

**MMC**  
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**Limited**

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13 October 2005

Dear Fellow Shareholder

**Quarterly investment update and dividend outlook**

I enclose the September investment update from MMC Asset Management Limited, the investment manager of MMC Contrarian Limited (MMC Contrarian).

The manager's quarterly report provides shareholders with more information than just the monthly NTA statement. In this report the manager updates you on a number of important issues in relation to MMC Contrarian and its equity holdings. It is published on MMC Contrarian's website ([www.mmcontrarian.com.au](http://www.mmcontrarian.com.au)) and also filed with the ASX for investors to access.

MMC Contrarian's Annual General Meeting of shareholders is to be held on Wednesday 19<sup>th</sup> October at 11am in the Ionic Room, Sydney Masonic Centre, 279 Castlereagh Street, Sydney. Besides the normal business matters to be conducted including my chairman's report there will be a presentation by the investment manager.

The board of MMC Contrarian cordially invites you to attend the meeting and will be pleased to answer any questions you may have in regard to the company or its investments.

On behalf of the Board

Yours Sincerely



**Simon Rowell**  
**Chairman**

MMA is a listed investment company. MMA's investments are managed by MMC Asset Management (MMC). MMA's investment philosophy is aimed at preserving and growing shareholders' capital **over the long term**. This is achieved by 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**), by thinking independently and not following the herd (**Contrarianism**), and by having structured and methodical approach to investing (**discipline**). An MMA share therefore offers its shareholders exposure to a distinct investment strategy that is not widely available in the investment markets.

This report has been prepared solely for the benefit of MMA and its investors. No assurances can be given by MMA as to the accuracy and completeness of the information used to compile this report. By making available this report MMA is not providing any general advice or personal advice, within the meaning of section 766B of the Corporations Act, regarding MMA, any potential investment in MMA or any investments in MMA or any investments or potential investments of MMA. This report is made without consideration of any specific person's investment objectives, financial situation or needs. MMA, 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.

## MMC Contrarian Limited (MMC Contrarian)

### September 2005 quarterly investment update

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

- how contrarianism rewards investors
- your company's dividend philosophy and outlook
- recent changes to your company's capital structure and
- the performance and composition of the investment portfolio for the previous 3 months
- the long term view of the portfolio and investment approach in light of the current market environment
- notification of the annual general meeting

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

#### **Contrarianism:**

One of the long-term core holdings of your company, Burns Philp (BPC) was reduced after running strongly during September. In particular, a majority of the holding in BPC was sold upon the company's restructure announcement as the share price moved well above our valuation. To realise shareholder value, the company plans to spin off the previously listed Goodman Fielder assets (BPC's baking and oils divisions) and for that separately listed vehicle to purchase NZ Dairy Foods from the Rank Group. BPC will retain a 20-40% holding itself. The snacks division (which includes Uncle Toby's) is to remain within BPC. BPC intends to use the proceeds from relisting Goodman Fielder to buy back its high yield US notes, on which it currently pays 9.94% on average.

The announcement and subsequent run in the share price (which has increased over 25% since late August) has vindicated our investment thesis and contrarian perspective, which held that there was significant untapped value in the company. We believe that the restructure will realise this value, a substantial part of which has been factored into the share price following the announcement - a pleasing reward for patience and belief in the fundamentals of this investment and a prime example of how contrarianism can generate significant returns.

#### **Interim Dividend:**

The board of MMC Contrarian declared a fully franked final dividend of two cents per share for the period to June 2005 which was paid on 22<sup>nd</sup> September 2005. This equated to full dividend for the year of three and a half cents per share compared to one cent per share for the previous year.

Your company's policy is to distribute a growing stream of fully franked dividends to shareholders every six months. Based on the current performance of the company and provided there is no major deterioration in the portfolio the board of MMC Contrarian will pay an increased fully franked interim dividend for the period to December 2005. With current estimated distributable reserves of \$20 million, it is currently anticipated that the full dividend for the year will exceed the three and a half cents per share for the 2005 financial year.

#### **Capital Management:**

On 16<sup>th</sup> December 2003, the Directors of MMC Contrarian introduced a share buy back scheme to buy MMC Contrarian shares in the event that they consistently traded at a substantial discount to the NTA of the company. At 30<sup>th</sup> September 2005 10.0 million shares had been acquired at prices between 93 and 105 cents under the scheme and subsequently cancelled.

On 22<sup>nd</sup> September 942,621 shares were issued under the Dividend Reinvestment Plan at 94.84 cents per share.

The number of shares on issue at 30 September 2005 equates to 216 million shares with the NTA at 112.0 cents (pre tax).

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

The All Ordinaries Accumulation Index rose 10% during the quarter as investor sentiment continued to fuel market momentum. Your company's portfolio returned 6.6% during this period. By comparison, the equity component of your company's portfolio returned 12.7%. Core holdings performed strongly during the quarter including Babcock & Brown Japan Property Trust (BJT) (+33.1%), BPC (+24.2%), and Babcock & Brown Infrastructure (BBI) (+11.0%).

**Portfolio Activity:**

As mentioned previously, the holding in BPC was significantly reduced.

BBI and BJT have both performed strongly in recent months. From mid August to late September, BBI increased over 19%, while BJT increased over 13% and is up 61% since listing in April, when the holding was acquired. Both are priced at the top end of our valuations and therefore significant portions of these holdings were realised at a substantial profit. Although we are long term investors, there are certain circumstances in which we take profits over the short term, such as when the market quickly re-rates a stock, as was the case with BJT.

Carter Holt Harvey was purchased following a thorough review of the stock and discussions with management subsequent to the proposed takeover by Rank Group. The review concluded that the company was significantly undervalued considering that earnings are currently mid cycle and that the company's assets are not yet being operated at global-best-practice levels. Considering the further potential upside from improved business efficiencies, further asset sales, reorganisation and financial reengineering of the under-gearred balance sheet, a large stake was obtained.

The position in IOOF was trimmed post the solid full year result.

We have initiated investments in a small number of holdings which we look forward to reporting on in the future.

**Long term review of the portfolio:**

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 December 2003	30 June 2004	31 December 2004	30 June 2005	30 September 2005
Equities	13	74	92	98	94
Hybrids	0	15	24	8	8
Cash on deposit	185	122	123	134	149
<b>Total Capital Employed</b>	<b>198</b>	<b>211</b>	<b>239</b>	<b>240</b>	<b>251</b>
NTA Per Share					
Before Tax on unrealised gains- cents	99.1	105.4	115.2	109.7	112.0
Dividends paid (cumulative)	-	-	1.0	2.5	4.5
Before Tax on unrealised gains pre dividends- cents	99.1	105.4	116.2	112.2	116.5
MMA Share price- cents	93.0	97.0	106.0	93.5	96.0

In our view, the Australian stockmarket is clearly overvalued with stock prices generally being expensive and many companies trading at or near record highs. Since MMC Contrarian's listing in December 2003 the All Ordinaries Accumulation Index has not returned a negative quarter as the market gathered momentum, including 10 positive months in a row from May 2004 to February 2005 and more recently 5 positive months in a row from May to September 2005. For the first time in recent history, the Australian market, which is dominated by low price earnings ratio stocks such as banks and resources, is trading at a price earnings ratio premium to the rest of the world. We believe that such performance cannot continue indefinitely and are very cautious in this environment.

The portfolio continues to have high cash levels and a small number of positions in undervalued strong cash flow generating companies. We believe that it is prudent to invest in stocks that are justified by attractive fundamentals rather than having broad exposure to an overheated market in a slowing economy. While this has been challenging in the current environment, sentiment can change very quickly and holding a significant amount of cash will enable your company to take advantage of contrarian opportunities as they emerge.

As contrarian investors, we aim to outperform over the long term. This was exemplified by the performance of BPC and other core investments during the quarter, highlighting the importance of patience and discipline. In a similar vein to our investment in BPC, our core holding in PMP is a distinct contrarian opportunity. It has been significantly undervalued and misunderstood by the market and we believe that its value will be recognised and extracted in time.

We are not a market follower and do not place undue emphasis on short term performance, even if this means giving the impression of being wide of the mark at times. However, through exercising contrary thought and maintaining our investment discipline, we are confident of substantially rewarding shareholders over the medium to long term (3 to 5 years).

### **Annual General Meeting**

MMC Contrarian's Annual General Meeting of shareholders is to be held on Wednesday 19<sup>th</sup> October at 11am in the Ionic Room, Sydney Masonic Centre, 279 Castlereagh Street, Sydney. Besides the normal business matters to be conducted there will be a presentation by the company's chairman, Simon Rowell and the investment manager.

The board of MMC Contrarian cordially invites you to attend the meeting and will be pleased to answer any questions you may have in regard to the company or its investments.

Erik Metanomski  
Executive Director  
MMC Asset Management Limited

Kevin Eley  
Director  
MMC Asset Management Limited

The investment Manager, 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.

**Appendix 1: An unaudited summary of MMC Contrarian investments at 30<sup>th</sup> June 2005 and 30<sup>th</sup> September 2005.**

<u>Summary of Investments valued at market</u>	30 <sup>th</sup> June 2005 \$'000	% of portfolio	30 <sup>th</sup> Sept 2005 \$'000	% of portfolio
<i>Equities</i>				
PMP Ltd (PMP)	21,712	9.0	23,629	9.4
Carter Holt Harvey Ltd (CAH)	-	-	12,076	4.8
Babcock & Brown Infrastructure Ltd (BBI)	14,429	6.0	11,207	4.5
Abacus Property Group Ltd (ABP)	7,555	3.1	8,614	3.4
Burns Philp & Company Ltd (BPC)	24,244	10.1	7,882*	3.1*
Hunter Hall Global Value Ltd (HHV)	5,801	2.4	6,053	2.4
Babcock & Brown Capital Ltd (BCMCA)	5,211	2.2	5,211	2.1
Ridley Inc (Canada)	3,393	1.4	3,570	1.4
IOOF Holdings Ltd (IFL)	5,556	2.3	3,517	1.4
Babcock & Brown Japan Property Trust (BJT)	7,367	3.1	932	0.4
Other	3,077	1.3	11,341	4.5
	98,345	40.9	94,032	37.5
<i>Hybrids</i>				
Allco Hybrid Investment Trust (PoDS)	8,185	3.4	8,047	3.2
	8,185	3.4	8,047	3.2
Funds on deposit	134,065	55.7	148,672	59.3
Total capital employed	240,595	100.0	250,751**	100.0
NTA per share before tax –cents	109.9		112.0	
MMA share price – cents	93.5		96.0	
(Discount) Premium to NTA before tax-%	(14.9)		(14.3)	
NTA per share after tax- cents	107.8		110.6	
(Discount)Premium to NTA after tax-%	(13.3)		(13.2)	
*A majority of holding in BPC sold subsequent to 30 <sup>th</sup> September				
**post payout of 2.0 cents dividend				