

December 2007 NTA Release

1. Details of Performance and Net Asset Backing at Month end

The net asset backing ("NTA") of Fat Prophets Australia Fund Limited ("Fat Fund") at 31 December 2007 was **\$1.3951 per share** on a before tax basis, calculated in accordance with ASX Listing Rule 19:12, and represents a decline of 1.95% over the month. By comparison, the Fat Fund's benchmark, the S&P/ASX 300 Accumulation Index declined 2.64% in December 2007.

After adjusting for the impact of taxation on both realised and unrealised gains, the Fat Fund's after tax NTA at the end of December 2007 was **\$1.3202 per share**, undiluted for the \$1.00 strike price options which can be exercised until 20 April 2008.

If all of the remaining 30,020,150 April 2008 options were exercised at \$1.00, the **fully diluted** pre tax NTA would be **\$1.2037 per share** and the after tax NTA would equate to **\$1.1651 per share**.

2. Performance Commentary

The major influences on the Fat Fund's performance versus the benchmark during the month of December 2007 were as follows:

Positive Influences			Negative Influences		
Company	% move	Position	Company	% move	Position
Mundo Minerals	16%	Overweight	Fortescue Metals	32.5%	Underweight
St.George Bank	-13%	Underweight	Westfield	3%	Underweight
Bravura Solutions	11%	Overweight	Lihir Gold	-8%	Overweight
Beach Petroleum	4.5%	Overweight	Incitec Pivot	29%	Underweight
Goodman Group	-21%	Underweight	Great Southern	-11%	Overweight

Santa certainly delivered this year with a pre-Xmas discounting of shares and a subsequent New Year stocktake Sale. Since the local market's intra-day peak at the beginning of November, the S&P/ASX 300 index (capital terms) is down 12.8% (at the time of writing) in ten weeks, with the industrial component of the index falling a hefty 13.4%. This is a much needed shakeout after the overly robust bounce from the July/August sub-prime jitters. The stark realisation that Australia has two out of synch sub-economies which creates policy making difficulties, as well as a US economy where the central bank appears to be well behind the policy curve – with inevitable investor jitters – hardly engenders confidence. However, it is worth noting that the industrial component of the S&P/ASX 300 is virtually back at its August lows – after a series of earnings downgrades - whereas strength in the resources sector has meant that the overall S&P/ASX300 index is around 9% above its August lows. The S&P/ASX300 Industrials Accumulation index is likely at end January to have shown its first negative annual return since June 2003. This probably tells you where we are looking for bargains.

The Fat Fund outperformed its benchmark in December as a result of its generally defensive positioning in an increasingly risk averse Australian equity market. Investor sentiment was dominated by two themes: fears over the emergence of recession in the US and the "third-leg" of the change in credit pricing, whereby highly geared companies found themselves unable to refinance loans on acceptable terms – or at all.

The more negative perception regarding the US was generally reflected in resources shares which fell by 3.3% over the month (although the resource component of the S&P/ASX300 rose 48.6% over the year). Of greater relevance to the Fat Fund was ongoing impact of risk re-pricing which was aggressively reflected in the property trust sector which fell 6.7% over the month, led by the effective demise of Centro Properties. This risk aversion had some impact on the fund's holdings of Galileo Japan – despite an average four year debt maturity – and the highly geared Record Realty, which similarly has limited short term debt and an average 4.5 year maturity.

During the month, the Fat Fund made two new investments:

- **Ambition Limited**, a recruitment business expanding overseas at below a 10x PER multiple; and
- **Bravura Solutions**, an Australian company which IPO'd in mid 2006, but which has expanded significantly by acquisition and organic growth in Europe – which now makes up two-thirds of revenue. Bravura offers new generation front and back-end software and maintenance solutions to life companies, banks and other wealth management participants. We acquired our shares at roughly 10x forecast EV/EBITDA for the current year.

We remain cautious on local markets ahead of interim results reporting but are starting to see some intriguing dichotomies of pricing. Despite some significant share price falls, a number of “financial management” type companies look expensive against recurring earnings; conversely, the vehicles they manage trade at discounts to NTA, which already appear to anticipate a most pessimistic scenario.

3. Top 15 Holdings at 31 December 2007

Company	Symbol	% Weighting
BHP Billiton	BHP	10.56
National Aust. Bank	NAB	8.06
Westpac Banking Corp	WBC	6.65
Commonwealth Bank	CBA	6.14
ANZ Bank	ANZ	5.58
Lihir Gold	LGL	3.54
Woolworths	WOW	3.54
QBE Insurance	QBE	3.21
Rio Tinto	RIO	2.97
Soul Pattinson (W.H)	SOL	2.53
Lion Selection	LST	2.29
Mundo Minerals	MUN	2.05
Everest Babcock & Brown Alt. Inv. Trust	EBI	1.96
Beach Petroleum	BPT	1.92
UXC Limited	UXC	1.87

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On behalf of Fat Prophets Funds Management Australia P/L

a: Andrew Brown and Steve O'Hanna are employees of Tidewater Investments Limited. A controlled entity of Tidewater Investments Limited, Tidewater Asset Management P/L (AFSL# 302802) currently manages the Fat Fund under a sub-contract agreement dated 24 May 2007.

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