

MMC Contrarian Limited (MMC)
December 2007 Quarterly Investment Update

This is the sixteenth quarterly investment update since MMC listed in December 2003. In this report we deal with the performance and composition of the investment portfolio for the previous 3 months. A summary of the portfolio is set out at Appendix 1.

As announced to the ASX on the 30th of January 2008, we received notice from the ATO that the Capital Return of 10 cents per share that was approved by shareholders on the 25th of October 2007, had received a final class ruling, which confirms that the proposed capital return will be treated as a return of capital for Australian tax purposes.

The Capital Return will be paid on the 22nd of February 2008.

Performance of the portfolio for the December quarter:

Your company's portfolio returned -1.60% during the quarter versus -1.73% for The All Ordinaries Accumulation Index. We report performance for information purposes only. We are long term investors and short term performance, whether positive or negative relative to a benchmark, is not a focus for us.

Volatility remains very high and at the time of writing we are witnessing a material, and somewhat unprecedented market risk aversion event brought about by the continued fall-out from US originated bad loans in the sub prime market, which is impacting the prime loan market across the global financial system.

As with last quarter, the polarisation or performance that emerged between large and small capitalised companies continued over the December quarter. We expect that smaller companies will continue to under perform larger companies primarily for two reasons:

1. Their earnings are more leveraged to movements in underlying economic activity; and
2. During periods of risk aversion, investors shun less liquid investments despite sometimes attractive valuations.

As a result of our conservative approach to investing, the portfolio still has over 50% of shareholders capital in cash, which given current market volatility, ensures we are well placed to capture compelling investment opportunities should they meet our stringent valuation criteria. After a number of years where the value style has not delivered results, we are confident that over the next few years, our disciplined approach will reward our investors with improved returns.

Some shareholders have asked whether we have any exposure to some of the high profile price decliners, such as Allco, Centro, RAMS and MFS. We have not and do not. As we have stated before, there is no amount of upside that can compensate us for an unknown amount of downside and we will not invest in companies that we do not understand. We have not, however, been immune to impairments in the portfolio over the quarter, which we discuss below.

We suffered some material negative price movements during the December quarter impacting on our portfolio value. Staging Connections declined (36%) impacting the portfolio by (0.55%), Clime fell (19%)

impacting the portfolio by (0.31%), Regional Express Airlines fell (24%) impacting the portfolio by (0.30%), CVC fell (16%) impacting the portfolio by (0.30%) and WattyI fell (24%) impacting the portfolio by (0.28%). Material positive contributions were Telstra Installment Receipts +11% for a +0.45% portfolio contribution and Envirozel which rose +11% and contributed +0.24% to the portfolio.

It is important to distinguish between price movements and value impairments. A value impairment is where we consider there has been a permanent change in the value of the business, which can be brought about for a number of reasons. In the case of Staging Connections, it is our view that management mismanaged not only the operational performance of the business but also the allocation of shareholder capital via some poorly considered acquisitions that have proven to be much less attractive than envisaged by the company and by us. We have reduced our exposure in the company, which now accounts for 0.75% of the portfolio.

The balance of the negative price movements are disappointing, however, as stated above, we must distinguish price and value and be patient to recognise that we cannot control price, particularly at times when markets have massive mood swings that can aggressively discount stocks. During these times, we generally top up our holdings where they have been oversold, as fear takes over from greed. We focus on the long term value of a franchise when assessing its appraisal value, which should ultimately be matched by price if we have done our analysis well.

Portfolio Activity

New investments during the quarter include James Hardie Industries, a predominately US focussed building materials business. James Hardie's share price has fallen significantly as the US grapples with markedly lower new home starts, due in part to a previous oversupply, and the US sub prime credit mess. At our average buy price, we believe the company trades at a +30% discount to its intrinsic worth based off mid cycle earnings. A position has also been established in WattyI, which is an Australian paints manufacturer. WattyI has suffered recently due to the extended malaise in new home starts for its key Australian east coast markets. Based on mid cycle earnings, we are buying WattyI at a +40% discount to our assessment of its intrinsic worth. A stake was also established in Envirozel, which is a small Australian focussed specialty engineering business. Envirozel has been a strong performer over the last twelve months that we consider likely to continue, as management successfully integrate recent bolt on acquisitions. They have a healthy balance sheet with negligible debt. Other positions added to or purchased during the quarter include Calliden, Regional Express Airlines, Warehouse Group, Pumpkin Patch and McPherson's.

We completed selling our entire investment in Abacus Property Group, averaging \$1.88. With the shares having fallen over 35% since our sale, we have avoided a significant impairment to the portfolio. We also sold our position in Tower New Zealand due to a reappraisal of the company's valuation post their full year results. Graincorp was sold due to our concerns surrounding the 2008 crop harvest and the impact this would have on the company's financial strength being a consecutive poor year, and completely exited our position in the Magellan Flagship Fund.

Finally, we continue to seek investment opportunities in businesses that:

1. we can understand;
2. we can value with a high conviction;
3. have a competitive advantage; and
4. are trading at a significant discount to fundamental value.

This list has grown substantially over recent months and continues to grow by the day. We can afford to be choosy and only focus on outstanding ideas that provide compelling returns.

Global Value Fund Update

As previously announced, earlier this year MMC Contrarian Limited, via its 51% owned subsidiary Contrarian Global Asset Management (CGAM) seeded a new product called the Global Value Fund (GVF). The Fund's objective is to maximise long term capital appreciation and capital preservation by providing investors with a concentrated portfolio of international equities, bonds and cash that aims to achieve a rate of return in excess of the MSCI All Country ex Australia (unhedged) in \$A index over rolling three year time frames, although this is not guaranteed.

The return since inception* of the GVF to December was -6%, achieved in a very difficult investment environment with the MSCI All Country index ex Australia returning -3% over the same period. At the end of January 2008, the unaudited returns show that the Fund had outperformed its benchmark by 5.65% since inception and by 8.96% for the month. Whilst only a short time frame in which to judge the performance of any fund, it is pleasing to note that the GVF is well ahead of its benchmark at this date.

CGAM is very comfortable with the companies in the GVF and have seen many quality companies marked down by the recent market volatility. A great example is Kingmaker, a Hong Kong headquartered company that manufactures shoes for brands such as Clarks, Skechers and StrideRite. The company specialises in Children's and Baby's shoes (accounting for over 50% of their production), but also manufactures Casual and Rugged lines. During the quarter they announced strong results up 50% year-on-year but with its shares falling 9% over the period. Based on these results, it is now trading at a 20% discount to book value and a price earnings multiple of 8 times based on pro-rated earnings, with cash making up over 50% of the market capitalisation. There are several other quality companies at similar valuations in the portfolio and CGAM continues to believe the portfolio offers good risk-to-return characteristics if the market continues to price companies at these levels. For further information in relation to the performance of the Fund, please visit www.contrarianam.co.uk for the latest quarterly report.

* The GVF Inception date is July 9, 2007.

A summary of the composition of the portfolio, the NA and share price at the relevant dates are shown below for your information.

\$ Million

| | 31 Dec 2005 | 30 June 2006 | 31 Dec 2006 | 30 June 2007 | 31 Dec 2007 |
|--|----------------|-----------------|----------------|-----------------|----------------|
| Equities | 85 | 101 | 111 | 101 | 117 |
| Hybrids | 6 | 3 | 0 | 0 | 0 |
| Cash on deposit | 156 | 139 | 146 | 156 | 121 |
| Total Capital Employed | <u>247</u> | <u>243</u> | <u>257</u> | <u>257</u> | <u>238</u> |
| NA Per Share | | | | | |
| Before Tax on unrealised gains - cents | 112.4 | 111.6 | 117.8 | 114.0 | 108.2 |
| Dividends paid (cumulative) | 4.5 | 7.5 | 10.5 | 14.5 | 18.5 |
| MMA Share price - cents | 94.5 | 90.0 | 104.0 | 104.0 | 90.0 |

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Important Disclaimer

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Appendix 1: An unaudited summary of MMC Contrarian investments at 30th September 2007 and 31st December 2007.

| <u>Summary of Investments valued at market</u> | 31 st December 2007 \$ '000 | % of portfolio | 30 th September 2007 \$ '000 | % of portfolio |
|---|--|----------------|---|----------------|
| <i>Equities (Top 20)</i> | | | | |
| Contrarian Global Value Fund (GVF) | 18,790 | 8.1 | 19,402 | 7.7 |
| Telstra Corporation Ltd Instalment Receipts (TLSCA) | 11,551 | 5.0 | 10,469 | 4.2 |
| ConnectEast Group (CEU) | 7,909 | 3.4 | 8,132 | 3.2 |
| Mainfreight Ltd (New Zealand) – (MFT) | 7,646 | 3.3 | 7,562 | 3.0 |
| Wattyl Ltd (WYL) | 5,070 | 2.2 | - | - |
| Calliden (CIX) | 5,045 | 2.2 | 3,424 | 1.4 |
| Envirozel (EVZ) | 4,825 | 2.1 | 4,080 | 1.6 |
| News Corporation Ltd (NWS) | 4,804 | 2.1 | 5,300 | 2.1 |
| Norfolk (NFK) | 4,386 | 1.9 | 4,351 | 1.7 |
| Regional Express Holdings (REX) | 4,277 | 1.8 | - | - |
| Telecom Corporation of New Zealand (TEL) | 3,995 | 1.7 | 4,383 | 1.7 |
| James Hardie (JHX) | 3,921 | 1.7 | - | - |
| Babcock & Brown Structured Finance Fund (Singapore) | 3,889 | 1.7 | 4,093 | 1.6 |
| CVC Ltd (CVC) | 3,635 | 1.6 | 4,340 | 1.7 |
| Clime Investment Management Ltd (CIW) | 3,489 | 1.5 | 4,286 | 1.7 |
| Premier Investments Ltd (PMV) | 2,388 | 1.0 | 2,760 | 1.1 |
| Pumpkin Patch (PPL) | 2,278 | 1.0 | - | - |
| Staging Connections Group Ltd (STG) | 2,232 | 1.0 | 3,713 | 1.5 |
| Spotless Group (SPT) | 1,890 | 0.8 | 211 | 0.1 |
| Warehouse Group (New Zealand) (WHS) | 1,724 | 0.7 | - | - |
| Other | 11,526 | 4.9 | 36,896* | 14.7 |
| Total Equities | 115,270 | 49.5 | 123,402 | 49.0 |
| Funds on deposit | 117,690 | 50.5 | 128,499 | 51.0 |
| Total capital employed | 232,960 | 100.0 | 251,901 | 100.0 |
| NA per share before tax –cents | 108.2 | | 113.8 | |
| MMA share price - cents | 90.2 | | 104.0 | |
| (Discount) / Premium to NA before tax-% | (16.8) | | (8.6) | |
| NA per share after tax- cents | 108.2 | | 113.1 | |
| (Discount)Premium to NA after tax-% | (16.8) | | (8.0) | |

* Other includes the market value of Graincorp, Magellan Flagship Fund, CostaExchange and Abacus that were subsequently sold during the December quarter.