

# SYLVA STATE

## QUARTERLY REPORT

QUARTER ENDED 28 FEBRUARY 2010

### Performance Summary

At 28 February 2010

	Last Quarter %	One Year %	Three Years*** %	Ten Years*** %
Total Portfolio	0.54%	48.42%	(5.98%)	8.31%
Benchmark*	0.87%	47.94%	(6.28%)	6.06%
Net Asset Backing (pre-tax)** <sup>1</sup>	(3.00%)	41.20%	(9.02%)	N/A
Net Asset Backing (post-tax)** <sup>2</sup>	0.50%	29.34%	(4.70%)	N/A
Share Price	(2.63%)	51.90%	(6.53%)	6.80%

\* ASX 200 All Industrials (XJIA) \*\* Including Dividends \*\*\* Annualised

1 Investment returns based on net asset backing (pre-tax) represent the investment return prior to any provision for capital gains tax on investments which have not been sold at balance date, but are after the payment of tax at company rates on income and on capital gains on investments which have been sold.

2 Investment returns based on net asset backing (post-tax) represent the investment return after making a provision for capital gains tax on investments held but not sold, and are after the payment of tax at company rates on income and on capital gains on investments which have been sold

### Financial Outcomes

At 28 February 2010

	At 28 Feb 10	At 28 Feb 09	% Change
Investment Revenue	\$1,391,537	\$1,625,623	(14.4%)
Profit Before Tax & Realised Gains	\$1,242,337	\$1,486,025	(16.4%)
Income Tax Benefit/(Expense)	(\$40,711)	(\$55,654)	(26.8%)
Profit After Tax before Realised Gains	\$1,201,625	\$1,430,371	(16.0%)
Earnings before Realised Gains Per Share	7.2cps	8.3cps	(12.9%)

### Results Commentary

Sylvastate reports an operating profit after tax and before realised capital gains of \$1,201,625 for the half year to 28<sup>th</sup> February 2010. This outcome amounts to 7.2 cents per share. Earnings for the half year were 12.9% below the earnings in the equivalent half in the previous financial year.

The fall in earnings reflects the cuts to dividends announced by many companies in the Australian market over the last year. With the underlying earnings of many of these companies now growing, and access to capital improving, we expect to see a progressive rise in dividend earnings across Sylvastate's portfolio of investments. Sylvastate's own reported earnings are consequently expected to show moderately strong growth as we move through the 2010 calendar year and into 2011.

Sylvastate's investment portfolio generated a return of 4.25% for the half year. This return was slightly below the All Industrials Accumulation Index over the same period of 5.72%. Over the last 12 months Sylvastate's portfolio return amounts to 48.42%, and its return over the last 10 years amounts to 8.31% per annum. Sylvastate's investment portfolio has outperformed the All Industrials Accumulation Index over 1 year, 3 year, 5 year and 10 year periods.

Sylvastate's net asset backing (pre tax) amounted to \$3.88 per share at 28<sup>th</sup> February. The post-tax asset backing (including a provision for a deferred tax benefit on unrealised capital losses net of gains) amounted to \$4.04 per share.

Strongest returns for the half year were generated from Virgin Blue, Transurban, Map Airports, Wesfarmers, Challenger Financial, Commonwealth Bank, Seven Network, News Corporation, Cochlear, Asciano and Fairfax Media.

### Net Tangible Assets

At 28 February 2010

NTA (post-tax)	\$66.4 million
Shares on Issue	16,436,638
NTA per share (pre-tax)	\$3.88
NTA per share (post-tax)	\$4.04
Share Price	\$3.70
(Discount)/Premium to NTA (pre-tax)	(4.64%)
(Discount)/Premium to NTA (post-tax)	(8.42%)

### Top 20 Holdings

At 28 February 2010

	\$'000	Fund%
Whitefield Ltd	9,798	15.50%
Commonwealth Bank Of Australia	5,690	9.00%
Westpac Banking Corporation	5,214	8.25%
ANZ Banking Group Limited	4,076	6.45%
National Australia Bank Limited	4,009	6.34%
Wesfarmers Limited	2,671	4.23%
Woolworths Limited	2,394	3.79%
Macquarie Group Limited	2,299	3.64%
Telstra Limited	2,123	3.36%
Fairfax Media Limited	2,114	3.34%
QBE Insurance Group Limited	1,648	2.61%
News Corp. Class A Non Voting Stock	1,514	2.40%
Toll Holdings Limited	1,373	2.17%
Asciano Group Limited	1,260	1.99%
Seven Network Limited	1,126	1.78%
CSL Limited	1,025	1.62%
MAP Group	918	1.45%
AMP Limited	907	1.44%
Resmed Inc	898	1.42%
Alesco Corporation Limited	814	1.29%

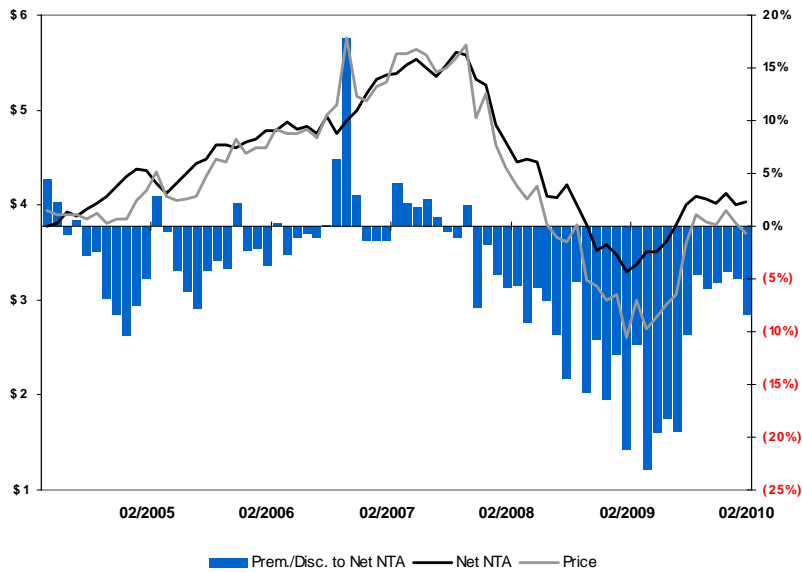
### Sector Breakdown\*

At 28 February 2010

	Fund %
Banks	37.86%
Industrials	15.18%
Financials ex Banks	13.47%
Consumer Staple	10.57%
Consumer Discretionary	9.13%
Health Care	4.82%
Telecommunications Services	4.43%
Materials	3.53%
Utilities	1.01%
Information Technology	0.00%

\*Excluding Whitefield Ltd

## Sylvastate Ltd Premium Discount to Net NTA and Share Price



## Changes to Investment Exposures

Material transactions undertaken by Sylvastate during the quarter involved:

- Increasing or establishing exposure to Amcor, Downer Group, Incitec Pivot, Orica, Leighton, Lend Lease, Myer, and UGL
- Slight reductions in our exposure to Qantas, Woolworths, Challenger and Westpac

## Dividend

Notwithstanding the cuts in dividends across the Australian share market, Sylvastate expects to maintain its final dividends to shareholders at the same rate as the prior year.

Sylvastate has declared and will pay a fully franked interim dividend of 10.5 cents per share with a record date of Tuesday, 13<sup>th</sup> April and a payment date of Wednesday, 28<sup>th</sup> April.

## Outlook

Importantly, economic fundamentals around the world continue to improve at the present time.

Australian employment is firm, with the unemployment rate falling from a high of 5.8% late in 2009 to the current level of 5.3%. Expectations are that Australian GDP will grow at a rate exceeding 3.6% for the 2010 calendar year – a robust rate of growth. Notwithstanding the lack of government stimulus support in the current year, retail sales growth amounted to 3% year on year at the last released month end.

On the international front, Chinese GDP is expected to grow at over 9% in 2010. US employment data is showing tentative (albeit slow) improvements. Manufacturing and service activity in the US is currently expanding. Company profits in the US have grown materially. UK house prices have risen over several successive months. Economic activity levels in Japan and Europe are higher than activity levels in 2009.

While it should be recognised that we are only in the very first, tentative stages of recovery in the US, Europe and Japan, underlying conditions are improving with each passing month.

Risks to the global economic recovery do exist. High levels of government debt, high outright levels of unemployment in some countries, weak property prices in the US and Europe, and tightening fiscal and monetary policy in Asia are all tangible concerns. However as we have highlighted previously, while fundamentals such as employment continue to improve, economies have a moderate ability to confront and successfully address such risks.

In aggregate we continue to expect the global recovery to strengthen through 2010 and into 2011, and for the benefit of this positive outlook to be progressively reflected in outcomes for the Australian share market.

Angus Gluskie, Chief Executive Officer



## Top 5 Contributors to Performance for the Quarter

At 28 February 2010

	Portfolio weight %	Contribution* %
Westpac Banking Corp.	10.88%	0.74%
Wesfarmers Limited	5.57%	0.57%
ANZ Banking	7.52%	0.39%
Commonwealth Bank	11.87%	0.32%
Seven Network Limited	2.12%	0.16%

\*Contribution = weighted contribution to investment performance

## Top 5 Detractors to Performance for the Quarter

At 28 February 2010

	Portfolio weight %	Contribution* %
Toll Holdings Limited	2.25%	(0.57%)
Macquarie Group Ltd.	4.59%	(0.41%)
Telstra Corp. Limited	4.43%	(0.27%)
National Australia Bank	7.59%	(0.23%)
QBE Insurance Group	3.44%	(0.18%)

\*Contribution = weighted contribution to investment performance

## Company Information

Sylvastate Limited  
Level 7, 20 Hunter Street, Sydney NSW 2000  
GPO Box 473, Sydney NSW 2001

Phone: +61 (02) 8215 7900  
Fax: +61 (02) 8215 7901  
www.sylvastate.com.au

## Share Registry

Computershare Investor Services Pty Ltd  
Level 2, 60 Carrington Street, Sydney NSW 2000

Phone: +61 (03) 9415 4000 (outside Australia)  
Fax: +61 (03) 9473 2500  
www.computershare.com