

**MMC Contrarian Limited (MMC Contrarian)**  
**December 2006 Quarterly Investment Update**

This report has been prepared by MMC Asset Management Limited on behalf MMC Contrarian Limited. This is the eleventh quarterly investment update since MMC Contrarian listed in December 2003. In this report we deal with the following:

- A summary of the recent General Meeting;
- Your company's dividend philosophy and outlook; and
- The performance and composition of the investment portfolio for the previous 3 months.

A summary of the portfolio is set out in Appendix 1.

**Summary of recent General Meeting - Merging of MMC Contrarian with MMC Asset Management**

On the 29th January 2007 the shareholders of MMC Contrarian Limited approved the acquisition of MMC Asset Management Limited. MMC Asset Management manages the MMC Contrarian portfolio of \$260m as well as 5 other funds with a total of \$345 million under management.

All the MMC Asset Management shareholders elected to receive their consideration in shares and MMC Contrarian's share capital increased by 33,898,509 shares to an issued capital of 249,502,993 shares.

The key benefits of the acquisition include:

- Additional profit for MMC Contrarian arising from the funds management business operated by MMC Asset Management which has the potential for future growth;
- Close alignment between MMC Contrarian and the key executives of MMC Asset management; and
- An improved earnings per share, as the acquisition is expected to be accretive. However, the effect of consolidating the accounts of the two companies will lower the NTA per share of the combined group. The NTA measure going forward does not accurately reflect the value of the business post the acquisition as it does not recognise the recurring and potentially growing revenue stream arising from the funds management business now owned.

**Dividend Philosophy**

MMC Contrarian's half yearly results to 31st December will be released to the market by the last business day in February 2007. At that time, Directors will declare and announce the interim Dividend. Your company's policy is to distribute a growing stream of fully franked dividends to shareholders. Accordingly, it is anticipated that the full dividend for the current financial year will exceed the six cents per share for the last financial year.

**Performance of the portfolio during the previous 3 months:**

The All Ordinaries Accumulation Index increased +11.3% during the quarter. Your company's total portfolio returned +6.3% after expenses and before tax, which on a risk adjusted basis is satisfactory given the level of cash we have held during the period. When excluding cash, the portfolio returned +12.9%.

Core holdings performed strongly during the quarter with PMP (+20.4%), Abacus Property (+13.6%), Commander (+14.7%), The Warehouse (+14.8%) and Telstra (+11.6%) all producing double digit returns. Since listing in

November. T3 (+27.6%) has also been a strong positive contributor. Ridley Corporation Canada was down for the quarter (-14%) due to currency movements over the period.

**Portfolio Activity:**

Several positions were trimmed or completely exited while several new positions were acquired during the quarter.

**Summary:**

- We materially increased the investment in Chiquita, which is trading under both an independent expert's valuation range of 84-99c and our assessment of fair value.
- As a Telstra shareholder, your company had an entitlement to T3. This was fully exercised with more T3 purchased on the day it listed.
- The position in Abacus Property increased due to both strengthening in the share price and a share placement in which we participated.
- We exited positions in Babcock & Brown Capital, Babcock & Brown Wind Partners, Ridley Corporation and Rinker during the quarter.
- The holding in Burns Philp was completely sold following the acquisition of the company by the Rank Group.
- The portfolio no longer holds hybrid securities. The Allco Hybrid Investment Trust (PoDS) was finally exited after being trimmed for some time while the holding in the Babcock & Brown Power notes was redeemed when the entity was listed in December.
- PMP, News Corporation and Ansell approached our assessment of fair value during the quarter and these positions were trimmed while IOOF's share price increased beyond our assessment of fair value and was completely sold.

**New holdings:**

The drought in rural Australia saw several agri-businesses reach 52 week lows during the month. This presented both GrainCorp and AWB as strong contrarian opportunities. GrainCorp was purchased after its share price hit an 8 year low. Apart from being well positioned to benefit from an upturn in grain production, the company has a strong balance sheet with its port assets being conservatively valued. AWB was purchased as we believed it had been oversold on speculation the single wheat export desk would be abolished following the Cole inquiry. This implies a worst case outcome with a complete loss of pool management operations. It ignores the value of a single desk to grain producers and that AWB is best placed to operate the single desk due to its existing expertise. AWB also owns the rural services business, Landmark, a valuable strategic asset (duopoly with Elders) with growth potential that the market was applying a conservative value to.

ConnectEast was purchased as construction is ahead of schedule and likely to be completed 5 months early in June 2008 rather than November 2008. Its share price is likely to be positively re-rated in the lead up to the opening of the toll road, as construction risk diminishes. The company is also a prime take over target for other industry players whose business models depend on acquiring additional toll roads to grow distributions.

An investment was made in the Singapore listed Babcock & Brown Structured Finance Fund. The fund invests in operating leases and structured finance transactions diversified across industry, corporate name and geography. It listed on a very attractive yield, with capped gearing, conservatively valued assets and a relatively low risk/return profile. Distributions will be funded from free cash flow with the fund structured to minimise capex and tax.

A stake in the Magellan Flagship Fund IPO was purchased with shareholders entitled to subscribe for Magellan Financial Group Stapled Securities in March/April 2007 at a significant discount to the current share price.

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

\$ Million

	31 Dec 2003	30 June 2004	31 Dec 2004	30 June 2005	31 Dec 2005	30 June 2006	31 Dec 2006
Equities	13	74	92	98	85	101	111
Hybrids	0	15	24	8	6	3	0
Cash on deposit	185	122	123	134	156	139	146
<b>Total Capital Employed</b>	<b>198</b>	<b>211</b>	<b>239</b>	<b>240</b>	<b>247</b>	<b>243</b>	<b>257</b>
<b>NTA Per Share</b>							
Before Tax on unrealised gains- cents	99.1	105.4	115.2	109.7	112.4	111.6	117.8
Dividends paid (cumulative)	-	-	1.0	2.5	4.5	7.5	10.5
Before Tax on unrealised gains pre dividends- cents	99.1	105.4	116.2	112.2	116.9	119.1	128.3
<b>MMA Share price- cents</b>	<b>93.0</b>	<b>97.0</b>	<b>106.0</b>	<b>93.5</b>	<b>94.5</b>	<b>90.0</b>	<b>104.0</b>

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**Appendix 1: An unaudited summary of MMC Contrarian investments at 30<sup>th</sup> September 2006 and 31<sup>st</sup> December 2006.**

<u>Summary of Investments valued at market</u>	30 <sup>th</sup> Sept 2006 \$'000	% of portfolio	31 <sup>st</sup> Dec 2006 \$'000	% of portfolio
<i>Equities</i>				
PMP Ltd (PMP)	20,046	8.1	15,976	6.2
Abacus Property Group Ltd (ABP)	11,864	4.8	14,298	5.6
Telstra Corporation Ltd (TLS)	11,962	4.9	13,374	5.2
News Corporation Ltd (NWS)	14,745	6.0	9,277	3.6
Chiquita Brands South Pacific Ltd (CHO)	784	0.3	7,442	2.9
Ansell Ltd (ANN)	11,573	4.7	7,323	2.8
Magellan Flagship Fund Ltd (MFF)	-	-	6,864	2.7
Babcock & Brown Structured Finance Fund (Singapore)	-	-	6,496	2.5
Telstra Corporation Ltd Instalment Receipts (TLSCA)	-	-	6,174	2.4
The Warehouse Group Ltd (WHS)	5,173	2.1	5,911	2.3
Commander Communications Ltd (CDR)	3,257	1.3	3,737	1.5
GrainCorp Ltd (GNC)	-	-	3,130	1.2
ConnectEast Group (CEU)	-	-	3,001	1.2
Ridley Inc (Canada)	3,243	1.3	2,789	1.1
AWB Ltd (AWB)	-	-	2,254	0.9
#Staging Connections Group Ltd (STG)	1,947	0.8	2,052	0.8
Other	1,881	0.8	1,277	0.5
^Stocks completely exited during the quarter	25,846	10.5	-	-
	112,323	45.6	111,375	43.3
<i>Hybrids</i>				
^Hybrids completely exited during the quarter	6,041	2.5	-	-
Funds on deposit	128,175	51.9	145,748	56.7
Total capital employed	246,539	100.0	257,123	100.0
NTA per share before tax -cents	112.3		117.8	
MMA share price - cents	95.0		104.0	
(Discount) / Premium to NTA before tax-%	(15.4)		(11.7)	
NTA per share after tax- cents	110.3		115.2	
(Discount)Premium to NTA after tax-%	(13.9)		(9.7)	
# name changed from AVV Ltd (AAV)				
^Burns Philp & Company Ltd (BPC), Babcock & Brown Wind Partners Ltd (BBW), IOOF Holdings Ltd (IFL), Rinker Group Ltd (RIN), Babcock & Brown Capital Ltd (BCM), Ridley Corporation Ltd (RIC), Babcock & Brown Power (unlisted), Allco Hybrid Investment Trust (PoDS)				