

MMC Contrarian Limited (MMC Contrarian)

June 2006 quarterly investment update

This report has been prepared by MMC Asset Management Limited on behalf MMC Contrarian Limited. This is the ninth 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
- recent changes to your company's capital structure 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 June quarter saw an increase in the volatility of the Australian stock market. After the long upward trend continued through April, the market corrected in May on the back of rising interest rates, falling commodity prices and a declining US market. Although the negative sentiment from May continued for most of June, the market rallied strongly over the final 2 days after the US Fed indicated that the series of interest rate rises may be at an end.

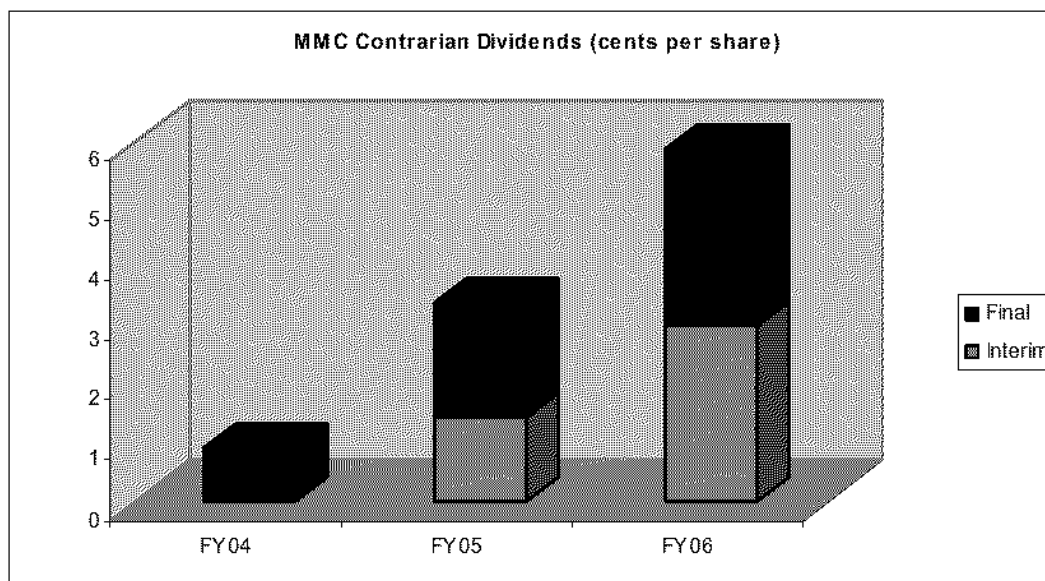
It is important to note that not only did your company significantly outperform the market during May but a number of strong contrarian opportunities presented themselves. We subsequently made several new purchases, the most notable being a stake in Vision Systems, while significantly increasing a number of holdings, particularly the Warehouse Group. Both of these investments are discussed under "Portfolio Activity" below. We are currently building a stake in several other stocks and look forward to reporting on them once the targeted holding has been achieved.

In total 6 new investments entered the portfolio during the quarter, 5 of which followed the May downturn. This exemplifies one of the main reasons for the large cash position in the current market. As soon as the market turned, the manager had the flexibility to act quickly in buying new holdings and topping up existing positions at attractive prices. In light of the recent volatility in the market, we expect that a number of contrarian opportunities should emerge and holding a significant amount of cash will enable your company to take advantage of this.

Final Dividend:

Last financial year the Board of MMC Contrarian declared a fully franked final dividend of two cents per share for the six month period to June 2005, which was paid on 22 September 2005. This financial year MMC Contrarian will pay a final fully franked dividend of three cents per share for the six months to June 2006. This final dividend was declared on 2 August 2006 and will be paid on 21 September 2006.

The full dividend for the year equates to six cents per share compared to three and a half cents per share for the previous year. Your company's policy is to distribute a growing stream of fully franked dividends to shareholders, as illustrated below.



Capital Management:

On 16th December 2003, the Directors of MMC Contrarian introduced a share buy back scheme to purchase MMC Contrarian shares in the event that they consistently traded at a substantial discount to the NTA of the company. At 30th June 2006 13.5 million shares had been acquired between 89.5 and 105 cents and subsequently cancelled. The number of shares on issue at 31 March 2006 equals 214 million shares with an NTA of 111.6 cents (pre tax).

Performance of the portfolio during the previous 3 months:

The All Ordinaries Accumulation Index decreased -0.2% during the quarter. Your company's portfolio returned +0.1% during this period, with the equity component of the portfolio returning -1.8%. However, during May, in which most of the correction occurred, the Index decreased -4.3% compared to your company returning +0.1%. While this is only a short term snapshot and we are long term investors, this illustrates what is likely to happen to your company's returns when the market turns.

The performances of core holdings were mixed. The best performers during the quarter were the Warehouse Group (+24.5%), News Corp (+11.0%), Abacus Property Group (+9.6%) and IOOF (+6.5%). However, these gains were offset by Babcock & Brown Wind Partners (-12.8%), PMP (-10.5%), Babcock & Brown Capital (-9.2%) and Commander Communications (-7.6%).

Portfolio Activity:

New investments during the quarter included Vision Systems and several smaller holdings in which we are building a stake and look forward to reporting on in future. A small holding last quarter in which we have now built a material stake is the Warehouse Group, which we report to you for the first time. The fund increased its holdings in Babcock & Brown Wind Partners, Telstra and the Warehouse Group, while exiting Coles Myer and Hunter Hall Global Value.

Vision Systems was purchased following the sale of its fire and security business for \$253 million. The remaining business, Vision Biosystems (VBS), is a rapidly growing supplier of instruments and reagents to the histology market with sales expected to grow by 15-20% for the next 3 years. However, since VBS is still in its infancy, the market is factoring little value into Vision System's share price. The company has a large net cash position - over 73% of the share price is backed by cash. It is free cash flow positive with a low maintenance capex spend, while R&D risk is largely behind them after a large R&D spend in 2003 to develop their

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flagship product. It is forecast to generate large amounts of free cash in 12–18 months time and is significantly undervalued on our various valuation methods, including our sum of the parts, competitor comparison, acquisition value and discounted cash flow valuations.

We built a stake in The Warehouse Group this calendar year following the successful sale of the loss-making Australian division last December, in the midst of a significant restructure. Uncertainty surrounding the New Zealand retail environment had driven the share price down, to the point where it was attractively priced. Several recent events should positively impact the share price including debt reduction (from the proceeds on sale of the Australian business), early signs indicating that the restructure is progressing well (with the full benefit to flow through over the coming financial year) and a strategic 10% defensive stake being acquired by Foodstuffs the market leader in food retailing in New Zealand.

Coles Myer was sold following a considerable increase in its share price. While we still believe there is significant opportunity for improvements in supply chain management, logistics, IT, staff efficiency and marketing, these are unlikely to flow through to the bottom line in the short-mid term. There is also a high degree of uncertainty as to whether management will be able to convert these opportunities into higher margins and profitability; however, the market already appears to be factoring some of this potential improvement into the share price.

The decision to sell Hunter Hall Global Value was made last year and the stock was completely exited after being reduced over several months.

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

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Appendix 1: An unaudited summary of MMC Contrarian investments at 31st March 2006 and 30th June 2006.

<u>Summary of Investments valued at market</u>	<u>31st Mar 2006 \$'000</u>	<u>% of portfolio</u>	<u>30th June 2006 \$'000</u>	<u>% of portfolio</u>
<i>Equities</i>				
PMP Ltd (PMP)	24,482	10.0	21,901	9.0
Babcock & Brown Infrastructure Ltd (BBI)	15,122	6.2	12,219	5.0
Abacus Property Group Ltd (ABP)	10,692	4.4	11,498	4.7
News Corporation Ltd (NWS)	9,761	4.0	10,837	4.5
Telstra Corporation Ltd (TLS)	1,705	0.7	8,720	3.6
Babcock & Brown Wind Partners Ltd (BBW)	4,726	1.9	6,749	2.8
IOOF Holdings Ltd (IFL)	3,982	1.6	4,120	1.7
The Warehouse Group Ltd (WHS)	564	0.2	3,756	1.5
Commander Communications Ltd (CDR)	3,113	1.3	3,502	1.4
Vision Systems Ltd (VSL)	-	-	3,408	1.4
Ridley Inc (Canada)	3,629	1.5	3,253	1.3
Babcock & Brown Capital Ltd (BCM)	3,323	1.4	2,825	1.2
Other	6,077	2.5	8,094	3.4
Hunter Hall Global Value Ltd (HHV)	3,982	1.6	-	-
Coles Myer Ltd (CML)	2,399	1.0	-	-
	93,557	38.3	100,882	41.5
<i>Hybrids</i>				
Allco Hybrid Investment Trust (PoDS)	6,369	2.6	3,638	1.5
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Funds on deposit	144,359	59.1	138,467	57.0
Total capital employed	244,285	100.0	242,987	100.0
<i>NTA per share before tax –cents</i>				
	112.1		111.6	
<i>MMA share price – cents</i>				
	93.0		90.0	
<i>(Discount) Premium to NTA before tax-%</i>				
	(17.0)		(19.3)	
<i>NTA per share after tax- cents</i>				
	110.6		110.1	
<i>(Discount)Premium to NTA after tax-%</i>				
	(15.9)		(18.3)	