

ANNUAL REPORT JUNE 2005

**MMC**  
**Contrarian**  
Limited

## MMC Contrarian Limited

ABN 83 106 248 248

### DIRECTORY

#### Directors

Simon Rowell, Chairman  
Erik Metanomski  
Kevin Eley  
Peter Constable  
(alternate for Erik Metanomski)

#### Secretary

David Sutherland

#### Registered Office and Contact Details

Level 5, 34 Hunter Street  
Sydney NSW 2000  
GPO Box 4406, Sydney NSW 2001  
Telephone: 02 9221 7155  
Facsimile: 02 9233 2713  
Email: [enquiries@mmccontrarian.com.au](mailto:enquiries@mmccontrarian.com.au)  
Website: [www.mmccontrarian.com.au](http://www.mmccontrarian.com.au)

#### Share Registry

Computershare Investor Services Pty Limited  
Level 3, 60 Carrington Street  
Sydney NSW 2000  
Telephone: 1300 855 080  
03 9415 4000  
Facsimile: 02 8234 5050  
For all enquiries relating to shareholdings, dividends  
(including participation in the Dividend Reinvestment Plan)  
and related matters please contact the share registry.

#### Auditors

Deloitte Touche Tohmatsu

#### Investment Manager

MMC Asset Management Limited  
Australian Financial Service Licence 230920

#### Accounting and Custodial Services

ANZ Custodian Services

#### Stock Exchange Code

MMA

### FINANCIAL CALENDAR

#### Final Dividend

› 22 September 2005

#### Annual General Meeting

› 19 October 2005

#### Half Year End

› 31 December 2005

#### Half year result announced

› February 2006

#### Interim Dividend

› March 2006

#### Year End

› 30 June 2006

#### Annual Report

› September 2006

### INVESTMENT MANAGER REPORTS

#### September quarter

› October

#### December quarter

› January

#### March quarter

› April

#### June quarter

› July

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MMC Contrarian Limited is an investment company listed on the Australian Stock Exchange (ASX) which primarily invests in other ASX listed securities. The Company provides investors with access to the benefits of the skilled investment personnel of MMC Asset Management Limited and HGL Limited and their understanding of the share market.

The name MMC Contrarian was chosen because the investment philosophy adopted by the Company is contrary to the “herd” mentality which can often influence fund managers. Our philosophy is that investments will be evaluated on fundamental criteria to identify opportunities which have been undervalued by the market in general and therefore over time are expected to be rerated.

The Company was founded in December 2003 and has over 10,000 shareholders.

### **COMPANY OBJECTIVES**

The objectives of the Company are to:

- exceed the return of the All Ordinaries Accumulation Index over the medium to long term;
- pay regular dividends, franked where possible; and
- preserve the capital of the Company.

## INVESTMENT MANAGER

The Company has engaged MMC Asset Management Limited (MMC) as its investment manager. HGL Limited (ASX code: HNG) has made available the services of several of its key executives to assist MMC with providing these management services. Both HGL and MMC are experienced investors with an outstanding long term record of wealth creation.

Additional information on both companies can be found on their websites:

- MMC Asset Management Limited  
[www.mmcfunds.com.au](http://www.mmcfunds.com.au)
- HGL Limited  
[www.hgl.com.au](http://www.hgl.com.au)

MMC manages the investments of the Company in accordance with the management agreement summarised on page 42 to 44.

## INVESTMENT PHILOSOPHY

The investment philosophy is aimed at preserving and growing shareholders' capital. This is achieved by:

- investing for the medium to long term;
- acquiring a concentrated portfolio of companies primarily listed on the Australian Stock Exchange that are trading at a discount to their fair value (value investing);
- thinking independently and not following the herd (contrarianism);
- having a structured and methodical approach to investing (discipline); and
- maintaining potentially large cash holdings if attractive, low risk investments cannot be found.

- Before tax portfolio return of 9.7% (2004: 8.2%)
- Net tangible assets, before provision for tax on unrealised gains, of 109.7 cents per share at 30 June 2005 compared with 105.3 cents per share at 30 June 2004
- Dividends of 3.5 cents per share, fully franked (2004: 1.0 cent, fully franked)
- On 30 June 2005 41% of the portfolio invested in ordinary shares and unit trusts, 3% in hybrids and 56% in cash deposits and fixed interest
- Profit after tax of \$4.6 million (2004: \$2.7 million) and realised capital gains after tax of \$7.5 million (2004: \$1.3 million)
- Unrealised revaluation gains of \$2.5 million after tax (2004: \$7.5 million)
- Earnings per share of 2.2 cents (2004: 1.4 cents) and realised capital gains per share of 3.6 cents (2004: 0.6 cents)
- Unrealised capital gains per share of 1.2 cents (2004: 3.8 cents)

## INVESTMENT MANAGER'S REPORT

This report has been prepared by MMC Asset Management Limited to provide information to MMC Contrarian shareholders.

### Portfolio activity during the year

As at 30th June 2005, 44.3% of the portfolio was invested in equities and hybrids with the remainder being held in cash. This represents a slight increase from the 42.2% allocation at 30th June 2004. New investments during the year included the Babcock & Brown Japan Property Trust and McPherson's. Of the core holdings we increased investments in PMP, Babcock & Brown Infrastructure (formerly Prime Infrastructure) and Abacus Property Group, while our IOOF holding was reduced after reaching targeted price levels. A detailed list of investments is shown on page 40 of the annual report.

### Review of the portfolio for the year and since listing

Since 11 December 2003 (MMC Contrarian's inception date), most of the core holdings have performed strongly including Burns Philp (+56.9%), IOOF (+73.0%), Babcock & Brown Infrastructure (+65.6%), and Abacus Property (+18.3%). Since listing, Babcock & Brown Japan Property Trust has also performed strongly (+21.0%). While PMP's share price has increased (+72%) since inception, it has detracted from performance after dropping 28.0% since its profit downgrade in April 2005.

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

### Quarterly summary of portfolio composition

	\$ Million					
	31 March 2004	30 June 2004	30 Sept 2004	31 Dec 2004	31 March 2005	30 June 2005
Equities	61	74	85	92	95	98
Hybrids	15	15	15	24	9	8
Cash on deposit	126	122	122	123	147	134
Total Capital Employed	202	211	222	239	251	240
NTA Per Share						
Before Tax on unrealised gains- cents	100.8	105.3	109.1*	115.2*	113.0+	109.7+
Before Tax on unrealised gains pre dividends- cents	100.8	105.4	110.1	116.2	115.5	112.2
MMA Share price- cents	93.0	97.0	101.0	106.0	100.0	93.5

\* After payment of a 1.0 cent fully franked dividend

+ After payment of a 1.0 and 1.5 cent fully franked dividends

Since listing MMC Contrarian's NTA has increased from 98.1 cents to 109.7 cents before tax on unrealised gains, after paying 2.5 cents of fully franked dividends, and after the effect of the dividend reinvestment plan (DRP), the exercise of options, and the buy back. Adjusting for these factors, plus the management expense ratio (MER), and tax paid on realised gains and income, the portfolio returned over 19% since listing (10% in the year to 30th June 2005). The equity component has increased in value by 40% since listing (17% in the year to 30th June 2005).

INVESTMENT MANAGER'S REPORT › CONTINUED

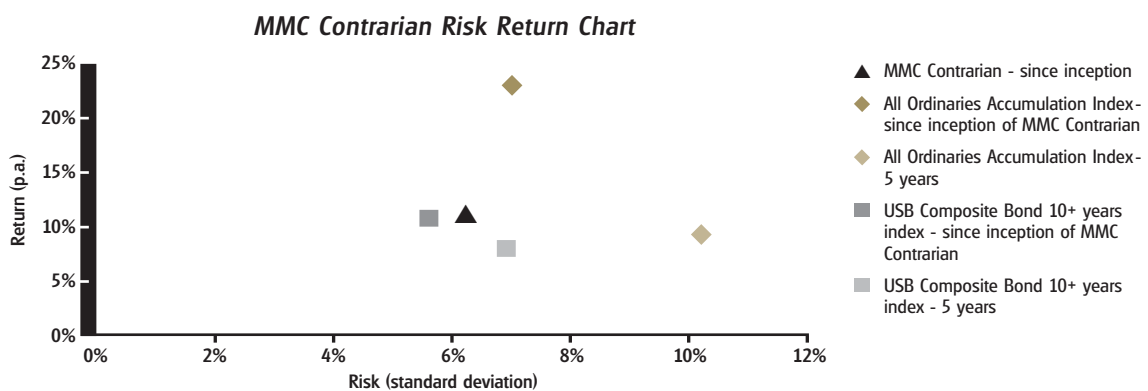
The company has, on average, held two thirds of its assets in cash or cash equivalents since listing, which received a return of 5.7%. This is in accordance with the company's disciplined investment philosophy of maintaining large cash holdings if sufficient investments that meet our stated criteria cannot be found.

While the portfolio's returns have underperformed the index, much of this is attributable to the phase of the market cycle in which we find ourselves, where most of the market's return has been derived from the resources sector. In addition, viewing returns in isolation ignores the long term risk of investing in an overvalued market that has been driven by a wave of momentum. Our investment discipline aims to produce outperformance over the long term and to provide a steadily increasing dividend distribution to our shareholders. This means we consider the safety of your investments and do not allocate a high proportion of our portfolio to equities 'for the sake of investing'. We have been cautious investing in a momentum market as we believe it is prudent to avoid catching the top of the wave to ensure we are not 'wiped out' by it.

**Risk Adjusted Returns**

Therefore, our focus is on risk adjusted returns. Generally speaking, investing in 2005 involved a high degree of risk from a contrarian perspective. There were an abundance of overvalued 'flavour of the month' stocks, with apparent disregard by the market for their quality or fundamentals. While this may have presented opportunity for short term, speculative, momentum investors this was a riskier environment from a contrarian perspective. Hence, we allocated a high portion of the portfolio to cash in order to manage the risk adjusted return in the current environment.

The result of this strategy has produced a performance to date that has undeniably underperformed the broader market. However, it has achieved this with a high degree of safety for the capital employed, with a lower level of risk. This is evident in the chart below. The chart below shows risk versus return of MMC Contrarian versus a number of indices.



In the short term since the company's inception, momentum in the equity market has produced an abnormally high return. Over the longer term we expect to produce returns in excess of the All Ordinaries Accumulation Index at a lower rate of risk.

## INVESTMENT MANAGER'S REPORT › CONTINUED

**General Overview**

While there has been an improvement in corporate earnings during the last year, improved investor sentiment appears to have fueled the market. We have been wary of this optimistic environment - when investor expectation is high, so is the risk of disappointment. Our focus is not on 1 year performance, rather longer term performance over 3-5 years.

Evidence of the buoyant market was seen through the record number of floats (185) during the year. Indeed the market was 'awash with cash', as over one third of IPO money was raised by the 17 'cashboxes' listed during the year. M&A activity was also prevalent, with Tabcorp taking over TAB and Publishing and Broadcasting taking over Burswood early in the year, followed by Woolworths acquiring ALH, Foster's takeover of Southcorp, Metcash acquiring Foodland, Transurban acquiring Hills Motorway, BHP's takeover of Western Mining and the 'tug o war' for GPT.

The market was narrowly driven throughout the year, led by resources stocks. Much of the market's return is directly attributable to a mere 7 stocks, with BHP, RIO Tinto, Woodside, and Rinker being major beneficiaries of commodity price rises and National Australia Bank, Commonwealth Bank and Macquarie Bank experienced a cyclical upswing after some lacklustre performance over the previous 3 years. Over 35% of the market's performance for the year to 30 June 2005 is attributable to these 7 stocks, with 14% attributable to BHP alone. And after taking into consideration the National Australia Bank's profit downgrade in July 2004, approximately 40% of the market's performance for the 11 months to 30 June 2005 is attributable to these 7 stocks.

The first half of the year saw the continuation of a lengthy upward trend that began in March 2003. The themes that generated the momentum of 2004 continued as money poured into the Australian stock market on the back of stable interest rates, strong consumer spending, the unwinding of the property bubble, rising commodity prices and the China 'story' fuelling demand for natural resources. This momentum was driven predominantly by IT, industrials, consumer staples and materials stocks. Small cap outperformed large cap stocks. In such an environment, in which contrarian value opportunities are scarce, we continue to work hard to identify investment opportunities.

However, the 2 year momentum run was halted in February 2005. The second half of the year saw an increase in volatility as the market experience a downturn in March and April before recovering in May to reach new highs in June. This volatility was driven by uncertainty around the potential for an economic slowdown (both global and domestic), and interest rate increases (after an interest rate rise in March). The second half of the year was inundated by a series of profit downgrades, predominantly in small-mid cap companies, although some large cap stocks also lowered profit expectations (e.g. Wesfarmers, Amcor, PaperlinX, Coca-Cola Amatil, Newcrest Mining, Caltex, Orica, Mirvac, Patrick Corp, Virgin Blue and Flight Centre). The spate of downgrades certainly attracted our attention and interest in a number of stocks, however these opportunities weren't cheap enough.

INVESTMENT MANAGER'S REPORT › CONTINUED

The market regained confidence in May. Fears of further interest rate rises were eased due to decreases in GDP growth, consumer spending and property prices. This appeared to comfort the market, overriding concerns about the impact on long run corporate earnings. In addition, the federal government delivered fiscal stimulus through personal income tax cuts in the May budget.

Not surprisingly, the second half saw large cap stocks particularly in the resources sector outperform small cap stocks with a flight to more defensive sectors such as utilities and health-care. Momentum continued in the energy sector as the price of oil headed well over US\$55 per barrel. As outlined in the MMC Contrarian prospectus, resources are not a core competency and we are unlikely to hold resources stocks.

**Overview from a contrarian perspective**

The year was certainly a thematic momentum driven market, which presented few opportunities from a contrarian perspective as the overvalued market continued to climb. Examples of such themes that attracted the market's focus included:

- the China 'story' leading to momentum in the share price of coal and steel producing companies, without regard for the economic likelihood that the demand this has created for iron ore and coal will be matched by supply over the long term
- high commodity prices continued the run in materials and energy stocks, with transport and some manufacturing stocks being out of favour, with little consideration for the sustainability of current commodity price levels
- the continued growth in profitability in the short term, despite many sectors experiencing peak cycle earnings and evidence of a domestic slowdown in growth and sales during the second half of the year
- positive economic indicators (e.g. low inflation, low unemployment and interest rates appearing to be on hold), while disregarding the threats to these in the near future from increasing fuel, raw materials, and labour costs

On the flip side, the thematic drive led to minimal attention being paid to the strong Australian dollar (which remains above long term fair value) and how this has benefited importers, as central banks overseas start tightening monetary policy.

Given the above factors, it would be unlikely for the market momentum to continue into the 2006 financial year, although it is impossible to predict when sentiment driven markets stop and revert to fundamental drivers. Many companies are expected to suffer from tightening margins as pricing pressure and a decrease in consumer spending hits revenues while increasing material and labour costs and the potential for the Australian dollar to fall will impact profitability, all of which are likely to be reflected in 2006 performance. The uncertainties in any such forecast are commodity and oil prices, which will continue to drive the resources sector. As mentioned earlier, we have outlined in the MMC Contrarian prospectus that resources are not a core competency and we are unlikely to hold resources stocks.

INVESTMENT MANAGER'S REPORT › CONTINUED

With this in mind, given current valuations and a lack of contrarian opportunities (which we find extremely frustrating), our investment disciplines result in us holding a significant cash position in the current market. This will provide the flexibility to buy new holdings or top up existing positions at more attractive prices than those currently available.

**Recent Earnings Downgrades**

The spate of recent downgrades prompts the question as to whether the number of contrarian opportunities is on the rise and whether your company will invest in and take advantage of these opportunities. The simple answer is that it depends on the type of downgrade and the cheapness of the stock. Numerous types of events, both macroeconomic and company specific, can lead to a downgrade and it is the nature of the event that will determine whether a contrarian opportunity exists and, if so, when. These are outlined in the table below.

<i>Downgrade Event</i>	<i>Recent Examples</i>	<i>Contrarian Opportunity?</i>
Company specific one-off, such as mismanagement, restructuring costs, environmental (adverse weather / natural disaster)	PMP, Wesfarmers, Orica, Graincorp, Newcrest Mining, Caltex, Flight Centre	<b>Yes</b> , provided the company meets our investment criteria. One-off events do not impact the long term profitability of a company and market sell down ignores the long term investment case.
Cyclical factors - an industry reaches a cyclical peak after which earnings retract to long term levels	Distributor/manufacturers: Housewares, GUD Holdings, McPherson's, Coca-Cola Amatil Retailers: Just Group, JB Hi-Fi, Brazin Air transport: Virgin Blue, Patrick Corp	<b>Likely</b> , provided the company meets our investment criteria. However, it is important not to invest too early but to monitor the company until the appropriate phase in the market cycle is reached. Patience and discipline are required.
Structural / industry factors - a specific industry experiences a decline in its macroeconomics impacting profitability.	Paper & packaging: Amcor, PaperlinX Automotive part manufacturers: Pacifica, Schaffer, Fleetwood Wine: McGuigan Simeon, Evans & Tate	<b>Potentially</b> , again patience and discipline is the key. At some point over the long term, the profitability of the industry may again become favourable.
Company specific, with long term implications	Wattyl, Village Life, Miller's Retail, Multiplex Group, Ainsworth Game Tech.	<b>No</b>

## INVESTMENT MANAGER'S REPORT › CONTINUED

It is also important to note that just because a stock may appear cheap after an earnings downgrade, its cheapness depends on its value, not the size of the share price fall. In other words, the market may not discount a stock sufficiently enough following a downgrade to represent what we consider to be a genuine value opportunity.

**Outlook**

The early signs of slower economic growth are apparent, with leading indicators suggesting that the pace of growth will be moderate. Acknowledging that economic growth could slow a touch in the 2nd half of the calendar year 2005, we will be looking into contrarian opportunities where they should arise and hoping that many more such opportunities will become available.

In recent months we have seen a number of predominantly small and mid cap stocks issue earnings downgrades as their high levels of profitability achieved in 2004 are proving to be unsustainable over the course of the economic cycle. Through our investment philosophy of basing investment decisions on the long term outlook for stocks, your company has sailed through the storm of recent downgrades relatively unscathed, with the exception of PMP (due to a short term issue that we believe has no long term ramifications). Your company's core holdings including PMP, Burns Philp and Babcock & Brown Infrastructure are solid long term investments that provide stable earnings growth notwithstanding market cycles.

**ERIK METANOMSKI**EXECUTIVE DIRECTOR  
MMC ASSET MANAGEMENT LIMITED**KEVIN ELEY**DIRECTOR  
MMC ASSET MANAGEMENT LIMITED

MMC Contrarian and its directors and employees do not accept any liability for the results of any action taken or not taken on the basis of the information in this report, or any negligent misstatements, errors or omissions. This report has been prepared solely for the benefit of MMC Contrarian and its shareholders. This report summarises information on investments acquired by MMC Contrarian as of the date of the report. This information should not be considered as a recommendation on the suitability of any of these investments for any shareholder or third party. By making available this report we are not providing any general advice or personal advice, within the meaning of section 766B of the Corporations Act, regarding MMC Contrarian, any potential investment in MMC Contrarian or any investments or potential investments of MMC Contrarian. This report has been based on information furnished by us and other sources but no assurances can be given by us as to the accuracy and completeness of this information. The views expressed, and the financial products held by MMC Contrarian, as stated within this report are accurate as of date of its preparation. These views and financial products held by MMC Contrarian and its service providers may and will change after the issue of this report. Past performance is not necessarily indicative of future performance.

I am pleased to present MMC Contrarian's second annual report, for the year ended 30 June 2005. This has been the first full year of MMC Contrarian and the investment environment has been volatile, with substantial growth in key market indices over the year largely driven by strong resource and oil sectors. Against this investment background, MMC Contrarian's results were encouraging, as the result was satisfactory compared to the long term return of the All Ordinaries Accumulation Index based on the last 5 years, but disappointing to an extent given that the portfolio underperformed the one year All Ordinaries Accumulation Index. MMC Contrarian was established to provide strong returns on a medium to long term basis with a key objective being capital preservation, so investors should not place undue emphasis on short term comparisons to the index.

#### *Performance compared to objectives*

MMC Contrarian has achieved the following results in the year:

- Profit from ordinary activities of \$4.6 million after tax (2004: \$2.7 million), equal to 2.2 cents per share (2004: 1.4 cents per share)
- Capital profits of \$7.5 million after tax (2004: \$1.3 million), representing 3.6 cents per share (2004: 0.6 cents per share)
- Increase in asset revaluation reserve of \$2.5 million after tax (2004: \$7.5 million), which represents 1.2 cents per share (2004: 3.8 cents per share)

This gives a combined performance of \$14.6 million after tax (2004: \$11.5 million), equal to 7.0 cents per share (2004: 5.8 cents per share). It is important to note that the effective return on the portfolio is the combination of these three types of income. However, the asset revaluation reserve is not distributable as a dividend as these gains have not been realised.

The principal objectives of the Company are:

- Exceed the return of the All Ordinaries Accumulation Index over the medium to long term;
- Pay regular franked dividends; and
- Preserve the capital of the Company.

During the year, the portfolio achieved an increase of 9.7% (2004: 8.2%) before tax and dividend payments. The All Ordinaries Accumulation Index increased 24.7% (2004: 11.5%) in the same period. Since inception in December 2003 the portfolio has increased by 18.6% and the All Ordinaries Accumulation Index has increased 39.1%. Although this performance may be considered disappointing, it is important to recognise that MMC Contrarian is a medium to long term investor. The manager does not place undue emphasis on short term performance. An equally important criterion is preservation of capital, which may require the manager to stay under invested in a market it considers to be overheated.

The final dividend will be paid on 22 September 2005 and will be 2.0 cents fully franked (2004: 1.0 cent fully franked). Total dividends for the year are 3.5 cents fully franked (2004: 1.0 cents fully franked), which fulfils the objective of growing franked dividends.

The capital of the Company at the beginning of the year was 103.7 cents per share and at 30 June 2005 this had grown to 107.7 cents per share after the provision for all taxes and paying dividends of 2.5 cents.

#### *Investment manager and portfolio*

MMC Asset Management Limited (MMC) is the investment manager. HGL Limited (ASX code: HNG) has made available the services of several of its key executives to assist MMC with providing these services. The management agreement is summarised on pages 42 to 44.

The investment portfolio is summarised as follows:

	30 June 2005		30 June 2004	
	\$m		\$m	
Listed equities	98	41%	74	35%
Hybrids	8	3%	15	7%
Fixed interest and cash deposits	134	56%	122	58%
Total investments	240	100%	211	100%

The investments are shown in detail on page 40.

The report of the investment manager is on pages 5 to 10.

At 30 June 2005 59% of the investments were cash deposits, fixed interest and hybrid securities. As outlined in the investment manager's report, the assets of the Company are managed with a strong philosophy of capital preservation, consequently the Company will carry large cash holdings when suitable equity investments cannot be found.

#### *Dividends and total shareholder return*

As stated above, the Board has declared a fully franked final dividend of 2.0 cents per share payable on 22 September 2005, which equates to a full year dividend of 3.5 cents per share fully franked compared to 1 cent per share fully franked for the previous year. The Board's policy is to distribute a growing stream of fully franked dividends to shareholders every six months.

The Board is seeking to provide shareholders with a satisfactory Total Shareholder Return (TSR), being a combination of dividends, share price appreciation and any returns of shareholder capital. It is expected that distributing a growing stream of dividends will result in the dividend yield becoming an increasingly major factor

underpinning the TSR. The Board believes that increasing the Net Tangible Assets (NTA), continuing active capital management and distributing a growing stream of dividends will ensure a strong TSR that will provide a substantial reward for our shareholders going forward.

### *Keeping in Touch*

You can now help the environment and reduce our printing costs by choosing to receive your annual report and other shareholder communications from us electronically. If you register for this initiative at [www.eTree.com.au/mma](http://www.eTree.com.au/mma) a donation of \$2 will go to Landcare Australia to support reforestation projects.

We strive to communicate with shareholders on a regular basis. Our website at [www.mmcontrarian.com.au](http://www.mmcontrarian.com.au) is regularly updated and includes monthly NTA statements which are also submitted to the ASX. We will continue to send investors the quarterly investment updates from MMC Asset Management Limited.

A presentation from the investment manager will be given at the Annual General Meeting. The investment manager will also answer questions from shareholders. Because many shareholders are unable to attend the AGM the Board also welcomes written questions which will be summarised and commented on by the Board or investment manager as appropriate.

### *Capital management*

The Board has an objective of active capital management to benefit shareholders. This includes buying back and cancelling shares in a structured way when they are trading at a significant discount to NTA. For this reason the Company has an on market share buy back in place. The share buy back is managed by the investment manager and during the year 9.4 million shares in the Company were acquired for \$9.4 million and cancelled under the share buy back.

200 million options, exercisable at \$1 per option, were issued when the Company was floated. During the year 24.7 million options were exercised, providing additional capital of \$24.7 million. The options not exercised by 30 June 2005 lapsed.



**SIMON ROWELL**  
CHAIRMAN

The Directors of MMC Contrarian Limited present their annual financial report for the year ended 30 June 2005.

## Directors

The names and particulars of Directors in office during or since the end of the financial year are as follows:

### Simon Rowell BA (Hons), CA, FAICD – Chairman

Simon Rowell is independent as defined by the ASX Corporate Council's Principles. He is an experienced businessman who has been a director of public listed companies for many years. Simon is Chairman of Green's Foods Limited, a listed food manufacturing company and a director of McPherson's Limited, a listed consumer product and printing company. He is also Chairman of the Joint Management Committee for the redevelopment of Prince Henry Hospital. He is the former Managing Director of Snack Foods Limited which was acquired by Arnott's Biscuits Ltd in 2002 for more than \$250 million. Prior to Snack Foods Simon spent 5 years with PricewaterhouseCoopers in Melbourne and 12 years as General Manager of the Jack Chia Group, a diversified business encompassing construction, food, engineering, textiles, and finance.

Simon is a member of the Audit Committee and the Chair of the Nomination and Remuneration Committee.

Simon was appointed a director on 9 September 2003. Age 50.

### Erik Metanomski BA B.EC – Non-executive

Erik Metanomski is a director and of MMC Asset Management Limited and the chairman of its investment committee. MMC Asset Management is a boutique value focused funds manager founded by Erik in 1993. Erik is experienced in the analysis of equities and portfolio management having worked within the funds management industry for the last 18 years with a variety of groups including Taylor Collison and Providence Funds Management. Erik has been responsible for building and developing the investment philosophy of MMC Asset Management. Erik is a member of the Audit Committee.

Erik was appointed a director on 9 September 2003. Age 48.

### Kevin Eley CA, ASIA - Non-executive

Kevin Eley is a director and the chief executive officer of HGL Limited (ASX code: HNG) and a director of MMC Asset Management Limited. HGL is a listed company that specialises in owning easy to understand, small and medium sized import and distribution businesses, usually distributors of market leading branded products. Kevin joined HGL in 1985 and has assisted HGL with all its private and public company acquisitions. Kevin has represented HGL on a number of public company boards, including in the last three years Sabre Group Limited. He has been instrumental in developing HGL's philosophy of partnering with management in its investments.

Kevin is the Chairman of the Audit Committee and a member of the Nomination and Remuneration Committee.

Kevin was appointed a director on 9 September 2003. Age 56.

**Peter Constable B.EC – alternate**

Peter is an alternate non-executive director for Erik Metanomski. Peter Constable is the Chief Investment Officer and a director of MMC Asset Management Limited. Peter has worked in the funds management industry for 15 years.

Peter was appointed a director on 11 December 2003. Age 35.

**Company Secretary**

David Sutherland BSc Ag has been the Company Secretary of the Company since incorporation on 9 September 2003. David has worked in the financial markets for approximately 25 years. David is employed and paid by HGL Limited and receives no remuneration from the Company.

**Review of operations and activities**

The assets of the Company are managed by MMC Asset Management Limited in accordance with the terms of a 25 year management agreement summarised on pages 42 to 44.

The Directors report a pre tax return of 9.7% (2004: 8.2%) compared with the All Ordinaries Accumulation Index which increased by 24.7% (2004: 11.5%)

Profit before tax was \$6.1 million (2004: \$3.5 million), realised gains before tax were \$10.8 million (2004: \$1.8 million) and unrealised revaluation gains before tax were \$3.6 million (2004: \$10.8 million).

The realised gains arose mainly from IOOF \$4.6 million, Gribbles \$1.8 million, Babcock and Brown \$1.5 million and Calliden \$1.4 million.

Net tangible assets, before provision for tax on unrealised gains, increased from 105.3 cents per share on 30 June 2004 to 109.7 cents per share on 30 June 2005. In addition dividends of 2.5 cents a share were paid during the year.

**Dividends**

The Directors have declared a final fully franked dividend of 2.0 cents per share (2004: 1.0 cents per share fully franked). An interim fully franked dividend of 1.5 cents per share was paid during the year (2004: nil).

	2005 \$'000	2004 \$'000
Interim dividend paid 24 March 2005	3,308	0
Final dividend payable 22 September 2005 (2004: paid 7 October 2004)	4,321	2,000
	<b>7,629</b>	<b>2,000</b>

The dividends do not include a Listed Investment Company (LIC) capital gain. LIC capital gains entitle certain shareholders to a special deduction in their taxation return. LIC gains arise, in certain circumstances, if a security is sold for a profit after being held for in excess of 12 months.

The Directors are aware of a recent taxation ruling concerning the eligibility of profits to qualify for LIC tax concessions and are considering its effect on the Company. The issue should be clearer when the taxation ruling is finalised.

**Share buy back**

The Company has an on market share buy back in place so it can buy back and cancel up to 20 million of its shares. Where shares can be purchased at a significant discount to the net tangible assets of the Company this would increase the net tangible asset value of the remaining shares on issue. During the year 9,395,012 shares (2004: 50,000 shares) were purchased for \$9,413,000 (2004: \$46,000).

**Options**

At the date of this report the Company had no options on issue; all options expired on 30 June 2005.

During the year the Company issued 24,735,607 shares (2004: 15,000) following the receipt of option monies on 24,735,607 options (2004:15,000). 175,249,393 options lapsed on 30 June 2005.

**Dividend reinvestment plan**

The Dividend Reinvestment Plan (DRP) will operate for the dividend payable on 22 September 2005.

The Directors have resolved that the shares will be allotted to eligible shareholders participating in the DRP with no discount from the market price of the Company's shares, as defined in the DRP.

No brokerage is payable if shares are allotted under the DRP.

During the year 781,376 shares were issued under the DRP (2004: nil), in consideration for \$808,016 of dividends (2004: \$nil).

**Events subsequent to balance date**

No matters or circumstances have arisen since the end of the financial year which have significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of affairs of the Company, in subsequent financial years.

**Significant changes in the state of affairs**

The Directors are not aware of any other significant changes in the state of affairs of the company that will adversely affect the results in subsequent years.

**Future developments**

We do not believe it is possible or appropriate to make a prediction on the future course of markets or the performance of our investments. Accordingly we do not provide a forecast of the likely results of our activities.

**Remuneration report**

Non executive Directors are remunerated by fees with the aggregate limit approved by shareholders from time to time. Directors' fees can be paid as superannuation contributions. The Nomination and Remuneration Committee recommends to the Board the remuneration framework for Directors and the Board as a whole determines the nature and amount of emoluments of non-executive Directors within the limit approved by shareholders.

The aggregate amount of Directors' fees will not exceed \$75,000 per annum. This maximum is subject to change if approved by shareholders in future general meetings.

Details of the nature and amounts of each Directors' emoluments were as follows:

		Fees \$	Super \$	Total \$
Simon Rowell (Chairman)	2005	45,000	30,000	75,000
	2004	36,516	24,344	60,860
Erik Metanomski (Director)	2005	0	0	0
	2004	0	0	0
Kevin Eley (Director)	2005	0	0	0
	2004	0	0	0
Peter Constable (Alternate director)	2005	0	0	0
	2004	0	0	0

Simon Rowell is remunerated at a rate of \$75,000 per annum; Simon began being remunerated with effect from 9 September 2003, the date of his appointment as a Director.

Other than the Directors, the Company has no employees or specified executives.

### Meetings of directors

The numbers of meetings of the Company's Board of Directors and of each board committee held during the year to 30 June 2005, and the numbers of meetings attended by each Director were as follows:

	BOARD		AUDIT COMMITTEE	
	Eligible to attend	Attended	Eligible to attend	Attended
Simon Rowell	11	10	4	4
Erik Metanomski	11	2	4	1
Kevin Eley	11	11	4	4
Peter Constable*	11	8	4	2

\* Peter Constable is alternate director for Erik Metanomski.

The Nomination and Remuneration Committee met once during the year. Both Simon Rowell and Kevin Eley attended the meeting.

### Directors' interest in securities

As at the date of this report the interest of directors in the securities of the Company are as follows:

BENEFICIAL INTEREST	
	Shares
Simon Rowell	143,407
Erik Metanomski	100,000
Kevin Eley	200,000
Peter Constable	20,287

### Corporate reporting

The Board has received the following declarations signed by the Chairman and the Company Secretary

- The Company's financial records have been properly maintained in accordance with section 286 of the Corporations Act;
- The Company's financial statements and notes to those statements are in compliance with accounting standards;
- The Company's financial statements and notes to those statements present a true and fair view of the financial condition and operation of the Company; and
- The above statements are founded on a sound system of internal control and risk management which implements the policies adopted by the Board. The Company's risk management and internal control systems are operating efficiently and effectively in all material respects.

The declarations were provided following the receipt of a similar declaration from ANZ Custodian Services.

**Indemnification of directors and officers**

During the period, the Company purchased Directors' and Officers' Liability Insurance to provide cover in respect of claims made against the directors and officers in office during the financial period and as at the date of this report, as far as is allowable by the Corporations Act 2001.

The total amount of insurance premium paid and the nature of the liability are not disclosed due to a confidentiality clause within the agreement.

As at the date of this report, no amounts have been claimed or paid in respect of this indemnity and insurance, other than the premium referred to above. Directors and officers contributed a proportion of the total insurance premium.

The Company has not otherwise, during or since the financial period, indemnified or agreed to indemnify the auditor of the Company against a liability incurred as an auditor.

**Rounding of amounts**

The Company is of a kind referred to in ASIC Class Order 98/0100 dated 10 July 1998 and in accordance with that Class Order amounts in this report, and the financial report, have been rounded off to the nearest thousand dollars.

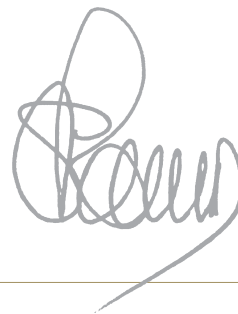
**Auditor independence and non audit services**

The Directors have received an independence declaration from the auditors, a copy of which is on page 19.

Deloitte Touche Tohmatsu received or are due to receive the following amounts for non audit services: tax advice \$16,000. The Directors are satisfied that the nature and scope of the non audit services did not compromise auditor independence, as the services are compatible with the general standard of independence for auditors imposed by the Corporation Act.

Signed in accordance with a resolution of the Board of Directors made pursuant to section 298(2) of the Corporations Act 2001.

For and on behalf of the Board of Directors of MMC Contrarian Limited:



**SIMON ROWELL  
CHAIRMAN**

Sydney 23 August 2005

## AUDITOR'S INDEPENDENCE DECLARATION

The Board of Directors  
MMC Contrarian Limited  
Level 5, 34 Hunter Street  
SYDNEY NSW 2000

23 August 2005

Dear Board Members

### MMC Contrarian Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of MMC Contrarian Limited.

As lead audit partner for the audit of the financial statements of MMC Contrarian Limited for the financial year ended 30 June 2005, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



**SARAH WOODHOUSE**

Partner  
Chartered Accountants

# STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2005

	Note	2005 \$'000	2004 \$'000
Revenue from ordinary activities	2	80,388	12,811
Expenses from ordinary activities	3	(74,320)	(9,312)
<b>Profit from ordinary activities before income tax expense</b>		<b>6,068</b>	<b>3,499</b>
Income tax expense	4	(1,485)	(769)
<b>Net profit from ordinary activities after income tax expense</b>		<b>4,583</b>	<b>2,730</b>
<b>Direct adjustments against equity</b>			
Increase in asset revaluation reserve, net of tax	5	2,523	7,531
Increase in capital profits reserve, net of tax	5	7,546	1,261
<b>Total revenue and valuation adjustments recognised directly in equity</b>		<b>10,069</b>	<b>8,792</b>
<b>Total changes in equity other than those resulting from transactions with owners as owners</b>		<b>14,652</b>	<b>11,522</b>
		<i>cents</i>	<i>cents</i>
Basic and diluted earnings per share	6	2.21	1.36
Basic and diluted earnings per share including revaluation of listed securities and the profit on the sale of listed securities	6	7.06	5.76

To be read in conjunction with the accompanying notes

# STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2005

	Note	2005 \$'000	2004 \$'000
<b>Assets</b>			
Cash assets	7	48,515	50,933
Receivables	8	1,166	986
Fixed interest deposits	9	85,526	71,156
Listed securities	10	106,530	89,078
<b>Total Assets</b>		<b>241,737</b>	<b>212,153</b>
<b>Liabilities</b>			
Payables	11	1,414	310
Current tax liabilities		2,842	1,309
Deferred tax liabilities		4,699	3,228
<b>Total Liabilities</b>		<b>8,955</b>	<b>4,847</b>
<b>Net Assets</b>		<b>232,782</b>	<b>207,306</b>
<b>Equity</b>			
Contributed equity	12	211,915	195,784
Retained profits	5	2,006	2,730
Asset revaluation reserve	5	10,054	7,531
Capital profits reserve	5	8,807	1,261
<b>Total Equity</b>		<b>232,782</b>	<b>207,306</b>

To be read in conjunction with the accompanying notes

# STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2005

	Note	2005 \$'000	2004 \$'000
<b>Cash Flows from Operating Activities</b>			
Dividends and trust distributions received		2,182	474
Interest received		7,077	4,366
Other receipts		102	69
Administration and other operating costs paid		(3,768)	(1,813)
Income taxes and GST (paid)/refunded		(2,796)	360
<b>Net operating cash flows</b>	13	<b>2,797</b>	<b>3,456</b>
<b>Cash Flows from Investing Activities</b>			
Acquisitions of listed securities		(71,954)	(83,805)
Fixed interest deposits		(14,371)	(71,156)
Proceeds from sale of listed securities		70,285	6,952
<b>Net investing cash flows</b>		<b>(16,040)</b>	<b>(148,009)</b>
<b>Cash Flows from Financing Activities</b>			
Proceeds from issue of equity securities		24,735	200,015
Payment for share buy back		(9,411)	(47)
Payment for share issue costs		-	(4,482)
Dividends paid		(4,499)	-
<b>Net financing cash flows</b>		<b>10,825</b>	<b>195,486</b>
Net increase/(decrease) in cash held		(2,418)	50,933
Cash at the beginning of the financial period		50,933	-
<b>Cash at the end of the financial period</b>	7	<b>48,515</b>	<b>50,933</b>

To be read in conjunction with the accompanying notes

FOR THE YEAR ENDED 30 JUNE 2005

## **1 Principal accounting and valuation policies**

This financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Urgent Issues Group Consensus Views, and complies with other requirements of the law.

### **A Basis of accounting**

The financial report has been prepared using the valuation methods described below for holdings of securities. All other items have been treated in accordance with the historical cost convention.

### **B Investments**

Shares and securities listed on the Australian Stock Exchange (ASX) are valued at market as quoted on the ASX. Non ASX listed shares and securities are valued at their estimated market value.

Investments including shares and securities are valued continuously and for this reason cost of disposal equals sales revenue when investments are sold. Revaluation increments are credited directly to the Asset Revaluation Reserve after deducting a provision for potential deferred capital gains tax. Revaluation decrements are charged to the Asset Revaluation Reserve while it has a positive balance in respect of that class of asset, otherwise they are included in net profit. When shares, securities and other investments are disposed of revaluations related to that disposed share, security or other investment are transferred to the Capital Profits Reserve, while the Asset Revaluation Reserve has a positive balance in respect of the asset, otherwise the loss is included in the retained profits.

### **C Dividend Income**

Dividend income is recognised on a receivable basis on the date the shares are quoted ex-dividend.

### **D Distribution Income**

Distribution income is recognised on a receivable basis as of the date the unit value is quoted ex-distribution.

### **E Interest Income**

Interest from fixed interest and discount securities is recognised as income on the basis of the accumulated entitlement that would be received on the disposal of the security according to the trading practices accepted by the market for the relevant security. Interest on cash on deposit is recognised in accordance with the terms and conditions which apply to the deposit.

FOR THE YEAR ENDED 30 JUNE 2005

**F Goods and services tax**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

**G Income tax**

Tax-effect accounting principles are adopted whereby income tax expense is calculated on pre-tax accounting profits after adjustment for permanent differences. The tax-effect of timing differences, which occur when items are included or allowed for income tax purposes in a period different to that for accounting, is shown at current taxation rates in deferred tax assets or deferred tax liabilities, as applicable.

**H Initial Public Offer Set Up Costs**

Set up costs paid resulting from the initial public offer in December 2003, including GST paid for which a reduced input tax credit refund is available, have been charged against contributed equity.

**I Comparative Results**

The Company was incorporated on 9 September 2003 and accordingly the comparative period is from 9 September 2003 to 30 June 2004.

	<b>2005</b>	<b>2004</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>2 Revenue</b>		
Proceeds from sale of listed securities	<b>70,556</b>	7,286
Dividends from listed securities	<b>2,247</b>	552
Interest income	<b>7,136</b>	4,749
Trust distributions	<b>347</b>	155
Other	<b>102</b>	69
Revenue from ordinary activities	<b>80,388</b>	12,811

FOR THE YEAR ENDED 30 JUNE 2005

	<b>2005</b> <b>\$'000</b>	<b>2004</b> <b>\$'000</b>
<b>3 Expenses from ordinary activities</b>		
Disposal of listed securities at market value	<b>70,556</b>	7,286
Management fees	<b>3,017</b>	1,462
Performance fees	–	–
Share registry and mailing costs	<b>241</b>	185
Custody and accounting fees	<b>98</b>	54
Directors fees	<b>75</b>	61
Other costs	<b>333</b>	215
	<b>74,320</b>	9,312

The auditors were remunerated for the following services: auditing the financial statement \$28,500 (2004:\$20,000) reviewing the half year accounts \$10,500 (2004:\$7,000), taxation advice \$16,000 (2004:\$2,000) and other services \$nil (2004:\$7,000).

**4 Income tax**

The prima facie tax payable on the profit from ordinary activities differed from the income tax provided in the accounts and is reconciled as follows:-

Profit from ordinary activities before income tax expense	<b>6,068</b>	3,499
Prima facie tax payable calculated at 30%	<b>1,820</b>	1,050
Tax effect of permanent difference:-		
Franking credits on dividends received	<b>(183)</b>	(30)
Amortisation of share issue expenses	<b>(251)</b>	(251)
Other	<b>99</b>	–
<b>Income tax expense relating to ordinary activities</b>	<b>1,485</b>	769

**Franking account**

The balance of the franking account after allowing for tax payable in respect of the current years profit, the receipt of franked dividends recognised as receivables and the payment of any dividends recognised as a liability at the reporting date.

	<b>3,264</b>	1,309
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The ability of the Company to continue to pay franked dividends is dependent upon the receipt of franked dividends from the investment portfolio and the Company itself paying tax.

FOR THE YEAR ENDED 30 JUNE 2005

**2005**  
**\$'000**

**2004**  
**\$'000**

**4 Income tax** *continued*

**Future tax deduction**

The Company expects to receive a future income tax benefit of \$749,000 (2004:\$1 million) arising as a result of the amortisation of share issue and listing costs. No deferred tax asset has been created as a result of this benefit as the costs of approximately \$4.2 million have been written off against issued equity and were not expensed.

The income tax benefit will only be received if:

- the Company continues to derive future assessable income of a nature and of an amount sufficient to enable the benefit to be realised;
- the Company continues to comply with conditions for deductibility imposed by tax legislation; and
- no changes in tax legislation adversely affect the Company in realising the benefit.

**5 Movements in reserves**

**Retained profits**

Balance at the beginning of the period	<b>2,730</b>	-
Net profit attributable to members of the entity	<b>4,583</b>	2,730
Dividends paid		
Final 2004 dividend paid 7 October 2004 1.0 cent fully franked	<b>(1,999)</b>	-
Interim 2005 dividend paid 24 March 2005 1.5 cents fully franked	<b>(3,308)</b>	-
Balance at the end of the period	<b>2,006</b>	2,730

The Directors have declared a final fully franked dividend of 2.0 cents per share payable on 22 September 2005. The dividend totals \$4.3 million.

**Asset revaluation reserve**

Balance at beginning of period	<b>7,531</b>	-
Revaluation of listed securities, net of tax	<b>10,069</b>	8,792
Transfer to capital profits reserve	<b>(7,546)</b>	(1,261)
Balance at end of period	<b>10,054</b>	7,531

Increments or decrements on the revaluation of listed securities after provision for deferred capital gains tax, as described in accounting policy note 1(b), are recorded in the asset revaluation reserve. This reserve is not available for distribution to shareholders as dividends.

FOR THE YEAR ENDED 30 JUNE 2005

	<b>2005</b> <b>\$'000</b>	<b>2004</b> <b>\$'000</b>
<b>5 Movements in reserves</b> <i>continued</i>		
<i>Capital profits reserve</i>		
Balance at beginning of period	1,261	–
Transfer from asset revaluation reserve, net of tax	7,546	1,261
Balance at end of period	<b>8,807</b>	1,261

Gains and losses arising from the disposal of listed securities, as described in accounting policy note 1 are recorded in this reserve. This reserve is available for distribution to shareholders as dividends.

**6 Earnings per share**

	<b>2005</b> <b>cents</b>	<b>2004</b> <b>cents</b>
Basic earnings per share based on profit from ordinary activities after tax	<b>2.21</b>	1.36
Basic earnings per share including the revaluation of listed securities and the profit on the sale of listed securities	<b>7.06</b>	5.76

	<b>Number</b> <b>000</b>	<b>Number</b> <b>000</b>
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	<b>207,472</b>	200,005

	<b>2005</b> <b>\$'000</b>	<b>2004</b> <b>\$'000</b>
Earnings used in calculating basic earnings per share	<b>4,583</b>	2,730
Earnings used in calculating earnings per share including the revaluation of listed securities and the profit on the sale of listed securities	<b>14,652</b>	11,522

The diluted earnings per share is the same as the basic earnings per share.

## FOR THE YEAR ENDED 30 JUNE 2005

	<b>2005</b>	<b>2004</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>7 Cash</b>		
Deposits at call	48,515	50,933
	<b>48,515</b>	<b>50,933</b>

Deposits at call yield an average floating interest rate of 5.55% (2004: 5.29%).

**8 Receivables**

Dividends receivable	298	156
Trust distribution receivable	347	77
Interest receivable		
- deposits at call	205	221
- fixed interest deposits	238	164
Outstanding settlements	-	334
Others	78	34
	<b>1,166</b>	<b>986</b>

Receivables are non interest bearing and unsecured. Outstanding settlements usually require payment within three days of the date of the transaction.

**9 Fixed interest deposits**

Fixed interest term deposits	85,526	71,156
	<b>85,526</b>	<b>71,156</b>

Fixed interest term deposits, all of which mature within 30 days, yield an average floating interest rate of 5.67% (2004:5.48%) .

**10 Listed securities**

Shares and unit trusts - market value	98,345	73,725
Hybrid securities - market value	8,185	15,353
	<b>106,530</b>	<b>89,078</b>

The market value of listed securities is the same as their carrying value. Listed securities are shown in detail on page 40.

FOR THE YEAR ENDED 30 JUNE 2005

	<b>2005</b> <b>\$'000</b>	<b>2004</b> <b>\$'000</b>
<b>11 Payables</b>		
Management fees	276	221
Performance fees	-	-
Outstanding settlements	1,063	-
Custody and accounting fees	25	15
Other creditors	50	74
	<b>1,414</b>	<b>310</b>

Payables are non interest bearing and unsecured. Outstanding settlements usually require payment within three days of the date of the transaction.

**12 Contributed equity**

	<b>2005</b> <b>No. of shares</b>	<b>2005</b> <b>\$</b>	<b>2004</b> <b>No. of shares</b>	<b>2004</b> <b>\$</b>
<b>Issued and fully paid ordinary shares</b>				
Opening balance	199,965,001	195,784,267	1	1
Issued during period from initial public offer	-	-	200,000,000	200,000,000
Issued from exercise of options	24,735,607	24,735,607	15,000	15,000
Issued pursuant to dividend reinvestment plan				
Final dividend 2004	290,031	295,164	-	-
Interim dividend 2005	491,345	512,852	-	-
Share buy back*	(9,395,012)	(9,412,576)	(50,000)	(46,500)
Share issue costs		-		(4,184,234)
Closing Balance	<b>216,086,972</b>	<b>211,915,314</b>	199,965,001	195,784,267

	<b>2005</b> <b>No. of shares</b>	<b>2004</b> <b>No. of options</b>
Options expiring 30 June 2005 with an exercise price of \$1.00		
Opening balance	199,985,000	-
Issued during period from initial public offer	-	200,000,000
Exercise of options	(24,735,607)	(15,000)
Expired options	(175,249,393)	-
Closing Balance	<b>-</b>	<b>199,985,000</b>

\* The Company has in place an on market share buy back. During the year 9,395,012 ordinary shares were bought back (2004: 50,000 ordinary shares) at an average price of \$1.00 a share (2004: 93 cents a share).

## FOR THE YEAR ENDED 30 JUNE 2005

	<b>2005</b>	<b>2004</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>13 Reconciliation of net cash flows from operating activities to profit after income tax</b>		
Profit after income tax	<b>4,583</b>	2,730
Increase / (decrease) in provision for income tax	<b>(1,313)</b>	769
Refund of GST on share issue costs	–	298
Increase / (decrease) in other creditors	<b>41</b>	310
(Increase) / decrease in other debtors	<b>(514)</b>	(651)
Net cash flows from operating activities	<b>2,797</b>	3,456

**14 Impact of adopting Australian equivalents to IFRS**

The Company is in the process of transitioning its accounting policies and financial reporting from current Australian Accounting Standards (AGAAP) to Australian equivalents of International Financial Reporting Standards (AIFRS) which will be applicable for the financial year ended 30 June 2006. During 2004, the Company engaged expert consultants to conduct an impact assessment to identify key areas that would be impacted by the transition to AIFRS. Priority has been given to the preparation of an opening balance sheet in accordance with AIFRS as at 1 July 2004, the Company's transition date to AIFRS. This will form the basis of accounting for AIFRS in the future and is required when the Company prepares its first fully AIFRS compliant financial report for the year ended 30 June 2006.

Set out below are the key areas where accounting policies are expected to change on adoption of AIFRS and the directors' best estimate of the quantitative impact of the changes to the company's statement of financial position at the date of transition and 30 June 2005 and on the company's net result for the year ended 30 June 2005. The figures disclosed are the director's best estimates of the quantitative impact of the changes as at the date of preparing the 30 June 2005 financial report. The actual effects of transition to AIFRS may differ from the estimates disclosed due to (a) ongoing work; (b) potential amendments to AIFRSs and Interpretations thereof being issued by the standard-setters and IFRIC; and (c) emerging accepted practice in the interpretation and application of AIFRS and UIG Interpretations.

## FOR THE YEAR ENDED 30 JUNE 2005

**14 Impact of adopting Australian equivalents to IFRS** *continued***(a) Proforma Statement of Financial Position**

Note	AGAAP 30 June 2005 \$000	Effect of transition to Australian equivalents to IFRSs \$000	AIFRS proforma 30 June 2005 \$000	AGAAP 30 June 2004 \$000	Effect of transition to Australian equivalents to IFRSs \$000	AIFRS proforma 30 June 2004 \$000
<b>Assets</b>						
	48,515		48,515	50,933		50,933
	1,166		1,166	986		986
	85,526		85,526	71,156		71,156
1	106,530		106,530	89,078		89,078
2		749	749		1,000	1,000
	<b>241,737</b>	<b>749</b>	<b>242,486</b>	<b>212,153</b>	<b>1,000</b>	<b>213,153</b>
<b>Liabilities</b>						
	1,004		1,004	310		310
	2,842		2,842	1,309		1,309
	4,699		4,699	3,228		3,228
	<b>8,955</b>		<b>8,955</b>	<b>4,847</b>		<b>4,847</b>
	<b>232,782</b>	<b>749</b>	<b>233,531</b>	<b>207,306</b>	<b>1,000</b>	<b>208,306</b>
<b>Equity</b>						
2	211,915	1,251	213,166	195,784	1,251	197,035
2	2,006	(502)	1,504	2,730	(251)	2,479
4	10,054		10,054	7,531		7,531
3	8,807		8,807	1,261		1,261
	<b>232,782</b>	<b>749</b>	<b>233,531</b>	<b>207,306</b>	<b>1,000</b>	<b>208,306</b>

1 The directors have elected to apply the first time exemption available to the Company to defer the date of transition to AASB 139 until 1 July 2005. Accordingly there are no quantitative impacts on the 30 June 2005 financial statements. AASB 139 requires that the market price of listed securities be determined using the bid prices, currently the Company records its listed securities at sell prices. Using listed securities as at 30 June 2005 as a guide it is anticipated that the change in measurement basis will reduce the carrying value of listed securities by \$667,323.

2 Under AASB 112 the Company will determine its deferred tax position using the balance sheet liability method rather than the current income statement method. This will result in the recognition of a deferred tax asset in respect of share issue expenses which will give rise to future income tax benefits over the next 3 years.

3 Under AASB 139 upon the sale of listed securities the difference between the assets' carrying amount and the sum of the consideration received and any cumulative gain which has been recognised directly in equity shall be recognised in profit or loss. Previously the Company has recognised realised gains resulting from the disposal of listed investments in the capital profits reserve. As at 1 July 2005 the balance of the capital profits reserve of \$8,807 million will be transferred to retained profits.

4 The directors have determined that the Company's listed securities will be classified as available for sale (AFS) under AASB 139. Under AASB 139 financial instruments classified as AFS are recorded at fair value with movements in their fair value being recorded directly in equity. This policy is in line with that currently applied under AGAAP.

FOR THE YEAR ENDED 30 JUNE 2005

## 14 Impact of adopting Australian equivalents to IFRS *continued*

### (b) Reconciliation of net profit under AGAAP to that under AIFRS

	Note	30 June 2005 \$000
Net profit as reported under AGAAP		4,583
Adjustments to income tax expense	5	(251)
<b>Net profit under AIFRS</b>		<b>4,332</b>

5 As identified in 2 above, under AASB 112 the Company will determine its deferred tax position using the balance sheet liability method rather than the current income statement method.

From 1 July 2005, as identified in 3 above, realised gains resulting from the sale of listed securities will be recognised in the profit and loss account.

### (c) Restated AIFRS Statement of Cash Flows for the year ended 30 June 2005

No material impacts are expected to the cash flows presented under AGAAP on adoption of AIFRS

## 15 Financial reporting by segments

The Company operates predominately in the securities industry in Australia.

## 16 Directors' and executives' remuneration

### Remuneration of Directors

Aggregate of income received or due and receivable by non executive Directors of the Company

	2005 \$	2004 \$
	<b>75,000</b>	60,860

The number of Directors shown in their relevant income bands:

\$0 - \$9,999	3	3
\$60,001 - \$70,000	-	1
\$70,000 - \$80,000	1	-

Other than the directors, the company has no employees, or specified executives (2004: nil).

FOR THE YEAR ENDED 30 JUNE 2005

**17 Related parties**

The names of persons who were Directors of the Company during at any time during the year are S Rowell, E Metanomski, K Eley and P Constable (as alternate for E Metanomski). S Rowell received fees of \$75,000 (2004: \$60,860) comprising fees \$45,000 and superannuation of \$30,000, E Metanomski, K Eley and P Constable received \$nil in respect of the year (2004: \$nil). Directors are remunerated by fees with the aggregate limit approved by shareholders.

Directors received or were entitled to receive dividends from the Company on shares held in the Company in their own names and associated entities. These transactions were on the same basis as with other shareholders.

The number of shares held beneficially at 30 June 2005 and the movement in the shares of the Company during the year by Directors and their personally related entities is shown below:

	30 June 2004	Shares Acquired pursuant to dividend reinvestment plan	Exercise of options	Disposals	Lapsed*	30 June 2005
S Rowell	140,000	3,407	-	-		143,407
E Metanomski	100,000	-	-	-		100,000
K Eley	150,000	-	50,000	-		200,000
P Constable	150,000	287	-	(130,000)		20,287

The number of options held beneficially at 30 June 2005 and the movement in the options of the Company during the year by Directors and their personally related entities is shown below:

S Rowell	100,000	-	-	(100,000)	-
E Metanomski	100,000	-	-	(100,000)	-
K Eley	100,000	(50,000)	-	(50,000)	-
P Constable	150,000	-	(150,000)	-	-

\* The options lapsed on 30 June 2005. They had an exercise price of \$1.00.

E Metanomski, K Eley and P Constable are directors of MMC Asset Management Limited. K Eley is a director of HGL Limited. Details of the management agreement between the Company, MMC Asset Management and HGL Limited are on pages 42 to 44. Management fees of \$3.01 million were incurred in the year (2004: \$1.46 million).

**18 Additional financial instruments disclosure**

**Credit Risk Exposure**

The credit risk on financial assets is the Statement of Financial Position carrying amount.

**Net Fair Value of Financial Assets and Liabilities**

Investments traded on organised markets have been valued at fair value by reference to market process prevailing at balance date. The net fair value of the investments are calculated by valuing them at market value, adjusted for transaction costs necessary to realise the investments.

The net fair value of all other financial assets and liabilities of the entity is represented by their carrying value.

## DIRECTORS' DECLARATION

The Directors declare that the attached financial statements and notes thereto:

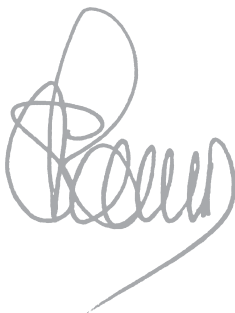
- a) comply with Accounting Standards, and are in accordance with the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- (b) give a true and fair view of the Company's financial position as at 30 June 2005 and of its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date.

The Directors declare that:

- (a) the financial statements and notes are in accordance with the Corporations Act 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended on 30 June 2005.

This declaration is made in accordance with a resolution of the Directors, made pursuant to section 295(5) of the Corporations Act 2001.



**SIMON ROWELL**  
CHAIRMAN

Sydney 23 August 2005

## INDEPENDENT AUDIT REPORT TO THE MEMBERS OF MMC CONTRARIAN LIMITED

### Scope

#### *The financial report and directors' responsibility*

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for MMC Contrarian Limited, for the financial period ended 30 June 2005 as set out on pages 20 to 34.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

#### *Audit approach*

We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal controls, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with the Corporations Act 2001 and Accounting Standards and other mandatory professional reporting requirements in Australia so as to present a view which is consistent with our understanding of the company's financial position, and performance as represented by the results of its operations and its cash flows.

Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

The audit opinion expressed in this report has been formed on the above basis.

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF MMC CONTRARIAN LIMITED  
> CONTINUED

**Audit Opinion**

In our opinion, the financial report of MMC Contrarian Limited is in accordance with:

- (a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the company's financial position as at 30 June 2005 and of its performance for the period ended on that date; and
  - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.



**DELOITTE TOUCHE TOHMATSU**



**SARAH WOODHOUSE**  
PARTNER  
CHARTERED ACCOUNTANTS

Sydney 23 August 2005

The Board of Directors of MMC Contrarian Limited is responsible for the Company's corporate governance.

The Board guides and monitors the business and affairs of the Company on behalf of shareholders, by whom they are elected and to whom they are accountable.

To ensure the Board is well equipped to discharge its responsibilities, it has established guidelines for the nomination and selection of Directors and for the operation of the Board. The Board charters and policy documents are available in the corporate governance section of the Company's website [www.mmcontrarian.com.au](http://www.mmcontrarian.com.au).

The Board is committed to the highest standards of ethical behaviour and corporate governance.

#### ***Board composition and primary functions***

As of the date of this report, the Board is comprised of three non-executive Directors. Mr S Rowell is the sole independent director, as defined by the ASX Corporate Governance Council (CGC) in their paper titled "Principles of Good Corporate Governance and Best Practice Recommendations" dated March 2003. The Board does not have a majority of independent directors.

The Board has considered its composition and believes that as the principal management function, being the management of the investments, resides with MMC Asset Management Limited, the participation of one independent director is appropriate for the Company.

The Board meets at least 10 times a year with its primary functions including:

- review and adoption of the annual budget of the Company;
- monitoring of the performance on a monthly basis of the Company against its budget;
- reviewing the effectiveness, composition and charter of the Board committees;
- ensuring that the Company has implemented adequate systems of internal control and risk management;
- approval of the half yearly and annual financial reports;
- declaring the interim and final dividends;
- monitoring listed investment company tax status;
- reviewing compliance with management agreement and the reports from the investment manager;
- ensuring effective external disclosure policies so that the market is fully informed on all matters that may influence the share price; and
- reviewing the reports from custodian and considering the performance of the custodian.

Details regarding the experience and tenure of the Directors are included in the Directors' report.

The Board has created a written set of annual objectives for itself and its Committees. The first annual review of the performance of the Board occurred during the financial year ending 30 June 2005.

### *Compliance and continuous disclosure*

The Board aims to ensure that shareholders, on whose behalf they act, are informed of all information necessary to assess the performance of the Company. Information is communicated to the shareholders through:

- compliance with Australian Stock Exchange reporting and disclosure requirements. Of note is the disclosure within 14 days of the month end of the Company's net tangible asset backing per share;
- the Company's website on which all important Stock Exchange announcements are posted;
- quarterly reports from MMC Asset Management;
- the annual and interim reports; and
- the Annual General Meeting and any other meetings called to obtain approval for Board action as appropriate.

The Company Secretary is responsible for communications with the Australian Stock Exchange.

### *Audit Committee*

It is the Board's ultimate responsibility to ensure that effective internal controls exist within the Company.

To assist the Board in this regard it established an Audit Committee on 11 December 2003. As at the date of this report, the Committee consisted of the following non-executive Directors:

KJ Eley (Chairman)

S Rowell

E Metanomski

The Chairman of this Committee is not an independent director and the committee does not have a majority of independent directors. Committee meetings are held at least three times a year. The functions of the Committee include:

- considering the half yearly and annual financial reports before they are approved by the Board;
- ensuring the effectiveness of management information systems and systems of internal control;
- reviewing the appointment of the external auditors, the terms of their engagement, the scope and quality of the audit and the auditor's independence;
- establishing and maintaining the framework of internal control; and
- ensuring compliance with statutory, Australian Stock Exchange and other reporting requirements.

The Audit Committee generally invites the Company Secretary and the external auditors to attend Audit Committee meetings.

The external auditors can meet privately with the Committee. The partner managing the audit was appointed in October 2003 and will be rotated after a maximum of five years. It is the policy of the external auditors to provide an annual declaration of their independence to the Committee.

### ***Nomination and Remuneration Committee***

The Company established a Nomination and Remuneration Committee on 21 April 2004. As at the date of this report the Committee consisted of the following Directors:

S Rowell (Chairman)

KJ Eley

The functions of the Nomination and Remuneration Committee include:

- reviewing the composition of the Board and making recommendations to the Board;
- evaluating the performance of the Board; and
- reviewing the remuneration framework for Directors and making recommendations to the Board.

### ***Risk assessment and management***

The Board is responsible for ensuring the risk management systems are effective.

### ***Independent professional advice***

All Directors have the right to seek independent legal and financial advice, at the expense of the Company, concerning any aspect of the Company. However, prior approval of the Chairman is required, which is not unreasonably withheld.

### ***Share trading policy***

Directors are permitted to deal in the securities of the Company at any time, subject to the insider trading provisions of the Corporations Act. The insider trading provisions of the Corporations Act have been drawn to the attention of all Directors of the Company.

Prior to dealing in MMC Contrarian securities Directors must notify the Chairman of the number of securities involved, the proposed date of the transaction and whether it is a sale or a purchase. The Directors must consider any views expressed by the Chairman.

Notification to the Chairman does not constitute approval. It is the responsibility of the person dealing in the MMC Contrarian securities to ensure it does not constitute insider trading and to ensure the proposed dealing preserves the reputation of each of MMC Contrarian and the Directors and is not only fair but seen to be fair. Dealings of the Chairman must be notified to the Chairman of the Audit Committee.

The share trading policy relates not only to those MMC Contrarian securities held directly but also to MMC Contrarian securities where the Director has in substance, rather than form, the ability or power, whether direct or indirect, to dominate the decision about the trading of MMC Contrarian securities.

## LISTED SECURITIES AS AT 30 JUNE 2005

Details of the listed securities at 30 June 2005 are shown below. The portfolio may change during the course of the year so this list should not be used to determine future net tangible assets per share or portfolio performance. The Company's net tangible assets are advised to the Australian Stock Exchange by the 14th of each month and posted to the Company's website, [www.mmcontrarian.com.au](http://www.mmcontrarian.com.au). In addition the investment manager produces quarterly investment updates which are provided to the Australian Stock Exchange, posted to the Company's website and sent to shareholders.

### Ordinary shares and unit trusts

ASX code	Name	Number of shares	Market value at 30 June 2005 \$'000
BPC	Burns Philp & Co Ltd	26,642,114	24,244
PMP	PMP Ltd	16,202,819	21,712
PIF	Prime Infrastructure Fund*	8,851,923	14,429
ABP	Abacus Property Group	5,555,436	7,555
BJT	Babcock & Brown Japan Property Trust	6,088,022	7,367
HHV	Hunter Hall Global Value Ltd	6,305,500	5,801
IFL	IOOF Holdings Ltd	834,317	5,557
BCMCA	Babcock & Brown Capital Ltd - Ord Partly Paid	2,226,778	5,211
**	Ridley Inc	335,150	3,393
MCP	McPherson's Ltd	1,025,808	3,076
			98,345

\* the name changed to Babcock & Brown Infrastructure Group and the ASX code became BBI in July 2005.

\*\* listed on Toronto Stock Exchange

### Hybrid Securities

ASX code	Name	Number of shares	Market value at 30 June 2005 \$'000
AHUGA	Allco Hybrid Investment Trust	87,263	8,185

The total number of transactions during the year was 389 (2004:193) and the total brokerage paid was \$273,433 (2004: \$209,460)

## SHAREHOLDER INFORMATION

On 11 August 2005 there were 10,168 shareholders . All the shares in the Company are ordinary and fully paid carrying one vote.

### Twenty largest share shareholders

Rank	Name	No. of shares held	% of Issued Capital
1	AVANTEOS INVESTMENTS LIMITED	10,606,244	4.91
2	COGENT NOMINEES PTY LIMITED	6,007,840	2.78
3	RBC GLOBAL SERVICES AUSTRALIA	5,881,756	2.72
4	AVANTEOS INVESTMENTS LIMITED	4,659,919	2.16
5	AUSTRALIAN EXECUTOR TRUSTEES LIMITED	4,607,250	2.13
6	INVIA CUSTODIAN PTY LIMITED	3,743,305	1.73
7	FLEXIPLAN MANAGEMENT PTY LTD	1,725,000	0.80
8	BARKALA PTY LTD	1,582,499	0.73
9	DAVID HANDLEY NOMINEES PTY LTD	953,234	0.44
10	MF CUSTODIANS LTD	873,294	0.40
11	AMK INVESTMENTS (WA) PTY LTD	870,000	0.40
12	INVIA CUSTODIAN PTY LIMITED	700,000	0.32
13	RBC GLOBAL SERVICES AUSTRALIA	613,505	0.28
14	MR PHILLIP KEVIN BROWN	569,963	0.26
15	MR W MOSS & MRS A MOSS	560,000	0.26
16	MR G JENSEN & MRS R JENSEN	550,000	0.25
17	AUSTRALIAN INTERNATIONAL INSURANCE LTD	500,000	0.23
18	M & J JOHNS PTY LTD	500,000	0.23
19	KRISJADE PTY LTD	495,700	0.23
20	AVANTEOS INVESTMENTS LIMITED	456,946	0.21
		46,456,455	21.47

Number of shareholders with less than a marketable parcel (519 shares) is 125.

### Distribution of shareholders

	No. of shareholders	No. of shares
1 - 1,000	324	206,382
1,001 - 5,000	2,791	9,828,361
5,001 - 10,000	2,627	21,467,915
10,001 - 100,000	4,264	113,474,389
100,001 and over	162	71,034,925
Total	10,168	216,011,972

### Substantial shareholders

As at 11 August 2005 the following information was extracted from the Company's register of substantial shareholders.

Name	Number of shares
Commonwealth Bank Group	11,230,104

The Company receives portfolio management services from MMC Asset Management Limited (MMC) under a management agreement the key terms of which are summarised below. HGL Limited (ASX code: HNG) has made available the services of several of its key executives to assist MMC with providing these management services. As at the date of this report, HGL owns 39% of MMC. Both HGL and MMC are experienced investors with an outstanding long term record of wealth creation.

For more information, the website addresses are:

- MMC Asset Management Limited [www.mmcfunds.com.au](http://www.mmcfunds.com.au)
- HGL Limited [www.hgl.com.au](http://www.hgl.com.au)

### **Management Agreement**

Provided MMC continues to manage the investments of the Company in accordance with the investment approach outlined later in this section, it has absolute and unfettered discretion to manage the investments and to do all things considered necessary or desirable in relation to the investments. Any material deviation from the investment approach requires the prior approval of the Company.

Any investment which would result in the Company holding more than 10% of the issued securities of an investee may only be made with the prior approval of the Board.

The management agreement commenced on 5 December 2003. It terminates 25 years after commencement unless terminated earlier in accordance with its terms.

MMC may with the prior written consent of HGL terminate the management agreement at any time by giving the Company at least 6 months written notice.

The Company may also immediately terminate the management agreement if:

- (a) an insolvency event occurs with respect to MMC;
- (b) MMC is in default or breach of its obligations under the agreement in a material respect and such default or breach cannot be rectified or, if rectifiable, is not rectified within 30 days after the Company has notified MMC in writing to rectify the default or breach;
- (c) MMC's AFSL is suspended or cancelled at any time in accordance with the Corporations Act;
- (d) there is a change in control of MMC and the Company has not previously granted its prior written consent to the change in control (which must not be unreasonably withheld or delayed);
- (e) MMC persistently fails to ensure that investments made on behalf of the Company are consistent with the investment strategy applicable at the time the investment is made.

### ***Management & Performance Fees***

A management fee equivalent to 1.25% per annum of the gross assets of the Company is payable to the manager monthly in arrears.

Where the value of the Company's investments has increased in value over a year to 30 June a performance fee of 15% of the portfolio's out-performance is payable equivalent to:

- where the level of the All Ordinaries Accumulation Index has increased over the period, the amount by which the value of the Company's investments exceeds this increase; or
- where the All Ordinaries Accumulation Index has decreased over the period, the amount of the increase in the value of the Company's investments.

In line with the Company's objective of capital preservation, no performance fee is payable in respect of any performance calculation period where the value of the Company's investments has decreased in value over that period, even if the performance of the Company is ahead of the All Ordinaries Accumulation Index.

During the year management fees amounting to \$3,017,000 (2004: \$1,462,000) and performance fees of \$nil (2004: \$nil) were incurred. MMC has directed the Company to pay 40% of all management and performance fees to HGL.

### ***Outline of investment strategy***

The investment strategy of MMC identifies investment opportunities at a discount to what MMC deems intrinsic value. Additionally, MMC identifies situations where it can contribute to an improvement in the underlying business by participating in the operational process of the business. This may take the form of a board seat, consultancy or executive position. MMC and HGL have access to skilled personnel for such roles or may choose to bring in external specialists.

MMC seeks out attractive investment opportunities that develop due to sentiment or stockmarket driven mispricing of securities or mismanagement of core businesses. MMC refers to these as "event driven" opportunities, where events have created a market mood or sentiment that has led the market to sell securities down to prices that are attractive to value investors.

MMC's strategy takes advantage of event driven opportunities such as:

- change of management
- business downturn due to short-term industry issues
- liquidation and the distribution of cash or securities to shareholders
- takeover, merger or break-up of a company

- litigation that would increase a company's value if resolved in its favour
- expansion through a valuable acquisition
- company or industry rationalisation
- an important technological breakthrough or discovery

MMC takes a medium to long term approach to investment outcomes regardless of market fashion or short term trends. This discipline can lead to short term underperformance as sentiment sometimes drives markets in irrational ways. MMC maintains a disciplined approach in its attempts to avoid investments that do not comply with its absolute value focus.

The investment portfolio of the Company may comprise shares, cash, hybrid securities and debentures. Subject to attractive and available opportunities that meet MMC's investment criteria there is likely to be 10 to 30 Securities in the portfolio, which MMC and the Company believes will reduce investment risk and achieve adequate portfolio diversification.

MMC uses a broad and value based investment procedure to value entities before calculating a risk/reward ratio for potential investments. This risk/reward ratio ultimately leads to a decision to allocate capital or not and if so, how much to allocate. Every different investment has a different risk profile and therefore needs to be looked at on an individual basis.

The emphasis of MMC's research process is on the long term operating performance and outlook of a business. MMC is not concerned with day to day share price movements except as they provide opportunities to take advantage of the market's over-pessimism or optimism.

Ongoing monitoring of an investment is conducted via regular meetings with management and industry and press reports. As well, MMC monitors the operating and financial progress of a company by its return on invested capital, profit margin, operating cash flows and debt levels over a period of time.



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