

U.S. MASTERS HOLDINGS LIMITED

Financial Statements

for the 6 months ended 31 December 2003

**Australian Registered Body Number 052 123 930
Incorporated in the British Virgin Islands**

U.S. MASTERS HOLDINGS LIMITED

**Financial Statements
for the 6 months ended 31 December 2003**

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U.S. MASTERS HOLDINGS LIMITED

Fund Directory
At 31 December 2003

BOARD OF DIRECTORS

Hubert R. Marleau (Chairman)
J. Randolph Updyke (CEO)
M. Carol Updyke

SECRETARY

Equity Trust (BVI) Limited

SHARE REGISTRIES

Equity Trust (BVI) Limited
P.O. Box 438
Palm Grove House
Road Town, Tortola
British Virgin Islands
Telephone: (284) 494-2616

Computershare Registry Services Pty Limited
Level 12, 565 Bourke Street
Melbourne, Victoria 3000
Australia
Telephone: (613) 9615-5970

REGISTERED OFFICES

c/o Equity Trust (BVI) Limited (Registered Agent)
P.O. Box 438
Palm Grove House
Road Town, Tortola
British Virgin Islands
Telephone: (284) 494-2616

c/o Norsmith Nominees Pty Limited
Level 8, Gateway
1 Macquarie Place
Sydney, NSW 2000
Australia
Telephone: (612) 9930-7555

ADMINISTRATOR

Insinger Fund Administration (Luxembourg) S.A.
66 Avenue Victor Hugo, 3rd Floor
L-1750 Luxembourg
Telephone: (352) 229-444

U.S. MASTERS HOLDINGS LIMITED

**Review of Operations
for the 6 months ended 31 December 2003**
Expressed in U.S. Dollars

During the 6 months ended 31 December 2003, U.S. Masters' net asset value decreased by 3.67%. At the 6 month end, we were 57% invested in marketable securities. We remain cautious regarding the U.S. stock market, and look forward to opportunities to purchase shares at attractive prices.



J. Randolph Updyke
Investment Advisor,
Director

U.S. MASTERS HOLDINGS LIMITED

Directors' Report for the 6 month ended 31 December 2003 Expressed in U.S. Dollars

The directors present their report together with the financial statements of U.S. Masters Holdings Limited (the "Fund") for the 6 months ended 31 December 2003.

Board of Directors

J. Randolph Updyke B.A. P.R.L. (CEO) -

Mr Updyke has been engaged in the investment advisory business for over twenty-five years. He is general partner and investment advisor of Updyke Associates, an investment partnership.

M. Carol Updyke -

Mrs Updyke is a principal of the Clayworks, a pottery operation in Charleston, South Carolina.

Hubert R. Marleau (Chairman) -

Mr Marleau is president of Palos Capital Corporation.

Corporate Governance

The board of directors of the Fund are as stated above.

The criteria for board membership and the selection of appropriate members of the board is considered by the board itself. Election and rotation of directors is governed by the Articles of Association of the Fund.

Directors have the right to seek independent professional advice in the furtherance of their duty, and this may be at the Fund's expense, subject to prior approval by the board.

The board has no remuneration, audit or other committees as, given the size of the Fund and board, this is not thought appropriate.

The board reviews risks associated with the Fund and implements procedures to manage such risks. It develops policies regarding the establishment and maintenance of appropriate ethical standards.

Audit Committee

The Fund does not have an audit committee as at the date of this directors' report. Given the size of the Fund and the board, a separate committee cannot be justified on a cost benefit analysis or otherwise.

Principal Activity

The principal activity of the Fund during the financial year was investment, and no significant change in the nature of that activity has occurred during the period.

U.S. MASTERS HOLDINGS LIMITED

Directors' Report

for the 6 months ended 31 December 2003

Expressed in U.S. Dollars

Result

The operating loss of the Fund after income tax for the 6 month period was \$ 41,751 (2002: loss of \$3,653).

Dividends

No dividends were paid during the year and no dividend is recommended.

Significant Changes in State of Affairs

During the year, the Fund purchased Nil (2002: Nil) shares pursuant to its buy-back programme. At the balance sheet date, the number of shares held in treasury as a result of the share buy-back programme was 50,606,684.

Significant Post Balance Sheet Events

No event has occurred since the balance sheet date that will materially affect the operations of the Fund in future years.

Directors' Benefits and Interests in Contracts or Proposed Contracts with the Fund

Since the end of the previous financial year, no director of the Fund has received or become entitled to receive a benefit, other than a benefit included in the aggregate amount of directors' remuneration shown in the financial statements, by reason of a contract made by the Fund or a related corporation with a director or with a firm of which he is a member or with a company in which he has a substantial financial interest.

Directors' Interests in Shares of the Fund

	Beneficial	Non-Beneficial
Mr J.R. Updyke	1,219,550	-
Mrs M.C. Updyke	55,000	-
Mr H.R. Marleau	-	-

Currency and Rounding

The financial statements are expressed in U.S. Dollars and have been rounded to the nearest thousand Dollars.

This report is made in accordance with a resolution of the Board and is signed for and on behalf of the directors.

J. Randolph Updyke
Director



M. Carol Updyke
Director



U.S. MASTERS HOLDINGS LIMITED

Statement of Operations and Accumulated Deficit for the 6 months ended 31 December 2003

Expressed in thousand of U.S. Dollars

	Note	6 mths 31.12.03 \$000	6 mths 31.12.02 \$000
Investment income			
Net realised (loss)/gain on sale of investments		(22)	35
Net change in unrealised gain/(loss) on investments	3	7	(14)
Interest and dividend income (net of withholding taxes)	4	2	5
Total investment (deficit)/income		<u>(13)</u>	<u>26</u>
Expenses			
Directors' fees		1	1
Investment advisory fees	1(b)	6	6
Legal and professional fees		21	20
Sundry expenses		1	2
Total expenses		<u>29</u>	<u>29</u>
Loss for the period		(42)	(4)
Opening accumulated deficit		(11,727)	(11,711)
Closing accumulated deficit		<u>(11,769)</u>	<u>(11,715)</u>
Loss per share (Dollars)		<u>(0.02)</u>	<u>(0.002)</u>

The Fund has no recognised gains or losses in the period other than those passing through the Statement of Operations and Accumulated Deficit presented above.

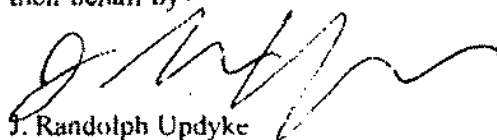
U.S. MASTERS HOLDINGS LIMITED


**Statement of Net Assets and Shareholders' Interests
At 31 December 2003**

Expressed in thousands of U.S. Dollars

	Note	2003 \$000	2002 \$000
Assets			
Cash and cash equivalents		491	580
Investments		630	591
Total assets		<u>1,121</u>	<u>1,171</u>
Liabilities			
Accrued expenses		20	16
Total liabilities		<u>20</u>	<u>16</u>
Net assets		<u>1,101</u>	<u>1,155</u>
Total shareholders' interests			
2,429,826 (2002:2,429,826) ordinary shares with a par value of \$0.50 per share	5	1,215	1,215
Share premium reserve	6	11,655	11,655
Accumulated deficit		(11,769)	(11,715)
Total shareholders' interests		<u>1,101</u>	<u>1,155</u>
Net asset value per share (Dollars, excluding treasury stock)		<u>0.45</u>	<u>0.48</u>

The financial statements on pages 7 to 16 were approved by the Board of Directors and signed on their behalf by:


J. Randolph Updyke
Director


M. Carol Updyke
Director

U.S. MASTERS HOLDINGS LIMITED

Statement of Cash Flows
for the 6 months ended 31 December 2003
Expressed in thousands of U.S. Dollars

	2003	2002
	\$000	\$000
Operating activities		
Purchase of investments	(2,184)	(5,267)
Proceeds from sale of investments	1,593	4,725
Interest and dividends received	2	5
Expenses paid	(42)	(41)
Cashflows from operating activities	<u>(631)</u>	<u>(578)</u>
Net decrease in cash and cash equivalents	<u>(631)</u>	<u>(578)</u>
Cash and cash equivalents at beginning of period	1,122	1,158
Cash and cash equivalents at end of year	<u>491</u>	<u>580</u>
Cash and cash equivalents comprise:		
Cash at bank	491	580
Cash and cash equivalents	<u>491</u>	<u>580</u>

U.S. MASTERS HOLDINGS LIMITED
Statement of Investments
at 31 December 2003
Expressed in thousands of U.S. Dollars

	Quantity	Average Cost \$000	Market Value \$000
Equities			
Alliance Capital Management Holdings	200	6	7
Collins & Aikman Corp	1,000	3	4
Eastman Kodak	100	2	3
Janns Capital Group	200	3	3
Nasdaq 100	4,700	160	171
Winmill & Co	2,000	3	8
Velocity	9,591.12	190	190
Total Equities		<u>367</u>	<u>386</u>
Mutual Fund			
Rydex Dynamic Velocity 100	9,177.18	255	244
Total marketable securities		<u>622</u>	<u>630</u>

U.S. MASTERS HOLDINGS LIMITED

Notes to and forming part of the Financial Statements for the 6 months ended 31 December 2003

1. THE FUND

(a) General information

U.S. Masters Holdings Limited (the "Fund") was incorporated under the laws of the British Virgin Islands on 14 May 1990 under the International Business Companies Act (Cap. 291). The liability of the members is limited by shares. The Fund maintains its Registered office in the British Virgin Islands. The Fund is a closed-end investment company.

The financial statements are presented in thousands of United States Dollars.

The Fund was formed as an investment company to permit shareholders to participate in the accumulation of capital on a pooled basis from the professionally managed trading of predominantly United States investments.

(b) Investment advisory fees

Under the terms of an Investment Advisory Agreement dated 1 January 1998, J. Randolph Updyke has agreed to provide investment advisory services to the Fund.

As compensation for his services, J. Randolph Updyke receives from the Fund:

- i) a management fee payable semi-annually equal to 0.5% (1% annualised) of the Fund's Net Asset Value at the end of such semi-annual period; and,
- ii) an incentive fee payable equal to 20% of the appreciation, if any, in Net Asset Value on a fiscal year basis.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the Fund's financial statements are set out below:

(a) Basis of preparation

The financial statements of U.S. Masters Holdings Limited, have been prepared in accordance with International Accounting Standards. They have been prepared under the historical cost accounting convention and, except where stated, do not take into account changes in either the general purchasing power of the Dollar or in the prices of specific assets.

The accounting policies have been consistently applied by the Fund and are consistent with those of the previous year.

U.S. MASTERS HOLDINGS LIMITED

Notes to and forming part of the Financial Statements for the 6 months ended 31 December 2003

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(b) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks and brokers with maturities of three months or less.

(c) Investments

Investments are carried at market value. Any increases or decreases in carrying values are recognised in the statement of operations and accumulated deficit as an unrealised gain or loss.

Investments in securities and securities sold short traded on a United States national securities exchange are valued at the last reported sales price on the day of valuation or, if there has been no sale on such exchange on the date on which valuation is being made, then at the mean between the closing bid and asked prices on such exchange on such date.

Securities traded in the over-the-counter market are valued at the last sales price if the security is reported by NASDAQ's System, or, if not reported, at the mean between the last bid and asked prices. Restricted securities and other securities for which quotations are not readily available are valued at fair value as determined in good faith by the Investment Manager.

(d) Investment transactions and income recognition

Investment transactions are accounted for on the trade date (the date on which the order to buy or sell is executed). Gains or losses arising from the sale of investments are determined using the average cost basis. Income from investments is recorded on the accrual basis. Interest income is recorded as earned and dividend income is recorded on the ex-dividend date.

(e) Foreign currency

Transactions in currencies other than the Fund's reporting currency are converted at the rate of exchange ruling at the transaction date. Foreign currency monetary assets and liabilities, other than those covered by forward exchange contracts, are translated at the rate of exchange ruling at the reporting date. Resulting exchange differences are recognised in the result for the year.

**Notes to and forming part of the Financial Statements
for the 6 months ended 31 December 2003**

3. NET CHANGE IN UNREALISED GAIN ON INVESTMENTS

	2003	2002
	\$000	\$000
Market value of investments	630	590
Investments at average cost	622	598
Closing unrealised loss/gain on investments	<u>8</u>	<u>(8)</u>
Opening unrealised gain on investments	1	6
Net change in unrealised loss/gain on investments	<u>7</u>	<u>(14)</u>

4. TAXATION

The Fund is exempt from all forms of taxation in the British Virgin Islands and Australia including income, capital gains and withholding taxes. United States withholding tax has been deducted at source on certain dividends and interest paid, with respect to securities of United States issuers, at the rate of 30% of gross income. There are no other taxes applicable to the Fund.

5. SHARE CAPITAL

	2003	2002
	\$000	\$000
Authorised		
2,000,000,000 ordinary shares of \$0.50 par value each	<u>1,000,000</u>	<u>1,000,000</u>
Issued and fully paid		
53,036,510 (2002: 53,036,510) ordinary shares of \$0.50	26,518	26,518
Treasury stock:		
Opening balance (50,606,684 shares, 2002: 50,606,684 shares)	25,303	25,303
Acquired during the year (Nil shares, 2002 : Nil shares)	0	0
Closing balance (50,606,684 shares, 2002: 50,606,684 shares)	<u>25,303</u>	<u>25,303</u>
Net share capital (2,429,826 shares, 2002: 2,429,826 shares)	<u>1,215</u>	<u>1,215</u>

Each ordinary share carries the right to one vote at annual and general meetings and is entitled to participate in any dividends or other distributions of the Fund.

U.S. MASTERS HOLDINGS LIMITED

Notes to and forming part of the Financial Statements for the 6 months ended 31 December 2003

6. SHARE PREMIUM RESERVE

	2003 \$000	2002 \$000
Gross premium on issue of shares	37,965	37,965
Transfer to Redomicile Reserve – 1991	(25,000)	(25,000)
Net premium on purchase of treasury stock	(1,310)	(1,310)
Opening balance	<u>11,655</u>	<u>11,655</u>
Discount on purchase of treasury stock during the year	0	0
Closing balance	<u><u>11,655</u></u>	<u><u>11,655</u></u>

7. TREASURY STOCK

The Fund holds treasury stock in itself which was purchased pursuant to an on-market buy-back scheme on the Australian Stock Exchange.

	2003 \$000
50,606,684 (2001: 50,606,684) ordinary shares at cost	<u><u>26,613</u></u>

8. SHARE BUY BACK PROGRAMME

The Fund has established a Share Buy Back Programme for its shares which are listed on the Australian Stock Exchange. It is the current policy of the Fund to hold shares repurchased pursuant to the Programme as Treasury Stock (refer to note 7).

9. RELATED PARTY TRANSACTIONS

The Fund had the following commercial dealings with its directors and their associates:

- (a) A director of the Fund, is also the Investment Advisor. Pursuant to an Investment Advisory Agreement between the Fund and J. Randolph Updyke, J. Randolph Updyke is entitled to a semi-annual management fee and an annual incentive fee as disclosed in note 1(b) of the financial statements. A management fee of \$5,560 (2002: \$5,806) and an incentive fee of \$Nil (2002:\$Nil) were earned during the period. Accrued expenses include \$5,560 (2002: \$5,806) in relation to these fees.
- (b) One of the directors earned fees of \$500 (2002: \$ 500) during the period.
- (c) J. Randolph Updyke and M. Carol Updyke, directors of the Fund, each held 1,219,550 (2002: 414,050) and 55,000 (2002: 55,000) shares in the Fund, respectively, at the end of the year.

U.S. MASTERS HOLDINGS LIMITED

Notes to and forming part of the Financial Statements for the 6 months ended 31 December 2003

10. CONTINGENT LIABILITIES

The directors are not aware of any contingent liabilities of the Fund at the year end. The Fund has given a guarantee in respect of the creditors of its former subsidiaries as at 9 May 1991 pursuant to the Schemes of Arrangement to redomicile the former group to the British Virgin Islands.

11. FINANCIAL INSTRUMENTS

Financial assets of the Fund include cash and cash equivalents, investments and interest and dividends receivable. Financial liabilities comprise accrued expenses. Accounting policies for financial assets and liabilities are set out in note 2.

(a) Fair values

The carrying amounts of cash and cash equivalents, interest and dividends receivable and accrued expenses approximate their fair value due to the relatively short period to maturity of these instruments. Investments are carried at market value.

(b) Credit risk

Substantially all securities transactions are cleared through, and held in custody by two financial institutions. The Fund is subject to credit risk to the extent that these institutions may be unable to return the Fund's securities or to repay amounts owed. Securities Insurance Protection Corporation (SIPC) provides insurance on bank and security balances in the event a U.S. Broker files for bankruptcy, but given their high credit ratings, management does not expect any counterparty to fail to meet its obligations.

At the year end there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

(c) Interest rate risk

The interest rates on the bonds held are disclosed in the statement of investments. There is an inherent risk that during the period to maturity these rates, to the extent that they are fixed, may be lower than the prevailing market rate.

U.S. MASTERS HOLDINGS LIMITED

**Directors' Statement
for the 6 months ended 31 December 2003**

The Board of Directors of U.S. Masters Holdings Limited states that the accompanying financial statements have been prepared in accordance with International Accounting Standards and that in their opinion:

- a) the statement of operations and accumulated deficit is drawn up so as to give a true and fair view of the loss of the Fund for the 6 months ended 31 December 2003.
- b) the accompanying statement of net assets and shareholders' interests is drawn up so as to give a true and fair view of the state of affairs of the Fund at 31 December 2003.
- c) at the date of this statement, there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they fall due.

This statement has been made in accordance with a resolution of directors.



J. Randolph Updyke
Director

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF U.S. MASTERS HOLDINGS LIMITED

Scope

We have audited the accompanying statement of net assets and shareholders' interests, including the statement of investments of U.S. Masters Holdings Limited, as at 31 December 2003 and the related statements of operations and accumulated deficit and cash flows for the year then ended, as set out on pages 7 to 16 .

Respective responsibilities of directors and auditors

These financial statements are the responsibility of the Fund's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of U.S. Masters Holdings Limited as at 31 December 2003 and the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

Churchill & Co.
Chartered Accountants

U.S. MASTERS HOLDINGS LIMITED

Additional Information
for the 6 months ended 31 December 2003
Expressed in U.S. Dollars

SHAREHOLDERS

At 31 December 2003, there were 193 holders of the ordinary shares of the Fund. Mr J. Randolph Updyke and Mr & Mrs S.R. Evans each had two separate holdings which have been added together for the purpose of these accounts. The number of shareholders reflected in the note is 193. The voting rights attaching to the ordinary shares are as follows:

- (a) at meetings of members or classes of members, each member entitled to vote may vote in person or proxy or attorney; and
- (b) on a show of hands, every person present who is a member has one vote, and on a poll every person present or by proxy or attorney has one vote for each ordinary share held.

Details of the top 20 shareholders as at 31 December 2003 were:

	No. of shares
1. U.S. Masters Holdings Limited	50,606,684
2 ANZ Nominees Limited	111,300
3 Mr. Joseph Randolph Updyke	454,050
4 National Nominees Limited	130,200
5 Merrill Lynch (Australia) Nominees Pty Limited	912,500
6 Mr. S.R. Evans & Mrs. K.M. Evans	80,250
7 Mr. Walter Carucci	60,000
8 Mrs Carol Updyke	55,000
9 Dr. Garry Joseph Nervo	40,000
10 Mr. Donald Nathanson a/c Money Purchase Keogh Plan	26,500
11 Mr. Donald Nathanson a/c Profit Sharing Keogh Plan	23,500
12 Donard Services Pty Ltd	20,000
13 Mr. T.M. Sadler & Mrs. A.S. Sadler	20,000
14 Mrs. Margaret Jessie Sims	20,000
15 Mr. Mervyn Goldblatt	16,000
16 Mr. Arthur Albert Alexander	13,000
17 Mrs. Clara T Carucci	13,000
18 Mr. J.P. Holinger & Mrs. B.L. Holinger	10,000
19 Mrs. Hazel Jordan	10,000
20 Kingsun Investments PTY Ltd	10,000
	<u>52,631,984</u>

U.S. MASTERS HOLDINGS LIMITED

Additional Information for the 6 months ended 31 December 2003

Expressed in U.S. Dollars

SHAREHOLDERS (Cont)

The distribution of shareholders as at 31 December 2003 was as follows:

No. Shares	Shareholders
1 - 1,000	76
1,001 - 5,000	78
5,001 - 10,000	19
10,001 - 100,000	15
100,001 - and over	5
	<hr/>
	193
	<hr/>

The 20 largest shareholders hold 99.23% of the ordinary shares of the Fund.