MMC ASSET MANAGEMENT

PRESERVING CAPITAL, CREATING WEALTH

MMC Contrarian Limited (MMC Contrarian)
September 2006 quarterly investment update

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

- overview of the quarter
- your company's dividend philosophy and outlook and
- the performance and composition of the investment portfolio for the previous 3 months

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

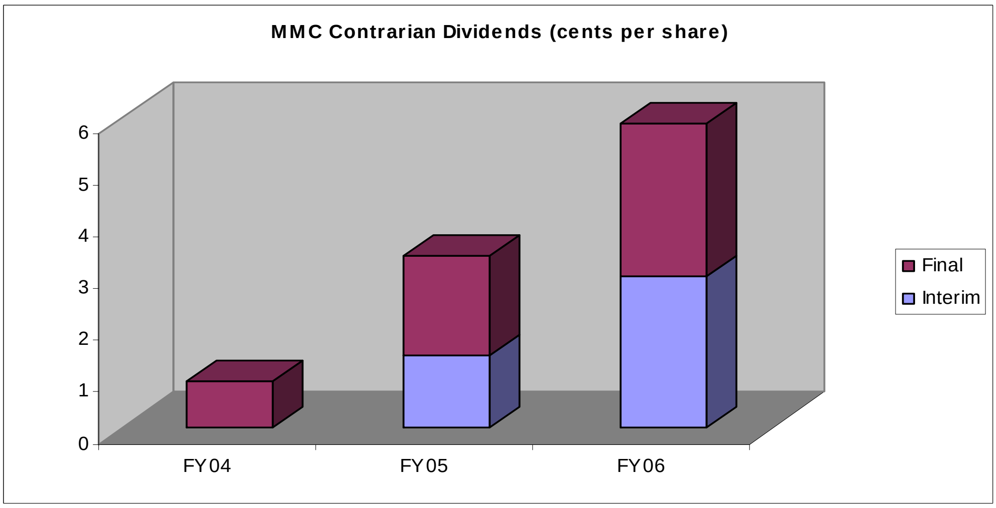
Overview:

The September quarter was characterised by high volatility, falling commodity prices and a wave of private equity mania. Much of the volatility was fuelled by mixed economic sentiment with views on the direction of interest rates split between those arguing for further tightening to curb inflation and those arguing that the cycle has peaked due to subdued housing construction, easing business investment and a slowing US economy.

There were a number of stocks that were caught up in private equity speculation. We reviewed several of these companies since the beginning of the year, as many appeared out of favour and were picked up by our screening process. However, they appeared expensive well before private equity speculation drove their share prices higher. In our view, a large number of these deals suggest desperation from private equity acquirers as they are mandated to invest increasingly vast quantities of funds with lessening regard for valuation. These are further signs of an overpriced market with few opportunities in which excess liquidity has inflated prices in stocks we believe are expensive. Even if they are less expensive than others this does not make them attractive cheap investments.

Final Dividend:

The Board of MMC Contrarian declared a fully franked final dividend of three cents per share for the six months to June 2006, which was paid on 21 September 2006. Dividends declared during 2006 totalled six cents per share compared to three and a half cents per share for the previous year. This increase in the dividend continues your company's policy of distributing a growing stream of fully franked dividends to shareholders every six months, as illustrated below.



Performance of the portfolio during the previous 3 months:

The All Ordinaries Accumulation Index increased +2.9% during the quarter. Your company's portfolio returned +4.0% during this period, with the equity component of the portfolio returning +6.1%. We report performance for information purposes only. We are long term investors and short term performance, whether positive or negative relative to a benchmark, is not a focus for us.

Stock specific performance was sound for the quarter. Vision Systems, The Warehouse Group and Ansell were the stand out performers for the quarter, Vision Systems and Warehouse on the back of take over activity and Ansell on falling oil and latex prices, the latter of which decreased approximately 30% during the quarter. There were no material detractors from performance during the quarter.

At the time of writing PMP remains a significant holding and the share price increase, subsequent to the end of the quarter, has gone some way to narrowing the discount to fair value. The share price rise increased our already overweight position in the stock, hence we trimmed the holding to maintain our weighting at just over 8% of the portfolio. We will be particularly focused on the upcoming AGM where we expect to get specific financial guidance for the 2007 financial year.

Portfolio Activity:

Market volatility presented several opportunities during the quarter and by holding a large amount of cash we were able to deploy your capital to invest in these. As a result, the cash holding was reduced from 57% to 52%. A new investment was made in Rinker, while holdings in Ansell and Burns Philp were substantially increased, please refer below for further details. Positions in Telstra and News Corporation were topped up on valuation grounds, Telstra during a brief period of share price weakness and News Corporation following the agreement with Google to monetise its My Space internet asset, which materially increased our valuation of the company. Babcock & Brown Infrastructure and Vision Systems were completely sold while the holding in the Allco Hybrid Investment Trust (PoDS) continues to be trimmed after its share price firmed up over the quarter.

Rinker was purchased following a sharp decline in its share price since late April 2006. The stock rapidly fell out of favour on fears of a 'hard landing' for the US housing market, which appears to have peaked. However, we believe investor sentiment overplayed the degree to which Rinker would be impacted by a downturn in US housing and the stock appeared undervalued as a result. The company is a top 3 player in all markets in which it operates, most of which have high barriers to entry and above average population growth rates. Rinker is set to benefit from a rebound in commercial and infrastructure construction and upward pressure on building material prices from ongoing rebuilding of areas impacted by hurricanes in late 2005. It also generates high free cash flows and would have a net cash position by March 2007 if not for the recent capital return, special dividend and share buy back.

A substantial position in Burns Philp was taken subsequent to the proposed take over by its majority shareholder, the Rank Group (the private investment vehicle of Graeme Hart), at a discount to the take over bid. Based on our valuation of the company, the bid price is in line with a base case valuation of the company, but includes no premium for 100% control over its assets as well as ignoring further upside from potentially utilising tax losses. Hence the bid price materially undervalues the company. We believe there is the potential for Rank to increase its offer to buy out the remaining minority shareholders as the potential one-off incremental cost of a higher bid to take the company private would, over a period of time, be far less than the on-going costs associated with running a public company.

A significant position was accumulated in Ansell following an earnings downgrade and subsequent share price decline in early July. Our sum-of-parts valuation indicated that there was significant value, taking into account the share price fall of over 33% in the 3 months from early April to early July. The company is generating significant cash flows, which may lead to the company having no net debt by the end of 2007. It is highly diversified both geographically and by business segment and may enhance shareholder value going forward by further bolt on acquisitions, restructuring and share buy backs.

Babcock & Brown Infrastructure was exited following a considerable increase in its share price and subsequent failed bid for Gasnet. While there remains further opportunity for value creation through expanding the capacity of the Dalrymple Bay Coal Terminal, selling the PD Ports trucking business and utilising undeveloped land these are unlikely to flow through to the bottom line in the short term. Hence the position was sold at a substantial profit.

The holding in Vision Systems was completely sold following the announcement of a merger implementation agreement by its larger US competitor, Ventana. Given that the merger was endorsed by Vision's board at a price well above our valuation of the company, we exited the position at a substantial profit.

It is noted in Appendix 1 that the Babcock & Brown Power (unlisted) holding has been reclassified from equities to hybrids. This is because we have called for redemption of the holding rather than convert the holding into listed stock when the IPO occurs, which is expected to be next quarter.

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

$ Million

	31 Dec 2003	30 June 2004	31 Dec 2004	30 June 2005	31 Dec 2005	30 June 2006	30 Sept 2006
Equities	13	74	92	98	85	101	112
Hybrids	0	15	24	8	6	3	6
Cash on deposit	185	122	123	134	156	139	128
Total Capital Employed	198	211	239	240	247	243	246
NTA Per Share							
Before Tax on unrealised gains- cents	99.1	105.4	115.2	109.7	112.4	111.6	112.3
Dividends paid (cumulative)	-	-	1.0	2.5	4.5	7.5	10.5
Before Tax on unrealised gains pre dividends- cents	99.1	105.4	116.2	112.2	116.9	119.1	122.8
MMA Share price- cents	93.0	97.0	106.0	93.5	94.5	90.0	95.0

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Appendix 1: An unaudited summary of MMC Contrarian investments at 30th June 2006 and 30th September 2006.

Summary of Investments valued at market	30th June 2006 $`000	% of portfolio	30th Sept 2006 $`000	% of portfolio
Equities				
PMP Ltd (PMP)	21,901	9.0	20,046	8.1
News Corporation Ltd (NWS)	10,837	4.5	14,745	6.0
Telstra Corporation Ltd (TLS)	8,720	3.6	11,962	4.9
Abacus Property Group Ltd (ABP)	11,498	4.7	11,864	4.8
Ansell Ltd (ANN)	612	0.3	11,573	4.7
Burns Philp & Company Ltd (BPC)	544	0.2	7,795	3.2
Babcock & Brown Wind Partners Ltd (BBW)	6,749	2.8	5,475	2.2
The Warehouse Group Ltd (WHS)	3,756	1.5	5,173	2.1
IOOF Holdings Ltd (IFL)	4,120	1.7	4,532	1.8
Rinker Group Ltd (RIN)	-	-	3,627	1.5
Commander Communications Ltd (CDR)	3,502	1.4	3,257	1.3
Ridley Inc (Canada)	3,253	1.3	3,243	1.3
Babcock & Brown Capital Ltd (BCM)	2,825	1.2	2,677	1.1
AVV Ltd (AAV)	1,593	0.7	1,947	0.8
Ridley Corporation Ltd (RIC)	1,855	0.8	1,740	0.7
Other	543	0.2	2,665	1.1
Babcock & Brown Infrastructure Ltd (BBI)	12,219	5.0	-	-
Vision Systems Ltd (VSL)	3,408	1.4	-	-
	100,882	41.5	112,323	45.6
Hybrids				
Babcock & Brown Power (unlisted)	2,947	1.2	4,332	1.8
Allco Hybrid Investment Trust (PoDS)	3,638	1.5	1,709	0.7
	6,515	2.7	6,041	2.5
Funds on deposit	138,467	57.0	128,175	51.9
Total capital employed	242,987	100.0	246,539	100.0
NTA per share before tax –cents	111.6		112.3 (post 3c Sept dividend)	
MMA share price - cents	90.0		95.0	
(Discount) / Premium to NTA before tax-%	(19.3)		(15.4)	
NTA per share after tax- cents	110.1		110.3 (post 3c Sept dividend)	
(Discount)Premium to NTA after tax-%	(18.3)		(13.9)	