



## Chairman's Report

For the half year to the 31st of December 2002

The Board of Directors is very pleased to report to shareholders that net profit after tax and outside equity interests was \$431,329 for the six months ended 31 December 2002. This represents a substantial increase compared to a loss of \$16,683 reported in the corresponding period to 31 December 2001. On a like for like basis, revenue from continuing operations increased from \$1,990,847 in the six months ended 31 December 2001 to \$5,112,343 for the latest six months, an increase of 156.7%.

The company recently reported that funds under management (FUM) as at December 2002 stood at \$1.52 billion, an increase of 189% over December 2001 FUM of \$526 million. This excellent growth is now beginning to be reflected in net company earnings and we expect to report a significantly higher second half result, auguring well for our full year result.

Investors Mutual Limited has continued to grow strongly lifting its funds under management to \$1.48 billion at 31 December 2002 from \$900 million at 30 June 2002 and \$500 million at 31 December 2001. This growth is particularly pleasing considering the very difficult investment climate. The greater proportion of these flows has been sourced from retail and masterfund sourced clients as Investors Mutual has become well accepted as a core Australian equities manager. Investors Mutual is well represented on all major masterfunds and wrap platforms and is well placed to continue its growth. In addition, in February Investors Mutual was nominated for the prestigious "Emerging Fund Manager" award by Morningstar for its management of the Sandhurst Industrial Share Fund.

Whilst we do not promote Investors Mutual to clients based solely on past investment results, it is very pleasing to note that investment returns for clients were positive for the 2002 calendar year against indices which were significantly negative. As an example the Investors Mutual Australian Share Fund earned +3.25% (versus the S&P/ASX 300 Accumulation Index of -8.64%), the retail oriented Sandhurst Industrial Share Fund offered through our alliance partner earned +6.04% (All Industrials Index -10.67%) and the Investors Mutual Smaller Companies Fund earned +9.34 % (Smaller Companies Index -10.53%). Investors Mutual is a conservative investor and is providing clients and financial planners with strong peace of mind in these testing times.

A new business partnership between Treasury Group and Mr Tim Ryan was detailed to shareholders at the recent Annual General Meeting held in November. This business named Orion Asset Management Limited became operational on the 3<sup>rd</sup>

February 2003 receiving its first institutional client mandate. This progress is particularly pleasing given that our agreement was only concluded in late November.

The cooperation from both sides has been fantastic allowing us to cover enormous ground during this set up phase. Treasury's involvement during this phase has allowed Orion to hand pick its investment team, develop and document the investment process and establish appropriate dealing and compliance systems. The required infrastructure is in place and we look forward with a great deal of excitement to the next 12 months.

Armytage private has also grown its private funds under management business from \$26m to \$40m during the 12 months to December 2002. During a volatile and uncertain time, Armytage private has enjoyed sound growth and a broadening client base. A new Investment Director, Campbell McComb has been appointed further strengthening the team. Despite adverse market conditions Armytage is continuing to grow its asset and client base.

The core services and support that Treasury Group has provided to Orion has now been formalised into a wholly owned subsidiary, Treasury Group Investment Services. This vehicle is in the process of applying for a Dealers Licence and will be in a position to offer Responsible Entity Services within the Group. This initiative will deliver a number of benefits and it will more easily enable product development within the Group. In addition there will be a cost saving as compared to using an outside service and it will maximise capital allocation within the Group. Very importantly it enhances the Treasury Group offering to potential business partner fund managers.

The Group's success in assisting Investors Mutual and attracting fund managers of the calibre of Anton Tagliaferro, Tim Ryan and their respective teams has alerted the market to the active and beneficial role we can play. We continue to receive many investment proposals however we remain focused on our goal to grow the business selectively and carefully. There has recently been coverage in the press as to the very high level of growth in market share of boutique fund managers and the challenges that face larger funds management companies in retaining their people and delivering sound investment results. Treasury Group has carefully positioned itself to be a central player in these developments.

The Board anticipates that the strong first half result is a forerunner to a further improved second half result. This is a result of an increased base in funds under management on which management fees are earned. Dividend policy is anticipated to reflect the company's profit growth performance for the full financial year.

In summary, despite these very uncertain and volatile times, Treasury Group continues to focus on building a strong, diversified and sustainable funds management business. We remain focussed on growing our profitability but at the same time we are committed to building or acquiring young businesses which can benefit from our involvement and which will further grow our profitability well into the future.

Lee lafrate  
Chairman

14<sup>th</sup> February 2003