notes.

Merchant Opportunities Fund
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Condensed Interim Statement of Changes in Equity
For the six months ended 31 December 2014

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 six months.

Merchant Opportunities Fund
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Notes to the condensed interim financial statements
For the six months ended 31 December 2014

Note 1 Basis of Preparation of the Condensed Interim Financial Report

(a) Reporting Entity

Merchant Opportunities Fund (“MOF” or the “Fund”) is a recognised managed investment scheme under the Corporations Act 2001. The condensed interim financial report of the Fund is for the six months ended 31 December 2014.

(b) Statement of Compliance

The condensed interim financial report is a general purpose financial report, which has been prepared in accordance with the AASB 134 Interim Financial Reporting and the requirements of the Corporations Act 2001.

The condensed interim financial report does not include all the information required for the full annual financial report and should be read in conjunction with the annual financial report of the Fund for the year ended 30 June 2014.

The condensed interim financial report was authorised for issue by the directors of the Responsible Entity on the 12 March 2015.

(c) Basis of Preparation

The condensed financial statements have been prepared on the basis of historical cost, except for the revaluation of certain financial assets.

The accounting policies and methods of computation applied by the Fund in this interim financial report are the same as those applied by the Fund for the year ended 30 June 2014.

(d) Standards and Interpretations applicable to 31 December 2014

In the half year ended 31 December 2014, the directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the scheme and effective for the current annual reporting period.

As a result of this review, the directors have determined that there is no material impact of the new and revised Standards and Interpretations on the scheme and, therefore, no change is necessary to accounting policies.

Standards and Interpretations in issue not yet adopted

The directors have also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the current annual reporting period. As a result of this review the directors have determined that there is no material impact, of the new and revised Standards and Interpretations on the scheme and, therefore, no change is necessary to accounting policies.

Merchant Opportunities Fund

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Notes to the condensed interim financial statements (continued)

For the six months ended 31 December 2014

Note 2 Net assets attributable to unitholders	Six Months to 31 December 2014	Year to 30 June 2014
(a) Units on issue	Number	Number
Units on issue as at beginning of reporting period	17,642,242	17,801,987
Units redeemed or otherwise cancelled during the reporting period	-	(159,745)
Units on issue as at the end of the reporting period	<u>17,642,242</u>	<u>17,642,242</u>
	Six Months to 31 December 2014	Year to 30 June 2014
(b) Movement in net assets attributable to unitholders	\$	\$
Net assets attributable to unitholders at beginning of reporting period	12,008,916	9,842,970
Total comprehensive (loss)/income for the period	(1,742,733)	2,266,338
Units redeemed or otherwise cancelled during the reporting period	-	(100,392)
Net assets attributable to unitholders at the end of reporting period	<u>10,266,183</u>	<u>12,008,916</u>

Note 3 Distributions

There were no distributions for the half year.

Note 4 Related parties

The Responsible Entity, Capricorn Investment Partners Limited charges a monthly fee of \$4,583.34 (GST inclusive) and the remaining fees are paid to the Fund Manager, Merchant Funds Management Pty Ltd. Total management fees paid to the Responsible Entity and Fund Manager during the six months ended 31 December 2014 were \$53,109 (31 December 2013: \$52,341). There were payables of \$8,735 as at 31 December 2014 (30 June 2014: \$12,090)

Note 5 Contingencies

There are no contingent liabilities or contingent assets as at 31 December 2014 (30 June 2014: Nil)

Note 6 Subsequent Events

There were no subsequent events after 31 December 2014.

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Notes to the condensed interim financial statements (continued)
For the six months ended 31 December 2014

Note 7 Financial Instruments

Carrying amount versus fair values

The fair values of financial assets and financial liabilities approximate their carrying amounts in the condensed statement of financial position.

Financial risk management

During the six months ended 31 December 2014 the Fund's financial risk management objectives and policies are consistent with those disclosed in Fund's annual financial report.

Fair Value Hierarchy

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).
- Level 3 fair value measurements are those instruments valued based on techniques using significant unobservable 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.

31 December 2014	Level 1	Level 2	Level 3	Total
Financial assets classified as fair value through profit and loss	7,113,223	90,000	2,957,445	10,160,668

There were no transfers between Level 1 and Level 2 of the fair value hierarchy during six months ended 31 December 2014.

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Notes to the condensed interim financial statements (continued)
For the six months ended 31 December 2014

Note 7 Financial Instruments (continued)

Level 3 fair values

Reconciliation of level 3 fair value measurements of financial assets for the six months ended 31 December 2014.

	Fair value through profit or loss
	\$
Opening	3,788,353
Total gains or losses in profit or loss	(1,187,773)
Purchases	1,020,289
Sales	(663,424)
Transfers into Level 3	-
Transfers out of Level 3	-
Closing	2,957,445
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period:	(1,187,773)

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Notes to the condensed interim financial statements (continued)

For the six months ended 31 December 2014

Note 7 Financial Instruments (continued)

The measurement of fair value for the Level 3 instruments has been made based on the following:

	Industry Sector	Basis of valuation	Date of transaction	Fair value as at 31 December 2014	Fair value as at 30 June 2014
Esplanade Property Fund	Property	Net Asset value as at 31 December 2014 post distribution	N/A	\$68,566	\$951,764
Inhouse Group Ltd*	Information Technology	Price of most recent investment in Inhouse (third-party transaction)	November 2012	\$933,589	\$933,589
Sugar Dragon Ltd (formerly Vesuvius Minerals Ltd)*	Materials	Price of Sugar Dragon Ltd most recent capital raising investment (third party transaction)	November 2014	\$377,000	\$270,000
Condor Energy Services Ltd*	Oil & Gas	Price of most recent investment in Condor (third-party transaction)	June 2014	\$308,000	\$308,000
Valiant Resources Ltd*	Materials	Price of MOF's most recent investment	Feb 2014	\$200,001	\$1,250,000
Coal Stream Pty Ltd*	Energy	Price of MOF's recent investment	April 2014	\$75,000	\$75,000
Village National Ltd*	Property	Price of MOF's in –specie distribution from Esplanade Property Fund	November 2014	\$620,289	-
Infitecs Pty Ltd*	Technology	Price of MOF's recent investment	December 2014	\$225,000	-
Telupay Australia Ltd*	Technology	Price of MOF's recent investment	December 2014	\$150,000	-
Total				\$2,957,445	\$3,788,353

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Notes to the condensed interim financial statements (continued)

For the six months ended 31 December 2014

Note 7 Financial Instruments (continued)

* Investments in seed and start-up venture capital investments. The fair value of these investments is determined with reference to the most recent transaction price which is typically the capital raising price or the most recent third party sale price by MOF. Subsequent to the latest transaction, the Responsible Entity has re-assessed the business activities of these entities to determine whether any significant changes in the circumstances or events would imply a change in the investment's fair value as at balance date.