

ARSN 089 596 645

# AMP Capital Small Companies Fund

**GENERAL PURPOSE FINANCIAL REPORT**

For the year ended 31 December 2008



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AMP Capital Small Companies Fund  
ARSN 089 596 645

AMP Capital Investors Limited  
ACN 001 777 591  
ABN 59 001 777 591  
AFSL 232497

Level 24, 33 Alfred Street  
Sydney Cove NSW 2000

Issue date: March 2009

The Directors of AMP Capital Investors Limited (ABN 59 001 777 591), the Responsible Entity of the AMP Capital Small Companies Fund (the Scheme), present their report together with the financial report of the Scheme for the year ended 31 December 2008.

## Directors

The Directors of the Responsible Entity who, unless otherwise stated, have been in office at all times during and since the end of the year and the period for which they are a director are:

- Jack H. Ritch
- Stephen J. P. Dunne
- J. Brian Clark – Appointed 8 February 2008
- Craig W. Dunn
- Stephen A. Grenville
- Donald R. Luke
- Nora L. Scheinkestel

## Scheme information

AMP Capital Small Companies Fund is an Australian Registered Scheme. AMP Capital Investors Limited, the Responsible Entity of the Scheme, is incorporated and domiciled in Australia.

The registered office of the Responsible Entity is located at Level 24, 33 Alfred Street, Sydney Cove, Sydney, NSW 2000.

## Principal activity

The principal activity for the Scheme during the year was the investment of unitholders' funds in accordance with the Scheme mandate. There has been no significant change in the nature of this activity during the year.

## Review of results and operations

AMP Capital Small Companies Fund incurred a net loss attributable to unitholders of \$(192,362,704) for the year ended 31 December 2008 (31 December 2007: \$62,591,263).

## Distributions

Distributions paid and payable by the Scheme for the year ended 31 December 2008 were \$921,044 (31 December 2007: \$60,732,088).

## Significant changes in the state of affairs

In the opinion of the directors, there have been no significant changes in the state of the Scheme's affairs during the financial year under review.

## Significant events after the balance date

Since 31 December 2008, there have been no matters or circumstances not otherwise dealt with in the Financial Report by the Responsible Entity that have significantly or may significantly affect the Scheme, its operations, results of operations or state of affairs in future years.

## Likely developments and expected results

Currently, there are no significant developments expected in respect of the Scheme. The performance of the Scheme in the future will be subject to movements in the underlying investment markets over time.

## Environmental regulation and performance

The operations of the Scheme are not subject to any particular or significant environmental regulations under a Commonwealth, State or Territory law.

## Relevant information

Following is a list of relevant information required under the Corporations Act 2001:

- Fees paid to the Responsible Entity - Refer to Note 9 to the Financial Statements
- Units held by the Responsible Entity in the Scheme - Refer to Note 9 to the Financial Statements
- Interests in the Scheme issued during the year - Refer to Note 7 to the Financial Statements
- Withdrawals from the Scheme during the year - Refer to Note 7 to the Financial Statements
- The value of Scheme assets and basis of valuation - Refer to Balance Sheet and Note 1 respectively
- The number of interests in the Scheme as at 31 December 2008 - Refer to Note 7 to the Financial Statements
- Distributions payable to unitholders at balance date - Refer to Balance Sheet

These notes have been presented in accordance with ASIC Class Order 98/2395.

**Indemnification and insurance of directors, officers and auditors**

Under its Constitution, AMP Capital Investors Limited will indemnify all directors, secretaries and executive officers of the company for certain liabilities for which they may be held personally liable. The Constitution provides for AMP Capital Investors Limited to pay an amount where:

- a) the liability does not arise out of conduct involving lack of good faith; or
- b) the liability is for reasonable legal costs and reasonable expenses incurred by the Director or officer in defending proceedings in which judgement is given in their favour or in which they are acquitted.

Directors and officers of AMP Capital Investors Limited are covered by insurance policies of AMP Limited, as AMP Capital Investors Limited is a subsidiary of the AMP Group.

No indemnity is given by any member of the AMP Group to present or former employees (other than directors and officers) against liability incurred in their capacity as an employee unless the giving of the indemnity has been approved by the Board of AMP Limited. During or since the year ending 31 December 2008, no indemnities have been provided (other than directors and officers).

Directors and officers of AMP Capital Investors Limited are not indemnified out of the assets of the Scheme.

During or since the end of the year, AMP Group has paid or agreed to pay premiums in respect of a contract insuring all the Directors, secretaries and executive officers against certain liabilities as permitted by the Corporations Act. The insurance policy prohibits disclosure of the nature of the liability, the amount of the premium and the limit of liability.

The auditor of the Scheme is in no way indemnified out of the assets of the Scheme.

**Auditor's independence declaration**

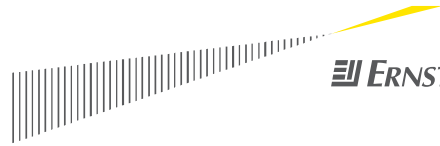
A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 4.

Signed in accordance with a resolution of the Directors of AMP Capital Investors Limited:



**Director**

Dated this 4th day of March 2009, Sydney

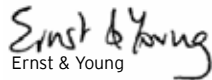


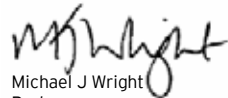
**ERNST & YOUNG**

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**Auditor's Independence Declaration to the Directors of AMP Capital Investors Limited**

In relation to our audit of the financial report of AMP Capital Small Companies Fund for the financial year ended 31 December 2008, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

  
Ernst & Young

  
Michael J Wright  
Partner  
4 March 2009

Liability limited by a scheme approved  
under Professional Standards Legislation

# Financial report

FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	2008 \$	2007 \$
<b>INVESTMENT INCOME</b>			
Dividends		5,592,402	7,247,334
Distributions		1,000,040	1,844,904
Interest		1,325,638	767,405
Changes in the fair value of investments		(197,159,372)	56,862,794
Other income		6,819	48,634
<b>Total investment income/(loss)</b>		<b>(189,234,473)</b>	<b>66,771,071</b>
<b>EXPENSES</b>			
Responsible Entity fees	9(c)	3,028,221	4,078,887
Non-recoverable GST		92,082	97,731
Other expenses		7,928	3,190
<b>Total operating expenses</b>		<b>3,128,231</b>	<b>4,179,808</b>
<b>OPERATING PROFIT/(LOSS)</b>		<b>(192,362,704)</b>	<b>62,591,263</b>
<b>Financing costs attributable to unitholders</b>			
Distributions to unitholders		921,044	60,732,088
<b>CHANGE IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS</b>		<b>(193,283,748)</b>	<b>1,859,175</b>

FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	2008 \$	2007 \$
<b>ASSETS</b>			
Cash and cash equivalents	8(a)	9,163,315	33,491,857
Deposits held with brokers for margin		51,805	1,150,863
Receivables	3	1,164,630	8,234,638
Financial assets held for trading			
– Listed equity securities	4(a)	150,034,254	312,519,277
– Derivative financial instruments	4(b)	36,195	368,988
<b>TOTAL ASSETS</b>		<b>160,450,199</b>	<b>355,765,623</b>
<b>LIABILITIES</b>			
Payables	6	5,031,684	3,056,087
Distribution payable		-	11,118,684
Financial liabilities held for trading			
– Derivative financial instruments	5	-	15,850
<b>Total liabilities excluding net assets attributable to unitholders</b>		<b>5,031,684</b>	<b>14,190,621</b>
<b>NET ASSETS ATTRIBUTABLE TO UNITHOLDERS</b>		<b>155,418,515</b>	<b>341,575,002</b>

# Statement of changes in net assets attributable to unitholders ●

## FOR THE YEAR ENDED 31 DECEMBER 2008

	2008 \$	2007 \$
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		
Opening Balance	341,575,002	239,986,283
Applications	50,687,082	99,497,037
Reinvested Distributions	8,180,090	44,886,646
Redemptions	(51,484,076)	(44,654,139)
Return of Capital	(255,835)	-
	<b>348,702,263</b>	<b>339,715,827</b>
Change in net assets attributable to unitholders	(193,283,748)	1,859,175
<b>Net assets attributable to unitholders</b>	<b>155,418,515</b>	<b>341,575,002</b>

FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	2008 \$	2007 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Proceeds from sales of financial instruments held for trading		257,619,622	291,718,315
Payments for purchases of financial instruments held for trading		(280,124,314)	(294,033,865)
Amount received from/(paid to) brokers for margin		1,099,058	(1,039,213)
Dividends received		2,537,121	5,167,647
Distributions received		1,788,158	113,089
Interest received		1,325,638	767,405
GST received/(paid)		15,197	(199,591)
Other income received		6,819	48,634
Responsible Entity fees paid		(3,675,446)	(3,906,358)
Other expenses paid		(7,928)	(3,190)
<b>Net cash outflow from operating activities</b>	<b>8(b)</b>	<b>(19,416,075)</b>	<b>(1,367,127)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from applications by unitholders		50,687,082	99,497,037
Payments for redemptions by unitholders		(51,484,076)	(44,654,139)
Distributions paid		(3,859,638)	(26,373,251)
Return of capital paid		(255,835)	-
<b>Net cash inflow/(outflow) from financing activities</b>		<b>(4,912,467)</b>	<b>28,469,647</b>
<b>Net increase/(decrease) in cash and cash equivalents held</b>		<b>(24,328,542)</b>	<b>27,102,520</b>
Cash and cash equivalents at beginning of year		33,491,857	6,389,337
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>8(a)</b>	<b>9,163,315</b>	<b>33,491,857</b>
<b>Non-cash financing and operating activities</b>	<b>8(c)</b>	<b>10,740,932</b>	<b>48,658,942</b>

FOR THE YEAR ENDED 31 DECEMBER 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated in the following text.

**(a) Basis of Preparation**

This general purpose financial report has been prepared in accordance with the Scheme Constitution and the requirements of the Corporations Act 2001, which includes Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and Australian Accounting Interpretations.

The financial report has been prepared on the basis of fair value measurement of assets and liabilities, except where otherwise stated.

The Balance Sheet presents assets and liabilities in decreasing order of liquidity and does not distinguish between current and non current items.

All of the Scheme's assets and liabilities are held for the purpose of being traded or are expected to be realised within one year. Certain assets and liabilities may not be settled within 12 months, in particular trading securities and unitholder liabilities. Given the nature of the Scheme, a reasonable estimate cannot be made of the amount of the balances, if any, that are unlikely to be settled within 12 months.

The accounting policies of the Scheme are consistent with those of the most recent annual financial statements.

**(b) Statement of Compliance**

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the reporting period ended 31 December 2008. When applied in future periods, these recently issued or amended standards are not expected to have a material impact on the Scheme's financial results or reporting position; however, they may impact Financial Report disclosures.

**(c) Financial Instruments Held for Trading**

The Scheme's investments are classed as financial instruments held for trading and are acquired principally for the purpose of selling or repurchasing in the short term. Financial instruments held for trading are initially recognised at fair value excluding transaction costs and subsequently measured at fair value through profit or loss.

**Listed equity securities**

The fair value of a listed equity security is determined by reference to the "bid" price of the security, as quoted on its primary exchange on the day of valuation.

Purchases and sales of trading securities that require delivery of assets within the time frame established by regulation or market place convention are recognised on the trade date, which is the date that the Scheme commits to purchase or sell the asset.

**(d) Derivative Financial Instruments**

Derivative financial instruments are categorised as held for trading as the Scheme does not designate any derivatives as hedges in a hedging relationship. Derivative financial instruments are recognised at fair value on the date on which a derivative contract is entered into and are subsequently revalued at their fair value.

**Futures Contracts**

Futures contracts are contractual obligations to buy or sell financial instruments on a future date at a specified price established in an organised market. Equity and interest rate futures contracts are marked to market according to the last quoted sale price in the relevant futures exchange at valuation date.

**(e) Use of Estimates**

The Scheme may make estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial period. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(f) Investment Income**

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

**Dividend Income**

Dividends are recognised as income on the date the share is quoted ex-dividend.

**Trust Distributions Income**

Trust distributions are recognised as income on an entitlements basis.

**Interest Income**

Interest income earned on cash and cash equivalents is recognised on a receipts basis.

**Changes in the fair value of investments**

Changes in the fair value of investments are recognised as income and are determined as the difference between the fair value at year end or consideration received (if sold during the year) and the fair value as at the prior period end or initial fair value (if the investment was acquired during the year).

**(g) Expenses**

All expenses are recognised in the Income Statement on an accruals basis.

**(h) Derecognition of Financial Instruments**

Financial instruments are derecognised when the rights to receive cash flows from the financial assets have expired or been transferred and substantially all the risks and rewards of ownership have been transferred.

**(i) Deposits held with Brokers for Margin**

Deposits held with brokers for margin comprises cash held as collateral for derivative transactions.

**(j) Cash and Cash Equivalents**

For the purposes of the Cash Flow Statement, cash and cash equivalents include deposits held at call with a bank or financial institution with an original maturity date of three months or less. Cash and cash equivalents also include highly liquid investments which are readily convertible

to cash on hand at the Responsible Entity's option and which the Responsible Entity uses in its day to day management of the Scheme's cash requirements.

**(k) Receivables**

Receivables include amounts where settlement has not yet occurred, and include outstanding settlements on the sale of investments. Receivables are recognised and carried at their original amounts. Amounts are generally received within 30 days of being recorded as receivables.

**(l) Payables**

Payables are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Scheme, and include outstanding settlements on the purchase of investments. Amounts are generally paid within 30 days of being recorded as payables.

**(m) Net Assets Attributable to Unitholders**

Units are redeemable at the unitholders' option and are therefore classified as financial liabilities. The units can be put back into the Scheme at any time for cash equal to a proportionate share of the Scheme's net asset value. The fair value of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) at the balance sheet date if unitholders exercised their right to put the units back into the Scheme. Because the Scheme's redemption unit price is based on different valuation principles to that applied in financial reporting, a valuation difference exists, which has been treated as a component of net assets attributable to unitholders.

**(n) Taxation**

Under current legislation, the Scheme is not liable to pay income tax since, under the terms of the Scheme Constitution, the unitholders are presently entitled to the income of the Scheme.

**(o) Distributable Income**

In accordance with the Scheme Constitution, the Scheme fully distributes its distributable income to unitholders each tax year. Distributions are payable at the end of each half year. Such distributions are determined by reference to the taxable income of the Scheme. Distributions are recognised in the Income Statement as finance costs attributable to unitholders.

FOR THE YEAR ENDED 31 DECEMBER 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Distributable income includes capital gains arising from the disposal of assets.

Distributable income does not include unrealised gains and losses on the net value of investments, accrued income not yet assessable and expenses provided for or accrued but not yet deductible, tax free or deferred income and realised capital losses which are retained to offset future realised capital gains.

**(p) Foreign Currency Translation**

**(i) Functional and presentation currency**

Items included in the Scheme's financial statements are measured using the currency of the primary economic environment in which it operates (the "functional currency"). This is the Australian dollar, which reflects the currency of the economy in which the Scheme competes for capital and is regulated. The Australian dollar is also the Scheme's presentation currency.

**(ii) Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies on the Balance Sheet are recognised in the Income Statement.

**(q) Unit Classes**

The Scheme contains multiple unit classes reflecting the different servicing requirements of various unitholders. Due to the additional services required by some unitholder classes, different management fees apply to different unit classes. These management fees, expressed as a ratio, as at 31 December 2008 are as follows:

Wholesale Class units	0.7140% p.a.
A Class units	1.0227% p.a.
Retail Class units	2.1000% p.a.
No Fee Class units	0.0000% p.a.
AMPCI Retail Class units	1.3227% p.a.

Management fees relating to "No Fee" class units are paid to the Responsible Entity outside of the Scheme.

**(r) Unit Exit Prices**

Unit exit prices are determined in accordance with the Scheme Constitution and are calculated on a forward pricing basis as the net assets attributable to unitholders of the Scheme less estimated transaction costs divided by the number of units on issue.

**(s) Terms and Conditions of Units on Issue**

Each unit, within a Unit Class, confers upon the unitholder an equal interest in the Scheme (subject to income entitlements), and is of equal value. A unit does not confer an interest in any particular asset or investment of the Scheme.

Unitholders have various rights under the Scheme 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 Scheme.

The rights, obligations and restrictions attached to each unitholder class are identical in all respects other than the minimum investment requirements and/or fee structures applicable to each class.

Applications received for units in the Scheme are recorded net of any entry fees payable prior to the issue of units in the Scheme. Redemptions from the Scheme are recorded gross of any exit fees payable after the cancellation of units redeemed.

**(t) Goods and Services Tax**

Responsible Entity fees and other expenses incurred by the Scheme are recognised net of the amount of goods and services tax (GST) recoverable from the taxation authority as a reduced input tax credit. Payables and accruals are stated with the amount of GST included. The net amount of GST recoverable from or payable to the Australian Taxation Office (ATO) is included as a receivable or payable in the Balance Sheet. Cash flows are included in the Cash Flow Statement on a gross basis. The GST components of cash flows arising from investing and financing activities which is recoverable from or payable to the ATO are classified as operating cash flows.

FOR THE YEAR ENDED 31 DECEMBER 2008

NOTE 2: AUDITOR'S REMUNERATION

	2008 \$	2007 \$
Amounts paid or payable to Ernst & Young, the auditor of the Scheme, for:		
– Audit and review of the Financial Statements of the Scheme	9,750	5,240
	<b>9,750</b>	<b>5,240</b>

Auditor's remuneration for audit and review of the Scheme has been paid by AMP Capital Investors Limited.

NOTE 3: RECEIVABLES

	2008 \$	2007 \$
Dividends receivable	520,140	460,049
Distributions receivable	279,158	632,928
Outstanding settlements receivable	231,437	6,900,487
GST receivable	133,895	241,174
	<b>1,164,630</b>	<b>8,234,638</b>

NOTE 4: FINANCIAL ASSETS HELD FOR TRADING

	2008 \$	2007 \$
<b>(a) Listed equity securities</b>		
– Equities	146,634,953	303,937,468
– Stapled securities	3,399,301	8,581,809
	<b>150,034,254</b>	<b>312,519,277</b>
<b>(b) Derivative financial instruments</b>		
– Equity futures	36,195	368,988
	<b>36,195</b>	<b>368,988</b>
<b>Total Financial Assets Held for Trading</b>	<b>150,070,449</b>	<b>312,888,265</b>

FOR THE YEAR ENDED 31 DECEMBER 2008

**NOTE 5: FINANCIAL LIABILITIES HELD FOR TRADING**

	2008 \$	2007 \$
Derivative financial instruments		
– Equity futures	-	15,850
<b>Total Financial Liabilities Held for Trading</b>	<b>-</b>	<b>15,850</b>

**NOTE 6: PAYABLES**

	2008 \$	2007 \$
Responsible Entity fees payable	428,868	1,076,093
Outstanding settlements payable	4,602,816	1,979,994
	<b>5,031,684</b>	<b>3,056,087</b>

**NOTE 7: NET ASSETS ATTRIBUTABLE TO UNITHOLDERS**

The movement in number of units on issue during the year was as follows:

	2008 units	2007 units
<b>Units on Issue</b>		
Opening Balance	143,554,986	101,371,234
Applications	31,437,414	45,791,557
Reinvested Distributions	3,455,134	18,657,052
Redemptions	(33,725,367)	(22,264,857)
<b>Closing Balance</b>	<b>144,722,167</b>	<b>143,554,986</b>
<b>Represented by:</b>		
<b>Wholesale Class</b>		
Opening Balance	5,249,574	4,499,336
Applications	3,976,372	1,002,464
Reinvested Distributions	81,011	406,992
Redemptions	(492,922)	(659,218)
<b>Closing Balance</b>	<b>8,814,035</b>	<b>5,249,574</b>
<b>A Class</b>		
Opening Balance	34,402,497	25,819,606
Applications	10,030,221	15,136,695
Reinvested Distributions	83,263	442,485
Redemptions	(14,031,775)	(6,996,289)
<b>Closing Balance</b>	<b>30,484,206</b>	<b>34,402,497</b>
<b>Retail Class</b>		
Opening Balance	65,114,758	56,992,670
Applications	8,853,672	7,474,480
Reinvested Distributions	1,512,586	12,276,761
Redemptions	(17,545,138)	(11,629,153)
<b>Closing Balance</b>	<b>57,935,878</b>	<b>65,114,758</b>
<b>No Fee Class</b>		
Opening Balance	33,885,189	13,397,415
Applications	7,792,869	15,569,609
Reinvested Distributions	1,692,988	5,267,370
Redemptions	(283,130)	(349,205)
<b>Closing Balance</b>	<b>43,087,916</b>	<b>33,885,189</b>

FOR THE YEAR ENDED 31 DECEMBER 2008

**NOTE 7: NET ASSETS ATTRIBUTABLE TO UNITHOLDERS (CONTINUED)**

The movement in number of units during the year was as follows:

	2008 units	2007 units
<b>AMPCI Retail Class</b>		
Opening Balance	4,902,968	662,207
Applications	784,280	6,608,309
Reinvested Distributions	85,286	263,444
Redemptions	(1,372,402)	(2,630,992)
<b>Closing Balance</b>	<b>4,400,132</b>	<b>4,902,968</b>

**NOTE 8: CASH AND CASH EQUIVALENTS**

	2008 \$	2007 \$
<b>(a) Reconciliation of Cash and Cash Equivalents</b>		
Cash and cash equivalents at the end of the year as shown in the Cash Flow Statement is reconciled to the related items in the Balance Sheet as follows:		
Cash on deposit	9,163,315	33,491,857
	<b>9,163,315</b>	<b>33,491,857</b>
<b>(b) Reconciliation of Operating Profit/(Loss) to Net Cash Outflow from Operating Activities</b>		
Operating profit/(loss) attributable to unitholders	(192,362,704)	62,591,263
Proceeds from sales of financial instruments held for trading	257,619,622	291,718,315
Payments for purchases of financial instruments held for trading	(280,124,314)	(294,033,865)
Changes in the fair value of investments	197,159,372	(56,862,794)
Investment income reinvested	(2,560,842)	(3,772,296)
Net change in deposits held with brokers	1,099,058	(1,039,213)
Changes in assets and liabilities:		
(Increase)/decrease in receivables	400,958	(141,066)
Increase/(decrease) in payables	(647,225)	172,529
<b>Net cash and cash equivalents outflow from operating activities</b>	<b>(19,416,075)</b>	<b>(1,367,127)</b>
<b>(c) Non-cash Financing and Operating Activities</b>		
Non-cash financing and operating activities carried out during the year on normal commercial terms and conditions included:		
Reinvestment of unitholder distributions	8,180,090	44,886,646
Participation in reinvestment plans	2,560,842	3,772,296
	<b>10,740,932</b>	<b>48,658,942</b>

FOR THE YEAR ENDED 31 DECEMBER 2008

NOTE 9: RELATED PARTY TRANSACTIONS

(a) General Information

The Responsible Entity of the Scheme is AMP Capital Investors Limited, a wholly owned subsidiary of AMP Limited.

(b) Investments

(i) Related party holdings of the Scheme

Details of the Scheme's holdings in related entities, which are Registered Schemes of which AMP Capital Investors Limited is the Responsible Entity, or are entities in the same wholly owned group as the Responsible Entity are set out below:

	Fair value \$		Interest held %		Distributions received or receivable during year \$	
	2008	2007	2008	2007	2008	2007
	AMP Capital Managed Cash Fund	9,184,429	33,799,944	0.63	1.89	1,271,419

(ii) Related party investors in the Scheme

Details of related party investors in the Scheme, including the Responsible Entity, entities in the same wholly owned group as the Responsible Entity, and other Schemes managed by the Responsible Entity, are set out below:

2008	Number of units held	Interest held %	Number of units acquired during year	Number of units disposed of during year	Distributions paid or payable during year \$
AMP Life Limited	43,087,916	29.77	9,485,857	(283,130)	816,129

2007	Number of units held	Interest held %	Number of units acquired during year	Number of units disposed of during year	Distribution paid or payable during year \$
AMP Life Limited	33,885,189	23.60	20,836,979	(349,205)	12,918,829
Mohl Family Trust	108,208	0.08	-	-	56,408

The Mohl Family Trust is an entity controlled by the director, Andrew M. Mohl.

**NOTE 9: RELATED PARTY TRANSACTIONS (CONTINUED)**

**(c) Transactions with the Responsible Entity**

All transactions between the Scheme and related parties have been at market value on normal commercial terms and conditions. This includes purchases and sales of investments as well as applications and redemptions of units.

In accordance with the Scheme Constitution, the Responsible Entity is entitled to receive fees for the provision of services to the Scheme and to be reimbursed for certain expenditure incurred in the administration of the Scheme.

	2008 \$	2007 \$
Responsible Entity fees expensed during the year	3,028,221	4,078,887

During the year the Responsible Entity has incurred certain expenses on behalf of the Scheme. It is the Responsible Entity's intention not to seek reimbursement of these expenses from the Scheme.

**(d) Key Management Personnel**

AASB 124 "Related Party Disclosures" defines key management personnel (KMP) as including all non-executive directors, executive directors and any other persons having authority or responsibility for planning, directing and controlling the activities of the entity. The Scheme has no direct employees, however the non-executive directors and the executive directors of the Responsible Entity have been deemed to be directors of the Scheme. These individuals and the Responsible Entity comprise the KMP of the Scheme.

The names of each person holding the position of Director of the Responsible Entity at any time during the year and until the date of this report are as follows:

Name	Position	
Jack H. Ritch	Chairman and Non-executive Director	
Stephen J. P. Dunne	Executive Director	
J. Brian Clark	Non-executive Director	Appointed 8 February 2008
Craig W. Dunn	Managing Director and CEO of AMP Limited	
Stephen A. Grenville	Non-executive Director	
Donald R. Luke	Non-executive Director	
Nora L. Scheinkestel	Non-executive Director	

Remuneration paid to the Responsible Entity is detailed in Note 9(c) above. No director of the Responsible Entity was paid any remuneration by the Scheme during the year and their compensation paid by the Responsible Entity or related entities of the Responsible Entity is not related to services they render to the individual schemes.

FOR THE YEAR ENDED 31 DECEMBER 2008

**NOTE 10: FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

**(a) Financial Risk Management Objectives, Policies and Processes**

Risks arising from holding financial instruments are inherent in the Scheme's activities, and are managed through a process of ongoing identification, measurement and monitoring. The Scheme is exposed to credit risk, liquidity risk and market risk.

Financial instruments of the Scheme comprise investments in financial assets for the purpose of generating a return on the investment made by unitholders, in addition to derivatives, cash and cash equivalents, net assets attributable to unitholders, and other financial instruments such as trade debtors and creditors, which arise directly from its operations. The Responsible Entity is responsible for identifying and controlling the risks that arise from these financial instruments.

The risks are measured using a method that reflects the expected impact on the results and net assets attributable to unitholders of the Scheme from reasonably possible changes in the relevant risk variables. Information about these risk exposures at the period end, for illustrative purposes, is disclosed below. Information about the total fair value of financial instruments exposed to risk, as well as compliance with established investment mandate limits, is also monitored by the Responsible Entity. These mandate limits reflect the investment strategy and market environment of the Scheme, as well as the level of risk that the Scheme is willing to accept, with additional emphasis on selected industries.

This information is prepared and reported to relevant parties within the Responsible Entity on a regular basis as deemed appropriate, including the fund manager, compliance manager, other key management, Risk and Investment Committees. As part of its risk management strategy, the Scheme may use derivatives to manage certain risk exposures.

Concentrations of risk arise when a number of financial instruments or contracts are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. In order to avoid excessive concentration of risk, the Scheme monitors its exposure to ensure concentrations of risk remain within acceptable levels and either reduces exposure or uses derivative instruments to manage the excessive risk concentrations when they arise. The Responsible Entity's objectives when managing capital are to safeguard the Scheme's ability to continue as a going concern, so it can continue to provide returns for unitholders and benefits for other stakeholders and to maintain an optimal capital structure.

In order to maintain or adjust the capital structure, the Responsible Entity may reinvest distributions. The Scheme does not have any externally imposed capital requirements.

**(b) Credit risk**

Credit risk represents the risk that a counterparty will fail to perform contractual obligations under a contract. The Scheme's maximum credit risk exposure at balance date in relation to each class of recognised financial asset, other than equity and derivative financial instruments, is the carrying amount of those assets as indicated in the Balance Sheet. This does not represent the maximum risk exposure that could arise in the future as a result of changes in values, but best represents the current maximum exposure at the reporting date.

In relation to equity and derivative financial instruments, credit risk arises from the potential failure of counterparties to meet their obligations under the contract or arrangement. The risk associated with these contracts is minimised by undertaking transactions with counterparties on recognised exchanges, and ensuring that transactions are undertaken with a large number of counterparties. As such, the Scheme does not have a concentration of credit risk that arises from exposure to derivatives from a single, or small group of counterparties.

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values. The Scheme holds no collateral as security or any other credit enhancements. There are no financial assets that are past due or impaired, or would otherwise be past due or impaired except for the terms having been renegotiated.

Credit risk is not considered to be significant to the Scheme except in relation to investments in debt securities. This Scheme does not have an investment in debt securities.

**NOTE 10: FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)**

**(c) Liquidity and cash flow risk**

Liquidity risk is the risk that the Scheme will encounter difficulty in meeting obligations associated with financial liabilities. Cash flow risk is the risk that future cash flows associated with financial instruments will fluctuate in amount. This risk is controlled through the Scheme’s investment in financial instruments, which under normal market conditions are readily convertible to cash. In addition, the Scheme maintains sufficient cash and cash equivalents to meet normal operating requirements.

**Maturity analysis for financial liabilities**

Financial liabilities of the Scheme comprise trade and other payables, distributions payable, derivative instruments and net assets attributable to unitholders. Trade and other payables and distributions payable have no contractual maturities but are typically settled within 30 days. Derivative instruments are held for trading for the purposes of making short term gains. Although they have contractual maturities, management’s expectation is that they will typically dispose of them within a shorter period of time. Net assets attributable to unitholders are entirely payable on demand, however the Responsible Entity has the power under the Scheme Constitution to amend the timing of redemption payments.

**(d) Market risk**

Accounting standards require the disclosure of sensitivity to changes in market risk variables such as equity prices, exchange rates and interest rates. This sensitivity is not intended to show the impact on the profit for the entire period, just an illustrative example of the direct impact of a change in the value of the financial assets held at the period end as a result of the change in market rate.

The sensitivity is required to show the impact of a reasonably possible change in market rate (it is not intended to illustrate a remote, worst case or stress test scenario) over the period to the subsequent reporting date.

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. Market risk is managed and monitored using sensitivity analysis, and minimised through ensuring that all investment activities are undertaken in accordance with established mandate limits and investment strategies.

The Scheme buys and sells derivatives in the ordinary course of business, and also incurs financial liabilities, in order to manage market risks.

**Price risk**

Price risk is the risk that the fair value of equities and derivatives decreases as a result of changes in market prices, whether those changes are caused by factors specific to the individual stock or factors affecting all instruments in the market. Price risk exposure arises from the Scheme’s investment portfolio.

All securities present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The analysis below demonstrates the impact of a 20% movement in equities and derivatives. This sensitivity analysis has been performed to assess the direct risk of holding equity and derivative instruments with all other variables held constant. It is assumed that the relevant change occurs as at the reporting date.

	Price Risk	
	-20% \$	+20% \$
31 December 2008	(30,014,090)	30,014,090
31 December 2007	(62,574,483)	62,574,483

FOR THE YEAR ENDED 31 DECEMBER 2007

**NOTE 11: DERIVATIVE FINANCIAL INSTRUMENTS**

A derivative financial instrument is a contract, the price or value of which is derived from the price or value of an underlying asset, liability or index. Investments in derivative financial instruments such as futures and options are authorised investments, which may be used to manage financial risks associated with the Scheme's investment transactions, and as a means of effecting a change in the asset mix.

Investments in derivatives are not used to gear the Scheme's investment portfolio. Under the Scheme Constitution, investment in derivatives is limited to the asset allocation limits for the underlying investment class.

The fair value of derivative financial instruments shown represents the amount of unrealised gains and losses, whereas the notional amount is an aggregate exposure value of all contracts. The derivative financial instruments are due to mature within the next year.

	2008			2007		
	Fair value		Notional amount	Fair value		Notional amount
	Assets	Liabilities		Assets	Liabilities	
	\$	\$	\$	\$	\$	
Equity futures	36,195	-	749,200	368,988	(15,850)	29,835,600
<b>Total derivative financial instruments</b>	<b>36,195</b>	<b>-</b>	<b>749,200</b>	<b>368,988</b>	<b>(15,850)</b>	<b>29,835,600</b>

**NOTE 12: SEGMENT INFORMATION**

The Scheme operates solely in the business of investment management.

The Scheme operates from and is domiciled in Australia.

**NOTE 13: COMMITMENTS AND CONTINGENCIES**

The Scheme had no commitments or contingencies at 31 December 2008 (31 December 2007: nil) other than those specified in the Financial Report.

**NOTE 14: AUTHORISATION OF FINANCIAL REPORT**

The financial report of the AMP Capital Small Companies Fund for the year ended 31 December 2008 was authorised for issue in accordance with a resolution of the directors of AMP Capital Investors Limited on the 4th day of March 2009.

**NOTE 15: EVENTS SUBSEQUENT TO BALANCE DATE**

Since 31 December 2008 there have been no matters or circumstances not otherwise dealt with in the Financial Report that have significantly affected or may significantly affect the Scheme.

# Directors' declaration ●

In accordance with a resolution of the Directors of AMP Capital Investors Limited, I state that:

In the opinion of the Directors of the Responsible Entity, at the date of this Declaration:


- (a) The financial statements and notes of the Scheme are in accordance with the requirements of the Corporations Act 2001, and:
  - (i) are properly drawn up so as to present a true and fair view of the financial position of the Scheme as at 31 December 2008 and of its performance for the year ended on that date; and
  - (ii) comply with Accounting Standards, the Corporations Regulations 2001 and mandatory professional reporting requirements.
- (b) There are reasonable grounds to believe that the Scheme 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 AMP Capital Investors Limited:



Director

Dated this 4th day of March 2009 , Sydney



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**Independent auditor's report to the unitholders of AMP Capital Small Companies Fund**

We have audited the accompanying financial report of AMP Capital Small Companies Fund, which comprises the balance sheet as at 31 December 2008, and the income statement, statement of changes in net assets attributable to unitholders and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

**Directors' Responsibility for the Financial Report**

The directors of the Responsible Entity are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1(b), the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

**Auditor's Responsibility**

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


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

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

**Independence**

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the Responsible Entity a written Auditor's Independence Declaration, a copy of which is attached to the directors' report.

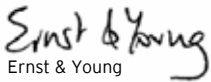
Liability limited by a scheme approved under Professional Standards Legislation



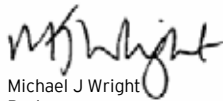
**Auditor's Opinion**

In our opinion:

1. the financial report of AMP Capital Small Companies Fund is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the financial position of AMP Capital Small Companies Fund at 31 December 2008 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.



Ernst & Young



Michael J Wright  
Partner  
Sydney  
4 March 2009

AMP Capital Investors Limited  
ABN 59 001 777 591  
[www.ampcapital.com.au](http://www.ampcapital.com.au)

**Investing. It's what we do.**