

Ladies and Gentlemen,

Welcome to this year's Annual General Meeting. For the year just ended the Company's operating profit after income tax and before investment fluctuations was \$9,866,331 compared to \$10,597,613 in the previous year – a decrease of 6.9%. The basic earnings per share were 14.5 cents compared to 15.8 cents for the previous year after adjustment for the bonus element in the June 2002 rights issue.

The decrease in operating profit is a result of higher interest costs associated with a higher level of borrowings, some companies in which investments are held paying final dividends before 30 June 2001 and fewer special dividends being received.

In June 2002 the Company raised additional investment funds of approximately \$56 million from a 1 for 4 entitlement issue to shareholders. These funds are being used over time by the Company to add to its investment portfolio.

Bank borrowings were \$30 million at the end of the financial year (previous year \$30 million) modestly gearing the investment portfolio by around 8%. The change in the prior year, which involved the taxation for listed companies on the receipt of unfranked dividend income, had the consequential effect of increasing the taxable income against which interest costs could be deducted.

We are comparing the year with a very good year to 30 June 2001 when a number of companies in which investments were held brought forward dividends or paid special dividends. That led our earnings per share to increase from 14.0 cents for the year to 30 June 2000 to 16.5 cents for the year to 30 June 2001. For the year to 30 June 2002 the earnings per share are 14.5 cents compared to 15.8 cents when both figures are adjusted for the bonus element of the 2002 share issue.

The asset backing in the previous year increased by 19.8% and in the year to 30 June 2002 fell by 8.5%. If we adjust for the new issue the net asset backing fell by 4%, which can be compared with a fall in the All Ordinaries Index of 7.6%.

At last year's Annual Meeting I said "We expect our dividend income to be similar to last year but will be pleasantly surprised if the market value of the share portfolio is maintained". As it turned out there was a small fall in the net asset backing per share and a small rise in the dividend per share.

The final dividend for the year ending 30 June 2002 is 8 cents per share fully franked which with the interim dividend of 5.5 cents per share fully franked makes a total dividend for the year of 13.5 cents per share fully franked which is an increase of half a cent per share or 4%.

The graph in the Annual Report indicates the Company's growth has significantly outperformed the All Ordinaries Accumulation Index over the last five years. Over that period the performance of an investment in AUI based on the Company's Net Asset Backing per share, assuming all dividends were reinvested, has grown 11.7% per annum compound compared to 7% per annum compound for the S&P/ASX 300 Accumulation Index.

The portfolio of the Company is invested in Australian equities and at balance date was spread over 58 companies. The Annual Report provides a list of the shareholdings at 30 June 2002 and 30 June 2001; the changes to the portfolio during the year; the percentage of the investment portfolio in terms of market values of each investment; and the twenty-five largest investments ranked in order of size at 30 June 2002.

The largest investments in terms of market value are National Australia Bank, ANZ Banking Group, WMC Ltd., Wesfarmers and Westpac. These five investments at 30 June 2002 comprised 32% of the

portfolio and our twenty-five largest investments comprised 72% of the portfolio.

The share portfolio was invested as to 62% in the top 20 companies by market capitalisation; 16% in companies 21 to 50 in size; 9% in companies 51 to 100; and 13% in companies outside the largest 100 companies.

The main sectors of the portfolio were banking 25%; resources 16%, and media and communications 6%.

The Company is invested in a portfolio of Australian equities with which your Board is comfortable. Our investment decisions are usually made with a view to dividend yield, and we are therefore particularly pleased that this policy has enabled us to increase the Company's dividend for the ninth consecutive year.

Outlook:

It is hard to envisage how the share market can rise faster than the increase in Australia's GDP except if the share of the GDP going to profits increases; or if there is a fall in interest rates, a weight of money or speculative hype which results in higher price/earnings ratios.

We expect Australia's real GDP to grow around 3% per annum and inflation to be around 2% - 3%.

The share of GDP going to corporate after tax profits averages very broadly around 4% and is currently around 6%. The balance of risk is on the downside.

The ten year Commonwealth Government bond yield was in double figure levels in each of the thirteen years from 1978/79 to 1990/91. From a 1990/91 average of 11.2% the yield halved to 5.6% in 1997/98 and formed the basis for a strong bull market in equities and property and has also led to a doubling in the household debt-to-equity ratio over the past decade. With the ten year bond yield averaging 6.1% in 2001/02 it is difficult to think a

further decline is likely and this great stimulating force of the last decade is likely be a passive factor at best over the next three years.

The All Ordinaries Index increased 122% from the 1504 on 30 June 1991 to 3353 on 30 June 2001. Since then it has retreated around 15% and there is little indication of the weight of money or speculative hype driving price-earnings ratios higher.

One concern is that there could be some move away from the so-called "cult of equities" of the last decade as investors in the US, in particular, become increasingly concerned as to the standards of corporate governance.

The integrity of information is fundamental to the operations of a market economy. Investors in the US are worried about the "E" of the P/E ratio with the non-expensing of options; assumptions in respect of the charge for pension fund provisioning; and non-disclosure of off-balance sheet joint venture financing.

Also pension funds and insurance companies, particularly in Europe, are becoming increasingly concerned as to the impact of the volatility of equities on their capital requirements and may start to move a higher proportion of funds into interest yielding securities.

Australia did not see such a major bull market in the 1990's as many international markets nor the same volatility and our corporate governance is viewed as being better than in the USA.

For all the above reasons we have formed the view that we in Australia are in for a sideways moving sharemarket. This view has lead us to invest the \$56 million proceeds of the June 2002 1:4 share issue into the share market over a four to five month period and to focus on the higher franked dividend yielding stocks where there is a high degree of confidence of at least the income part of the total return to investors. To date we have repaid \$5

million of short term overdraft facilities used to commence investing in the market in anticipation of the proceeds of the share issue and since the capital raising invested approximately half of the balance.

Our investment philosophy is that AUI is a long-term investor which makes investments for the receipt of future dividend income and not having as the major objective the passing of the investment on to other participants in the market at higher prices. We do of course seek to find situations where the investment will provide growth in dividend income and appreciate over time as well.

The net asset backing per share based on investments at market values and after provision for tax on net realised gains, but not unrealised gains, and after provision for the final dividend was \$4.20 at 30 June, 2002 and \$3.89 at 30 September, 2002. This is a fall of 7.4% and is in line with the fall in the All Ordinaries Index.

Charles Goode
Chairman



AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

ABN 37 004 268 679

CHAIRMAN'S
ADDRESS



ANNUAL GENERAL MEETING
MONDAY 7 OCTOBER 2002