MMC
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Chairman's Address to AGM of MMC Contrarian Limited

19 October 2005

I am pleased to report on the Company's development and performance for the year ended 30 June 2005.

The principal objectives of the Company are:

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

I shall discuss the results for the year and how we have performed against those objectives.

Results

MMC Contrarian achieved the following results in the year ended 30 June 2005:

- Profit from ordinary activities of $4.6 million after tax, equal to 2.2 cents per share
- Capital Profits of $7.5 million after tax, or 3.6 cents per share
- Increase in Revaluation Reserve of $2.5 million after tax, representing 1.2 cents per share

This gives a combined performance of $14.6 million after tax, equal to 7.0 cents per share, compared to 5.8 cents per share last year.

The total performance of the company's investment portfolio was a return of 9.7% for the year before tax and after adjusting for capital changes such as the exercise of options. This compares to a return last year of 8.2%, which was for a 7 month period.

First Objective: Exceed the return of the All Ordinaries Accumulation Index over the medium to long term

The All Ordinaries Accumulation Index increased 24.7% in the year to 30 June 2005, and therefore the manager's performance of 9.6% was below the benchmark. It is however important to realise that the objective of the company is to outperform the benchmark over the medium to long term, and therefore the manager does not place undue emphasis on short term performance.

Although it is always disappointing to report any underperformance, it needs to be taken in context of the manager's belief that equity markets have been overheated in the past year, running largely on momentum rather than fundamentals, and that is a major reason why the manager has maintained so much of the portfolio in cash.

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The company started the year with $122 million cash and held $134 million of cash and cash equivalents at 30 June 2005. Holding cash and cash equivalents substantially reduces the risk in the overall portfolio.

The manager makes no apology for this cautious approach as there is an overriding objective, which is objective 2 – preserve capital.

Second Objective - Preserve the capital of the Company

At the beginning of the year, the net assets of the company represented 103.7 cents per share. By 30 June 2005 this had grown to 107.8 cents per share, after payment of 2.5 cents per share in dividends and after receiving $24.7 million in new share capital from the exercise of options and $0.8 million from the dividend reinvestment plan and the buy back of $9.4 million of shares.

The growth in capital, net of those factors, represented 9.6% which I think meets the objective of preserving capital, or to put it another way, "Don't lose money".

Third Objective – Pay regular franked dividends

The final dividend for the year ended 30 June 2004 of one cent, fully franked, was paid on 7 October 2004. This was followed by a fully franked interim dividend of 1.5 cents paid on 24 March 2005 and the final dividend for the year ended 30 June 2005 of 2.0 cents fully franked which was paid on 22 September 2005.

Our policy is to distribute a growing stream of franked dividends, paid to shareholders every 6 months. Dividends may be paid from profits from ordinary activities and from capital profits arising from sale of investments. As our investments grow, we expect that capital profits will increase and profits from ordinary activities may fluctuate depending on the level of interest and dividend income received.

Capital profits are generated from the sale of investments, not from holding investments which are increasing in value. The philosophy of the Investment Manager is to continue to hold investments which they consider have further upside, as this is more beneficial to shareholders than selling to crystallise a short term gain. We therefore do not anticipate that investments will be sold with the sole purpose of providing capital profits for dividends, although we are confident that a flow of capital profits will be generated over a period of years as successful investments are crystallised by the Investment Manager.

The board will take various factors into account in determining the dividend each half year, including the amount of profits earned in the period, the levels of retained profits and the amount of unrealised profits identified in the Revaluation Reserve. It is an important principle of our dividend policy to provide a consistent dividend flow to shareholders and therefore we do not intend to pay all available profits each half year as a dividend.

We seek to reward shareholders with a secure dividend income and have achieved a positive start in this area with successive rises in the first three dividends.

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Listed Investment Company Gains

The capital profits reserve in future may contain Listed Investment Company (LIC) capital gains. LIC capital gains arise in certain circumstances if a security is sold after being held for in excess of 12 months and entitle some shareholders to a special deduction in their taxation return. Recently there has been a draft tax ruling which raises uncertainty as to the availability of these LIC gains to the company. The company continues to monitor the situation. However it is important to recognise that the manager will manage the portfolio for the best profitable return for investors, and taxation is a secondary consideration (although an important one). Investments will be managed for the greatest return, buying and selling when the manager thinks the time is right, not when tax considerations dictate. Maximising returns is more advantageous than trying to time investment decisions to obtain tax concessions.

Investment Manager and Investments

MMC Asset Management Limited is the investment manager. HGL Limited has made available the services of several of its key executives to assist MMC Asset Management with providing these management services.

As I mentioned, MMC Asset Management will give a presentation later on, including more information about the company's investments.

At 30 June 2005 59% of the investments were cash, fixed interest and hybrid securities. As one of the main objectives is capital preservation, the Company has large cash holdings when suitable equity investments cannot be found.

Communication with shareholders

We communicate with shareholders as follows:

- The Annual Report, sent to all shareholders unless they request otherwise;
- The quarterly investment updates from MMC Asset Management Limited;
- Monthly NTA statements, which are submitted to the ASX and posted to the website.

Our website at www.mmccontrarian.com.au is regularly updated and we encourage all shareholders who have access to the internet to take a look at it.

Prospects

It is not appropriate to try to predict movements in equity markets and so we don't make any prediction about the results for the year to 30 June 2006. However, as things stand at the moment we are confident of paying a half year dividend of more than 2.0 cents in February 2006. The company has substantial retained earnings as a result of recent profitable disposals of securities and at this stage we anticipate the dividend for the full year ending June 2006 will exceed the 3.5 cents for the 2005 year.

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For the first three months of the current financial year, the portfolio has achieved an unaudited increase of 6.6% before tax. Unaudited net tangible assets per share, after provision for all taxes and the payment of a two cent fully franked final dividend on 22 September 2005, have increased to 110.6 cents a share at 30 September 2005. MMC will include more detail on current trading and the market during their presentation.

In conclusion, I would like to thank my fellow directors and all the management and staff of MMC Asset Management and HGL for their hard work and dedication over the past year.

Simon Rowell
Chairman