



14 January 2004
PO Box R718
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**Australian Small Company Investment Fund -
Newsletter for 6 months to 31/12/2003**

In the 6 months to 31 December 2003 the fund returned +27.7% and the ending unit price was \$1.2327. For the last year the fund returned 35.5%. We regard both of these results as being satisfactory.

You will recall that due to the difficulties of estimating the full year distribution after only 6 months actual figures, the fund does not give a distribution for the six months to December.

Macquarie Goodman Management, Sydney Futures Exchange and Iress, stocks that we have previously spoken about and in which we continue to retain significant holdings, were major contributors over the six months.

The fund has also benefited significantly from its holdings in MYOB and Reckon over the period and has recently sold a small portion of its relatively large Reckon holding. These two companies dominate the medium size business (SME) and personal accounting software sector of the Australian market. MYOB has approximately two thirds and Reckon one third of the market. After a boom and bust created by the introduction of GST in 2000, this market has shown solid growth over the past 2 years and is expected to keep growing at 10 – 15%pa over the next few years.

As well as being the dominant player, MYOB has been the more consistent financial performer attracting a premium PER rating for the company. Currently MYOB is spending considerable resources developing and promoting its "M-Powered Services", designed to substantially reduce the labour content in accounting administration for SMEs. While revenue from this is currently very small and SMEs have been slow to accept the concept, the long term potential could be very significant for MYOB.

Reckon, on the other hand, posted its maiden profit in CY02. More significantly, it recently announced that its CY03 net profit will be up 128% and has forecast a further 48% growth in CY04. Based on these numbers it is on a CY04 PER of less than 12x, which for a company growing at nearly 50% pa appears to be still reasonable value.

On behalf of Bill Ryan and myself, I would like to take this opportunity to thank you for your support of the fund. We will continue to work diligently over the coming period to achieve a satisfactory return and I look forward to giving you an update in 6 months.

Yours sincerely,

Rob Hopkins

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