



*Prime Value Growth Fund*

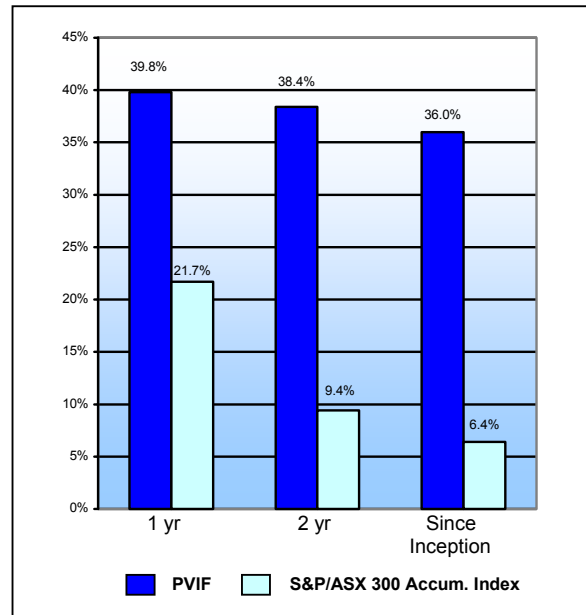
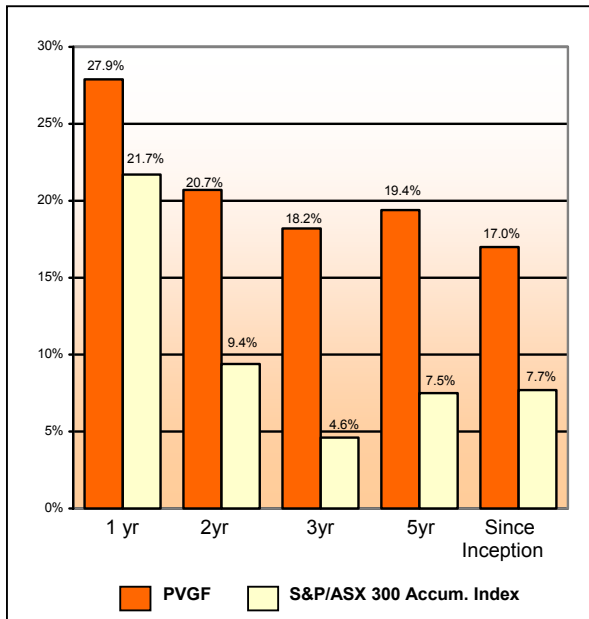
- increased by **167.1%\***  
since it was established  
10 April 1998.

For more information see page 2.....

*Prime Value Imputation Fund*

- increased by **121.1%\***  
since it was established  
20 December 2001

For more information see page 3.....



Graphs: Annual Return of PVGF, PVIF and S&P/ASX 300 Accumulation Index for period ended 30 June 2004

\* Performance figures in this Newsletter have been calculated in accordance with IFSA Standard no. 6.00, Fund Performance-Calculation and Presentation of Returns. The Returns are calculated before performance fees which are charged against individual accounts. The Returns exclude imputation credits (grossed up for tax purposes for Australian residents only). No allowance has been made for taxation. Performance assumes the reinvestment of income distributions. Past performance is not necessarily an indication of future performance.

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## Prime Value Growth Fund

The **Growth Fund**, which comprises of predominantly Australian equities, continues to achieve its medium term objective of delivering superior absolute capital growth with some income. **The Fund has achieved its sixth consecutive financial year of positive return, five of them with solid double-digit returns.**

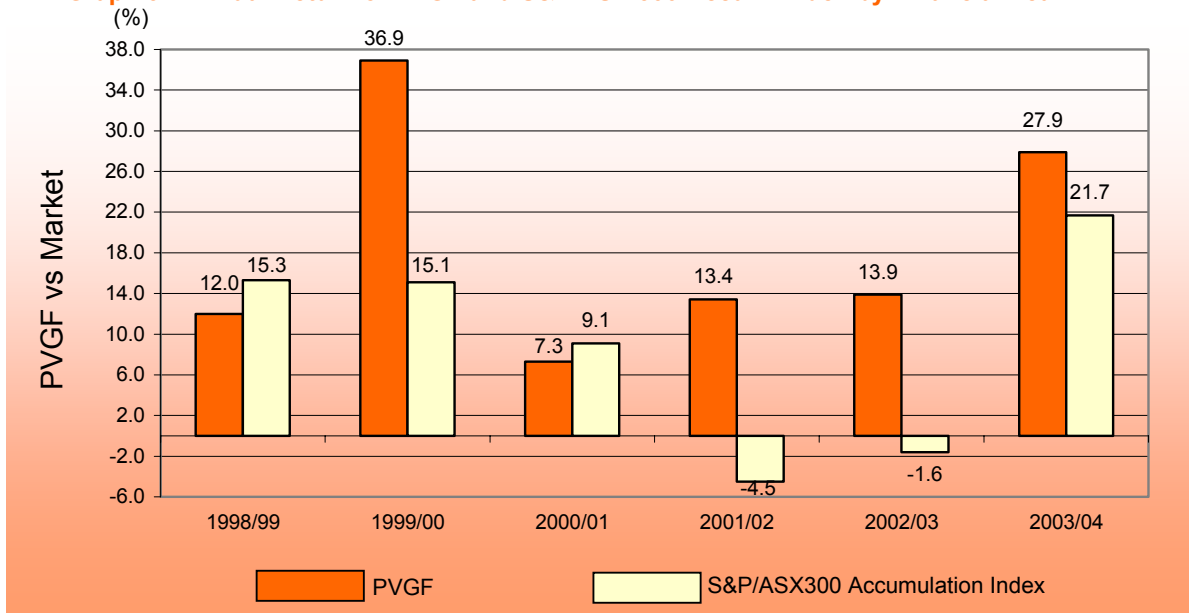
### Our Fundamental Philosophy continues to be ... “minimisation of mistakes”

The Fund has achieved significant out-performance compared to the market in four of the last six financial years (see Graph 3 below). These results were achieved not primarily by our ability to pick major “winners” in any financial year, but rather by avoiding the stocks which have suffered major losses (“mistakes”). The basis of our success is “not picking the winners but avoidance and minimisation of mistakes”. We continue to refine our investment process including more stringent stop-loss measures. **“Good stewardship” to Prime Value means knowing the delicate balance between wealth creation and wealth preservation at different stages of the market cycle.**

### Portfolio Construction in 2004/05... growth with a defensive bias

We will continue to re-assess our portfolio strategy in light of the numerous possible investment themes and the market uncertainties in 2004/05. We intend to position the Fund to have a growth-oriented portfolio but with a defensive bias. This means a portfolio which is underpinned by growth stocks with a proven **track record and/or stocks with promising growth potential.** The Growth Fund continues to diversify across different industry sectors (see Chart 1) and across

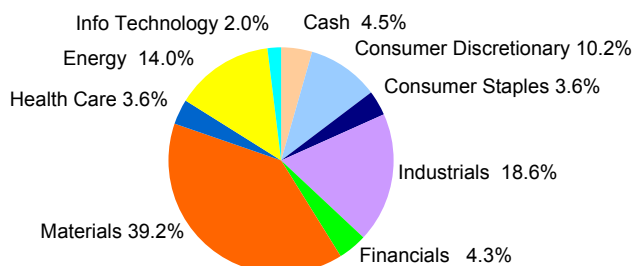
**Graph 3: Annual Return of PVGF and S&P/ASX 300 Accum. Index by Financial Year**



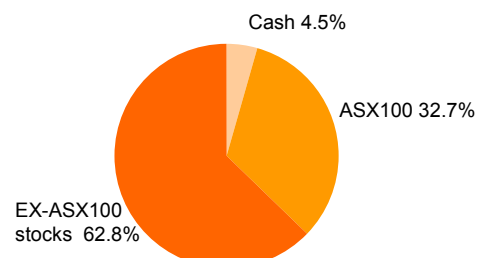
different market cap size segments (see Chart 2). It is currently overweights in Materials stocks; including Gunns, BHP Billiton and WMC resources and underweights the Financial and Telecommunication stocks. It will continue to invest across the entire listed companies universe and not restrict itself to any market cap segment.

**Charts 1 and 2 provide a breakdown of the stocks in the Growth Fund as at 30 June 2004**

**Chart 1: Holdings by Sectors**



**Chart 2: Holdings by Market Cap**



## Prime Value Imputation Fund

The **Imputation Fund** aims to provide capital growth over the medium to long term combined with regular, tax-effective income by managing a portfolio of assets comprised mainly of Australian equities listed on the ASX. This type of investment is appropriate as a significant part of a properly diversified investment portfolio for individuals, companies, trusts and superannuation funds.

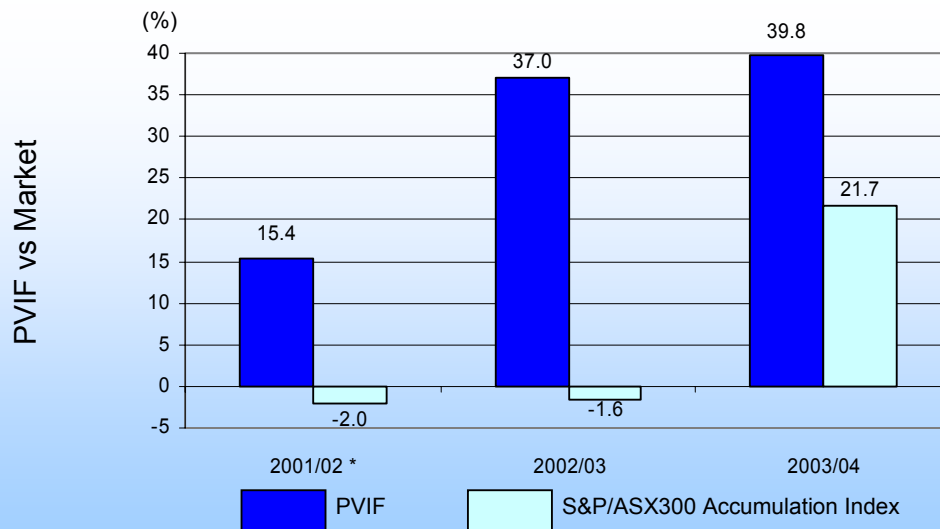
### Fund return of more than 30%p.a. since inception...

We are particularly pleased to report another financial year of performance in excess of 30% (see Graph 4 below). The Fund has continued to benefit from a market which is supportive of defensive and dividend paying stocks. We reiterate our position that while we continue to be fully committed to improving our investment philosophy and process, there is no guarantee of repeating this excellent performance.

### Portfolio re-weighted slightly towards Top 100...

As the prices of mid / small cap stocks have generally increased significantly over the last year or so, we have re-weighted marginally the portfolio in favour of the ASX top 100 stocks. The ASX top 100 stocks are currently 30 - 40% of the portfolio. Unlike the Growth Fund, the Imputation has relatively less exposure to the materials sector. The Fund has a reasonable

**Graph 4: Annual Return of PVIF and S&P/ASX 300 Accum. Index by Financial Year**

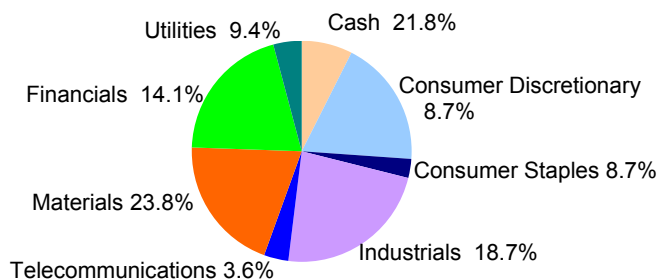


\* 20 Dec 2001 – 30 June 2002

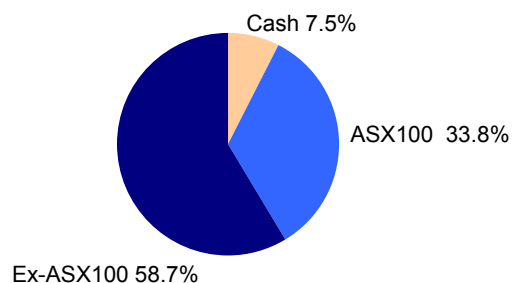
level of exposure to the financial and utilities sectors. These sectors have historically been delivering a high level of fully franked dividends. The level of franked dividends for the Fund is 100% as at 30 June 2004. The top five holdings in the Fund are Jubilee Mines, Macquarie Airports, Monadelphous Group, Record Investments, and West Australian Newspaper.

**Charts 3 and 4 provide a breakdown of the stocks in the Imputation Fund as at 30 June 2004**

**Chart 3: Holdings by Sectors**



**Chart 4: Holdings by Market Cap**



Dear Investors,

### Celebrating our 6<sup>th</sup> year of consecutive success ...

We are pleased to report another solid financial year performance with the Growth Fund and the Imputation Fund delivering 27.9% and 39.8% respectively. These are higher than our stated target returns of 10% + per annum.

Investors who have been investing with us and/or joined us in the early part of 2003/04 would be pleased with the increase in the value of their investment. We are conscious of the fact that investors who joined the PVGF during March – May 2004 could be somewhat disappointed with the very short term performance of their investment as at 30 June 2004.

However, at the time of finalising this Newsletter, the Growth Fund has managed to deliver a return of 6.8%, and the Imputation Fund 4.1% while the market has only improved by 0.3% in July 04. But this is only one out of a twelve month financial year journey. We would prefer our performance to be measured over a medium term investment horizon.

### Broadening & Strengthening our Investment Team

We are pleased to announce that Leanne Pan has joined the company in August 2004 in the capacity of Portfolio Manager. Leanne comes not only with excellent academic credentials (B.Ec, CPA, MBA, CFA), but also with more than 15 years of strong and successful investment management track record at Shell Australia, Orica and Telstra.



Leanne Pan

Han Lee and Leanne Pan were the Team responsible for the highly successful in house Australian equity portfolio for the Shell Australia Superannuation Fund. Together they managed the sizeable equity component of the Fund during the 1990's. Han and Leanne will continue to be supported by Michael Chien as the Quantitative Analyst.

### Review of financial year - 2003/04

The Australian stock market has posted its best financial-year performance in seven years, increasing by 21.7%. There was a rebound in initial public offerings (IPO) with more than \$10 billion in new issuance. The appetite however dissipated towards the end of 2003/04. The major contributors to our

Funds for the year include Newcrest, Jubilee Mines, Monadelphous Group, Gunns, Origin Energy, Penfold Buscombe, Record Investments, and AV Jennings. The stocks that have detracted return were Capral (due to profit-downgrade), Leighton (due to cost over-run in major projects) and Watty! (due to margin pressure).

### Investment Outlook 2004/05 - there is still money to be made... but stock picking is critical.

With the broader market trading on an earnings multiple of about 16 times forecast 2004 earnings, with dividend yield approaching 4%, the challenge is to be able to pick the appropriate portfolio of stocks. Investors should prepare for lower returns – with tightened monetary conditions and less attractive valuations as profit growth slows.

The Reserve Bank of Australia has maintained a steady monetary policy since the start of calendar 2004. Behind this lies the slowing of the property market and a steady inflation rate at its lowest level in four years. Although there are indications of falling house prices, domestic consumption remains robust and the lending rate is at a high level, therefore raising expectations of interest rates hikes. The timing of this action is complicated by the upcoming Federal Election. Assuming an October 2004 election, it would not be unreasonable to expect a rate rise before Christmas 2004.

Although global corporate profit growth is expected to slow in calendar 2005, and profit share as a percentage of GDP likely to stabilize, the growth rates are unlikely to be reduced dramatically. We are expecting a more modest Australian share market return of somewhere around 10 % for 2004/05 (compared with market return of 21.7% for 2003/04).

The challenge faced by investors, including ourselves, now is whether to adopt

- a more defensive stance due to the likelihood of rising interest rates and a more bearish investment scenario, or
- a short term aggressive position, in anticipation of global economic recovery continuing to gather momentum prior to moderating in 2005.

We are confident that 2004/05 will be a year where money is made primarily through superior stock selection. This is one of our competitive strengths as a boutique Manager.

Han K Lee  
Managing Director

Y Yong Quek  
Executive Director

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