Blue Stamp Company Pty Ltd
C/- The Old Boot Factory
Suite 8, 17 Cordelia St
South Brisbane, QLD 4101

31st August, 2012

2012 Financial Year

Overview of the Trust's Performance

2012

The Trust performed strongly over the 2012 financial year, achieving a return of 27.01% (before performance fees). This result was achieved from roughly equal contributions from our three main areas of income, being dividends, profit on arbitrage transactions and the change in value of our investment holdings. The main expense of the Trust was the Performance Fee (PF), which was chosen to be paid in units of the Trust. A brief summary of the performance measures for the 2012 year is given below. A more detailed review is provided in the Manager's Report.

	Unit Price	Return
01-Jul-11	$1.1374	
30-Jun-12 before Perf. Fee	$1.4446	27.01%
after Perf. Fee	$1.3479	18.50%
after Distribution	$1.3049	

High Water Mark (unit price):

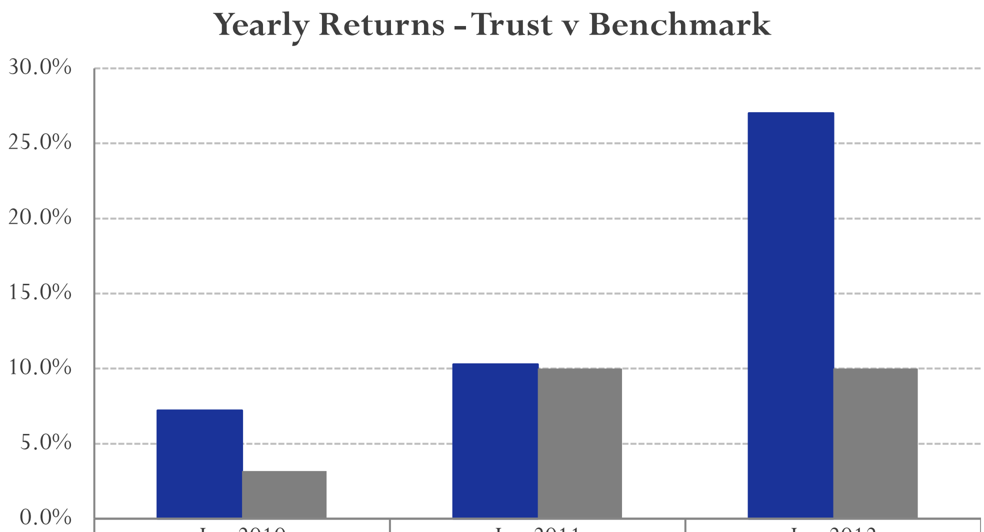
01-Jul-11	$1.1374
01-Jul-12	$1.3049

Manager's Report

Historical Returns

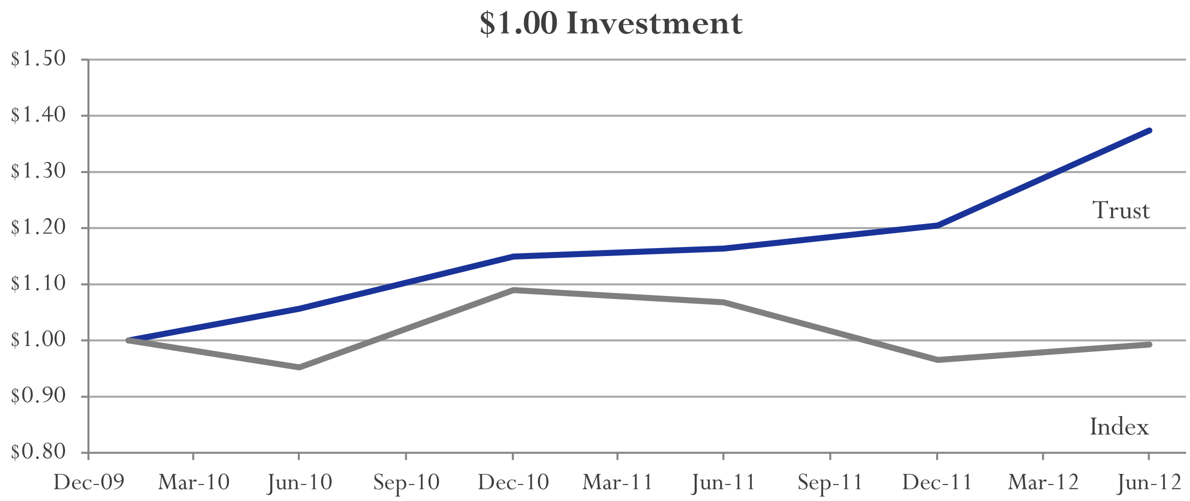
As I'm sure you were aware, we experienced a significant amount of volatility during the financial year. Given the state of sovereign finances and an inability of policy makers to dig deep and provide long term reform, these large movements have proven to be a consistent feature over the past few years and will probably continue that way for more to come. However, it was these movements which helped the Trust achieve its solid performance for 2012, returning 27.01% before performance fees and 18.50% after performance fees.

The preferred yardstick for the Trust's performance is against the 10 % Benchmark which is used as the threshold for the performance fee. Using this absolute return allows us to evaluate the performance of the Trust against a clear, simple and consistent measure. The return before performance fees is used, as this gives a clear indication as to how the Trust has performed. The track record of the Trust against this yardstick is shown below; where the return for the Benchmark for the first year has been adjusted to reflect the part year of operation.

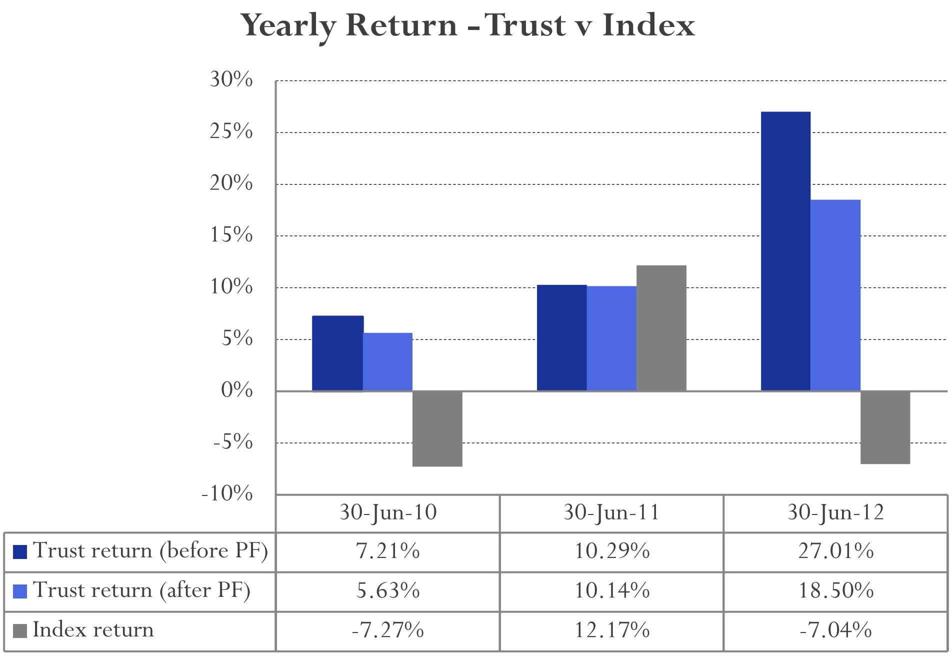


	Jun 2010	Jun 2011	Jun 2012
Trust - Before PF	7.21%	10.29%	27.01%
10% Benchmark	3.18%	10.00%	10.00%

The graphs below show the historical performance of the Trust against the All Ordinaries Accumulation Index (Index). This Index is used because it is the broadest measure of the Australian share market's performance. It also includes the effect of dividends in calculating the market return, making this Index the most comparable to the Trust. The first graph tracks the change in value of $1 invested in the Trust at 2 March 2010 versus the Index. The value of the investment in the Trust is after performance fees and includes any distributions which have been paid.



The second graph shows the yearly return of the Trust (before and after the performance fee) versus the yearly return of the Index.



The table below summarises the data used to evaluate the performance of the Trust, the Benchmark and the Index, and is reproduced for your information.

Date	Description[1]	Trust Unit Value	Return (Year)	Return (To Date)[2]	Benchmark 10%	Return (Year)[3]	Return (To Date)	Index (AOAI)	Return (Year)	Return (To Date)
02-Mar-10	Start date of fund	$1.0000			$1.0000			32,801.10		
30-Jun-10	Before PF	$1.0721	7.21%	7.21%						
30-Jun-10	After PF	$1.0563	5.63%	5.63%	$1.0318	3.18%	3.18%	30,415.16	-7.27%	-7.27%
30-Jun-11	Before PF	$1.1650	10.29%	16.50%						
30-Jun-11	After PF	$1.1635	10.14%	16.35%	$1.1350	10.00%	13.50%	34,117.52	12.17%	4.01%
30-Jun-11	Distributions	$0.0261								
30-Jun-11	After PF & distributions	$1.1374								
30-Jun-12	Before PF	$1.4446	27.01%	47.06%						
30-Jun-12	After PF	$1.3479	18.50%	37.39%	$1.2485	10.00%	24.85%	31,714.27	-7.04%	-3.31%
30-Jun-12	Distributions	$0.0429								
30-Jun-12	After PF & distributions	$1.3049								

1. PF means Performance Fee
2. The returns of the Trust since commencing in March 2010, including Distributions paid.
3. The Benchmark return for 30 June 2010 has been pro-rated to allow for the part year.

While measuring the Trust's performance against the Index paints a favourable picture (at this point in time), I feel it is at the most, a handy supplement to evaluate how the Trust has performed. As mentioned above, the preferred yardstick is a 10% annual return. The three primary reasons for this are:

a) Most importantly, a 10% yearly return is the bullseye which we are aiming to hit. As such, it would only make sense to have congruency between this operating goal and the yardstick used to evaluate the operating performance (e.g. it wouldn't make sense to measure the number of meat pies consumed at a rugby game by the amount of drinks sold);

b) A 10% annual return is a simple and transparent measure. It is important to be able to clearly see whether or not the Trust has hit its target. This keeps your Manager focused and accountable;

c) The Index is a measure that is constantly moving. Using it as a performance measure of the Trust and having it then become a key component of the day to day decision making, would not provide a sound long term footing for the Trust.

Having our yardstick as the 10% Benchmark provides us with a simple and challenging measure that can be applied with consistency over any number of years. Knowing what our goal is going to be 5, 10 or even 20 years from now, affords us a stable platform to evaluate the attractiveness of a potential investment. Trying to land your arrow on a moving target however, will make you look like Robin Hood some years and one of his merry men (that is a little too merry) in others. Accordingly, the 10% Benchmark is our primary measure and one which by itself is sufficient to meet our needs of performance evaluation. If we did want to go a step further and view the performance of the Trust in the context of the environment to which it was produced, then we can include the Index as a reference. Used in this way, the Index can be enlightening, though it is not in itself a complete measure of the Trust's performance.

While it is always enjoyable and desirable to beat the market, given the swings that it is capable of, evaluating our work relative to this, does not lend itself to ensuring the creation of long term wealth. On this measure, a manager can be relatively successful (by simply not losing as much money as the Index) and be paid handsomely for it, much to the frustration of equity holders (and rightly so)! Having goals that are consistent, clear and challenging is key to providing direction in a field that is constantly shifting, and helps to ensure we are always aiming to be absolutely successful (which is synonymous with making money).

Operating Review

As mentioned earlier, the Trust benefited from solid results from all three areas of income. The earnings contribution of each area to the Trust's performance is summarised below.

	2012	2011
Change in market value of Investments:	$24,061.51	($9,867.17)
Dividends (including Franking Credits):	$25,513.37	$12,806.33
Earnings from Arbitrage:	$24,174.70	$21,258.73

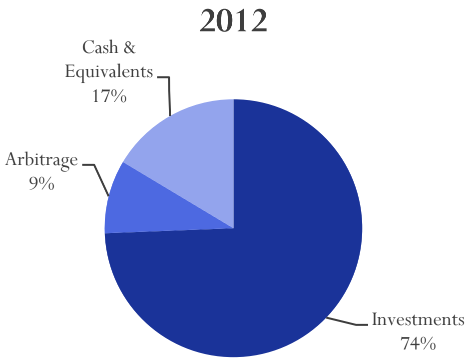
The earnings detailed above have been adjusted to include any dividends which were received as consideration in an arbitrage transaction, to be reflected in Earnings from Arbitrage.

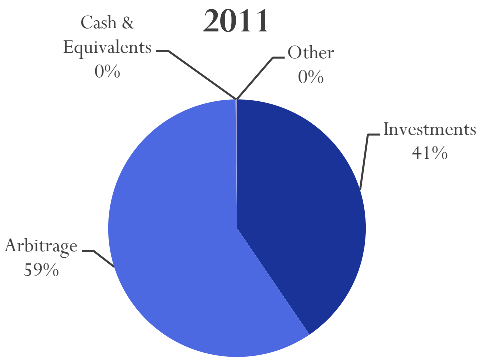
The large swings in the market that occurred during the first half of the year helped us add to the holdings in our investment companies. As these companies were opportunistically purchased at times when the overriding mood in the market was negative, the Trust benefited from an appreciation in price by the end of the year when the mood had improved. An additional benefit received from increasing our holdings in these companies, was receiving a larger payment of dividend income. Through the combination of the significant free cash flows produced by some of these companies with their generous dividend payout ratios, our second area of income was given a large boost.

The operational performance of most of our investment companies during 2012 was sound. With the majority of these companies operating in the information technology and telecommunications industry, they experienced solid, albeit inconsistent, demand for their products and services despite a deteriorating global economic environment. Given the trajectory which the digital world is on, the demand for their services is not expected to abate. This growth is only being aided by structural tailwinds such as the constant evolution of devices and applications as well as the development of infrastructure such as the NBN and 4G networks. With these structural shifts enabling larger and larger volumes of digital traffic to more efficiently flow through the community, whether it's through having access to different ways to consume the content (i.e. smart phones, tablet computers, smart TV's etc.) or simply improved infrastructure allowing the content to be transferred faster, or a combination of both, our reliance and use of IT services and telecommunications infrastructure will be compounded over many years to come.

Our holdings in companies that are more consumer focused experienced softer demand for their products and services. I was not overly concerned by this as it was more likely to be as a result of cyclical factors, such as the prevailing low consumer sentiment, rather than any sort of structural problems like a diminution in the appeal of their products or services.

A breakdown of the Trust's assets at 30 June 2012 is shown below. As described earlier and shown in the charts below, the Trust's allocation of capital swung heavily toward Investments during the 2012 year.





Once more the arbitrage operations played an important role in the Trust's performance for 2012. Just as the instability experienced during the year aided the investment activities, so too did it help the arbitrage operations. A particular example of this occurred on August 9th, when the share market was experiencing a particularly acute dose of volatility and gloom, the Trust was able to snap up shares in Territory Resources which was the subject of a takeover offer. At this time, the takeover offer had just passed its closing date, however it had also been accepted by over 90% of Territory shareholders. As a result of reaching this level of acceptances before the takeover closed, the Bidder was obligated under the Corporations Act, to make the same offer to all remaining shareholders who had not yet accepted. However, as the share market was experiencing a large amount of volatility and the offer had closed, the shares fell. Simply by joining the dots – that the takeover had closed with more than 90% acceptances with the obligation of the Bidder to honour this offer to all remaining shareholders – the Trust was handed a slam dunk.

One other interesting arbitrage opportunity came through the company Meridian Minerals. This company was a small fledgling mining company that was in the process of proving up some lead and zinc deposits it had at its main tenement in the Northern Territory. Meridian also had a large Chinese company sitting on its register as a major shareholder. As Meridian was not yet producing and selling resources, it needed to raise some money to fund its exploration activities and had announced a discounted Rights Issue to raise these funds. However, when asking shareholders for more money, the company must release a 'Cleansing Statement' to divulge all material information which may be relevant to a shareholder in deciding whether to participate in the Rights Issue. It was in this Cleansing Statement that Meridian disclosed the large Chinese company had provided an expression of interest in making a takeover offer at a premium to the current price. With these two events occurring on the same day, the Directors of Meridian were faced with quite a puzzle. On the one hand, they could fund this round of exploration by issuing more shares at a discount to the current price (potentially diluting current shareholders) or, they could recommend a takeover offer by their major shareholder, which was at a premium to the current price. Essentially, the Directors had to evaluate whether they would ask shareholders to stump up more money, or if they should recommend the offer and return a pile of cash to shareholders. Further adding to the intrigue of this situation, in the months prior to the takeover intentions being announced, the same Chinese company had entered into a Heads of Agreement with Meridian to purchase their main tenement for more than the value of the entire company. Looking at the actions of the Chinese company in light of this Heads of Agreement, it certainly made sense for them to shelve the Heads of Agreement and instead make an offer for the entire company at a lower price! From the point of view of Meridian, due to the timing of the Rights Issue and the requirement to release the Cleansing Statement, the Directors were obligated to disclose a takeover offer prematurely, which, when faced with the alternative (discounted Rights Issue), effectively forced their hand to recommend the takeover. For the Trust, we had the incredible situation of being able to see the motives of both the Bidder and the Target. As such, the Trust was able to do very well out of this quirky situation.

While it is easy and enjoyable for me to recount such victories, it does create an illusion that all we did was win. While I would have loved this to be true, I must confess to have had some stunningly daft moments. However, it is one of my goals (and I think it will be for years to come) to try to purge this condition. While looking into remedies for such an affliction, I found one that suggests a week of eating, sleeping and bathing in garlic. However, on further reflection (and valuing my marriage) I am beginning to form the opinion that carrying out such a routine, might further justify the daftness already within.

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There is a lot of uncertainty still prevailing in the global economy. The primary culprits of this is the uncertainty facing Europe's future, the slowdown of China potentially being deeper than expected and even the USA's feeble recovery possibly being derailed by dysfunctional negotiations between the political parties. While any and all of these have their own considerable risk, the saga which has the potential to unravel the fastest and inflict the most damage is certainly the mess in Europe (which I'm sure we'll see made into a feature film or more appropriately, a soap opera very soon).

I am still struggling to understand how the markets react so favourably to more monetary stimulus. This is well illustrated in the reaction to the European Central Bank's (ECB) intention of buying the debt of heavily indebted European nations. However, the policy of the ECB buying bonds is not actually addressing the actual presence and size of the debt. It is only filling the gap left by investors who are quite rightly deserting the bonds of these nations. Even more disturbing, the policy of buying these bonds is taking away the impetus that these countries would otherwise have to reform their economies to bring about competitiveness, flexibility and growth. Perversely, this ECB policy could even lay the foundation of the next crisis, as these nations have been shown that no matter how much they borrow, perhaps even the more they borrow, they will not be left to fall over. Without structural reform, these actions look like a short term solution to placate the markets, as neither the policy makers nor the markets are displaying the patience or foresight to support unglamorous and tough long term solutions that will provide the foundation for stronger economies in decades to come.

Despite the ECB buying some or all of this debt, a fact that cannot change, regardless of the lack of attention given to it, is that the debt is real, and will remain a drag on the real economies regardless of who holds it. This weight will remain until either growth resumes (through a combination of reform and monetary policy measures), or the debt is restructured (through negotiations with the creditors). Relying on a simple, quick fix solution from monetary policy stimulus to be the overarching tool used to lift an economy out of the mess it might find itself in is much like a kid having the great idea to only eat fairy floss for the rest of their life! While this might seem wonderful from the kid's perspective and work for an hour or two, it's not going to be long before it gets ugly. With so many conflicting interests at play, and politicians under pressure to deliver immediate results to their electorate, anything could happen.

While the performance of the Trust has been above trend the past few years, I want to caution against carrying forward expectations for similar performances in the years ahead for a number of reasons. Firstly, with resource stocks starting to fall out of favour, more money is chasing companies which the Trust may have its eye on. This has the effect of squeezing those mouthwatering returns that can be achieved when you get to buy a gem on the cheap. Also, while we have recently seen the ferociousness which the market can move in a downward direction, when enthusiasm abounds, the market's movement can be equally forceful in the opposite direction, leaving the

Trust's return to wither in its dust. I must admit to losing some sleep, worrying that there won't be any more gloomy headlines adorning the newspapers in the morning. I have no doubt the negativity that the media disseminates so easily has provided the Trust with some incredible buys, making the performance better than would have otherwise been the case. The corollary being that, ebullience and enthusiasm only leads to more expensive companies. This however, will not stop us searching for more gems.

Luke Trickett
Blue Stamp Company Pty Ltd