

**PRIME VALUE**  
**ASSET MANAGEMENT LIMITED**  
*"Building Wealth Together"*



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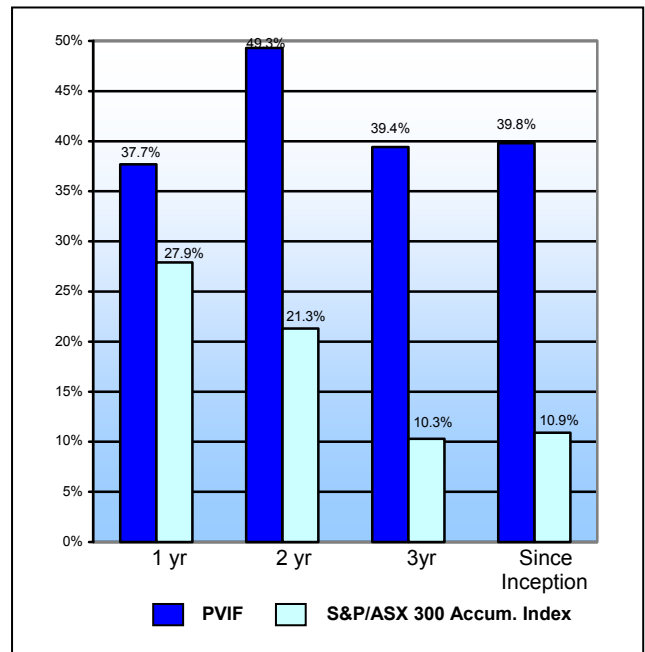
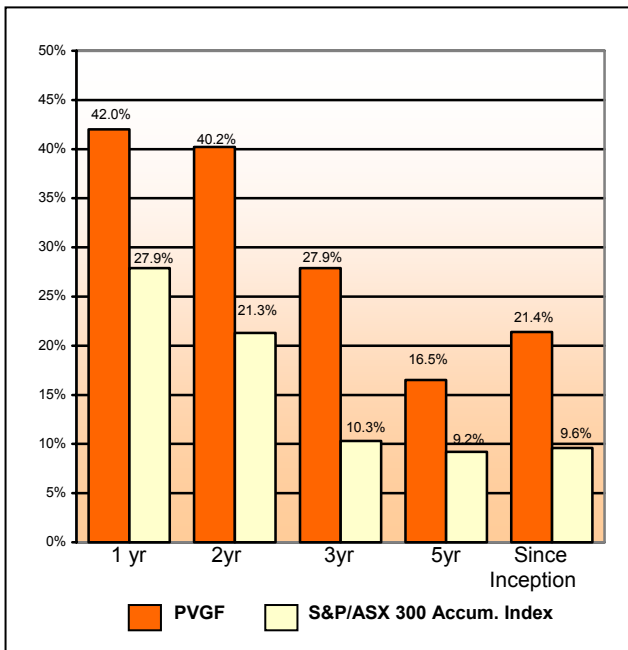


*Prime Value Growth Fund*  
 - increased by **270.0%\***  
 since it was established  
 10 April 1998.

For more information see page 2.....

*Prime Value Imputation Fund*  
 - increased by **180.8%\***  
 since it was established  
 20 December 2001

For more information see page 3.....



**Graphs: Annual Return of PVGF, PVIF and S&P/ASX 300 Accumulation Index for period ended 31 December 2004**

\* Performance figures in this Newsletter have been calculated in accordance with IFSA Standard no. 6.00, Fund Performance-Calculation and Presentation of Returns. The Returns are calculated before performances fees which are charged against individual accounts. The Returns exclude imputation credits (grossed up for tax purposes for Australian residents only). No allowance has been made for taxation. Performance assumes the reinvestment of income distributions. Past performance is not necessarily an indication of future performance.

## Prime Value Growth Fund

The **Prime Value Growth Fund** aims to provide superior medium to long-term capital growth with some income by managing a portfolio of predominantly Australian equities. This objective continues to be met, with another six months of impressive performance.

### Our Fundamental Philosophy continues to be ... “minimisation of mistakes”

This philosophy has again led to significant outperformance, with the fund returning 38.5% for the six months to 31 December 2004, more than double the 17.3% return of the S&P/ASX 300 Accumulation index.

Contributing to this outperformance was a more defensive stance combined with an emphasis on quality growth-oriented stocks, including the resources sector. Superior stock selection across the entire market cap range was an additional contributor.

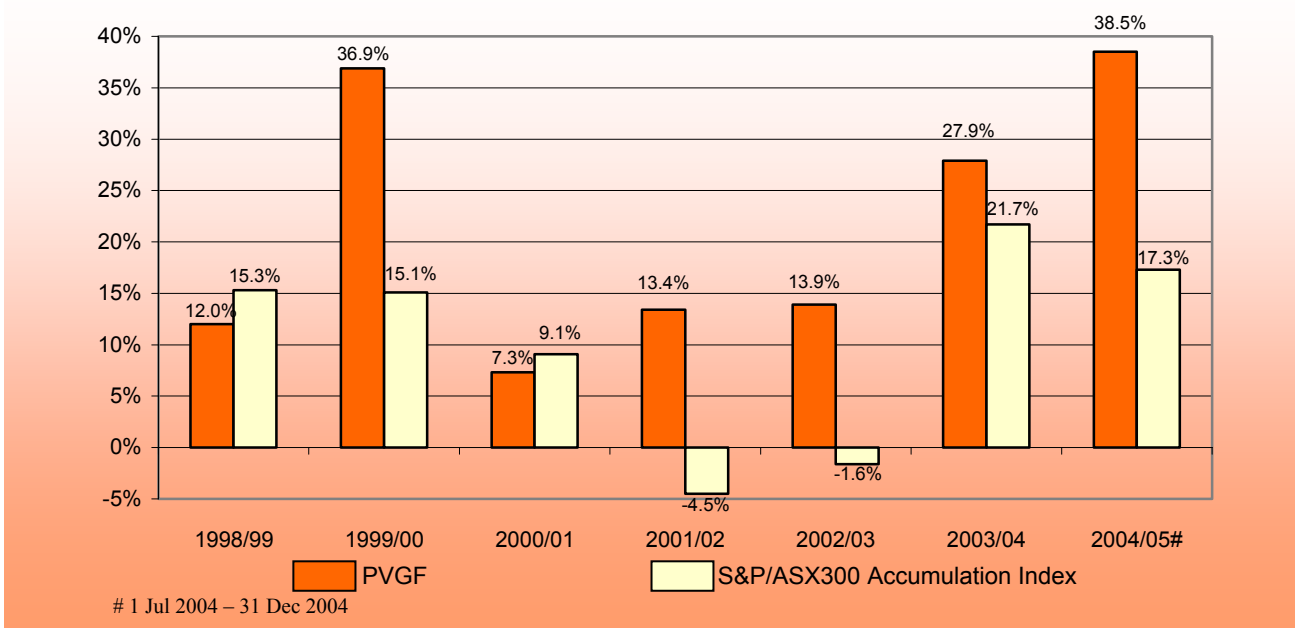
This brings the performance for calendar year 2004 to 42.0% compared with the benchmark at 27.9%.

The interim distribution for the December half was 6.47 cents per unit.

### Portfolio Construction in 2005... strong balance sheets and market positioning

During 2005 the market will remain uncertain, emphasising the need for outstanding stock selection. The portfolio will continue to be underpinned by growth stocks with a proven track record or promising potential, however those with financial strength and solid market position will be preferred.

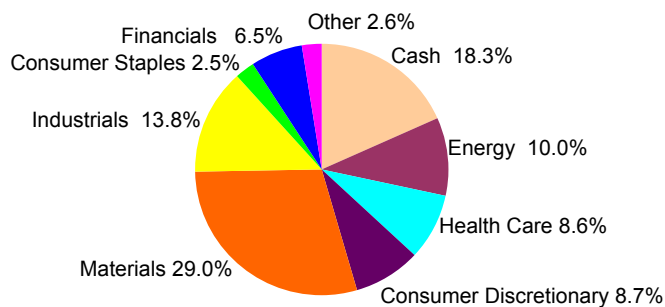
**Graph 3: Annual Return of PVGF and S&P/ASX 300 Accum. Index by Financial Year**



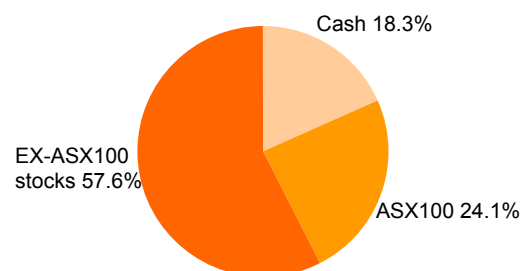
The Growth Fund is diversified across different industry sectors, as shown in Chart 1. It is currently overweight Resources stocks, including BHP Billiton and Excel Coal. It is underweight Financial and Telecommunication stocks. Small cap stocks (outside the ASX 100) account for around 60% of the portfolio, as shown in Chart 2.

**Charts 1 and 2 provide a breakdown of the stocks in the Growth Fund as at 31 December 2004**

**Chart 1: Holdings by Sectors**



**Chart 2: Holdings by Market Cap**



## Prime Value Imputation Fund

The Prime Value Imputation Fund aims to provide capital growth over the medium to long-term combined with regular, tax-effective income by managing a portfolio of assets comprised mainly of Australian equities. As with the growth fund, this objective was achieved with another impressive six month performance.

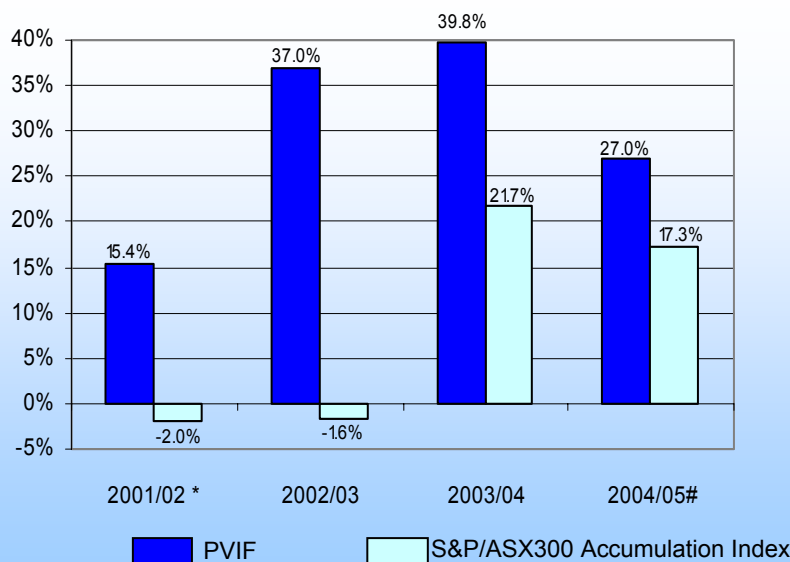
### Outperformance... by any measure

The Imputation Fund returned 27.0% for the 6 months to December 31, and 37.7% for the 2004 calendar year. This is significantly higher than the S&P/ASX 300 Accumulation index, and represents three full years of outperformance by any measure or over any 12 month period.

The interim distribution for the December half was 4.45 cents per unit.

The outperformance resulted primarily from a defensive stance with an emphasis on quality, high-yielding stocks. The portfolio was underweight in the Finance and Telecommunications sectors, and positive stock selection included holdings in Monadelphous, Record Investments and Macquarie Airports.

**Graph 4: Annual Return of PVIF and S&P/ASX 300 Accum. Index by Financial Year**



\* 20 Dec 2001 – 30 Jun 2002

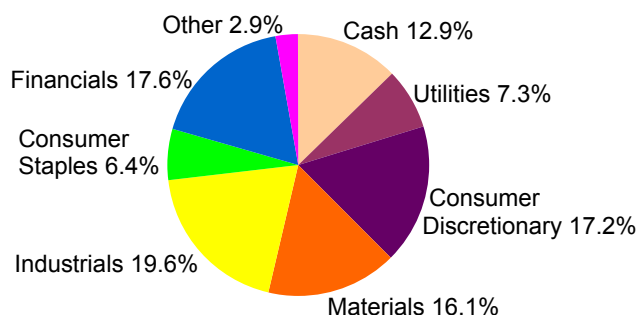
# 01 Jul 2004 – 31 Dec 2004

### Defensive Stance... Safe and steady

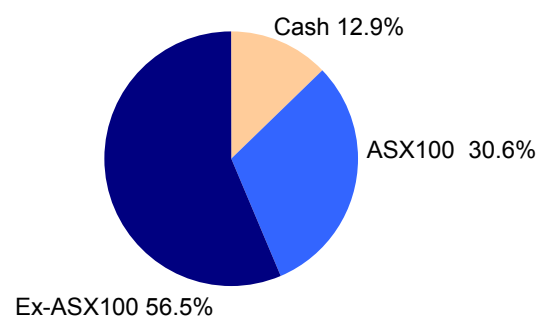
The Imputation Fund will continue to have relatively less exposure to the Resources sector (see Chart 3), and reasonable exposure to the Industrials and Consumer Discretionary sectors. The portfolio has been moving to an increased exposure to ASX Top 100 stocks (see Chart 4). This re-weighting will continue in 2005, with a focus on stocks which can demonstrate financial strength and a solid market position.

Charts 3 and 4 provide a breakdown of the stocks in the Imputation Fund as at 31 December 2004

**Chart 3: Holdings by Sectors**



**Chart 4: Holdings by Market Cap**



Dear Investors,

### **Celebrating 6 years of success for PVGF and 3 years of success for PVIF...**

*The Prime Value Imputation Fund celebrated 3 consecutive years of success. Since inception, the Fund has returned 39.8% pa compared with 10.9% pa for the S&P ASX 300 Accumulation Index. The Imputation fund has outperformed the benchmark every year since inception.*

*There are also many reasons to celebrate for the Prime Value Growth Fund. The Fund had exceptional performance during 2004 and, while we reiterate past performance is no indicator for future performance, we feel it is well positioned for continued success.*

*Funds Under Management (FUM) continued to grow steadily during the last 6 months, with significant additional investment and reinvestment from existing investors. We thank you for your ongoing support, and trust that you will continue to be pleased with your investment.*

### **3 stars from ASSIRT Research for "A high conviction, low-error approach"**

*Consistently strong performance and corporate strength have earned Prime Value a 3-star rating from ASSIRT Research for both the Growth Fund and Imputation Fund. The report noted "Han K Lee's unique and intuitive ability to decipher stocks information, which has been borne out by past successes."*

*ASSIRT go on to recognise the importance of the "strong investment of the executive's money in the Funds. There is a very high focus on after-tax performance returns."*

*ASSIRT also acknowledge the "clarity & simplicity" of the Prime Value philosophy to minimise mistakes, and how "focusing on such a simple philosophy" ensures we remain methodical in the investment process.*

### **Margin Lending**

*The Prime Value Funds have been approved for a number of margin lending facilities, including those offered by BT, National Australia Bank and St George Bank. Margin lending provides a line of credit that allows you to use borrowed funds to purchase shares and/or managed funds, using the borrowed assets as security. As leveraging increases investment risk, we strongly recommend that you seek independent financial, taxation and legal advice before entering into any margin lending transaction.*

### **Investment Review 2004**

*2004 was a good year for the Australian stock market, with the S&P/ASX300 Accumulation Index increasing by 27.9%. This was achieved in an environment characterised by uncertainty, with local and US elections, continued violence in Iraq, rising oil prices and concerns about inflation. Nearly all sectors performed well, with the exception of the telecommunications stocks. The best performers were the Energy, Health and Industrials sectors.*

*It was also a year for mid-cap stocks, with the mid-cap index outperforming both the larger companies and the "Small Ordinaries". The key to outperformance in 2004 was largely a function of stock selection, and the Prime Value Funds benefited from investments in BHP Billiton, WMC Resources, Excel Coal, Monadelphous, Record Investments, Macquarie Airports and Gunns, etc.*

### **Strengthened Investment Team**

*Fiona Clark joined us in December as Senior Investment Analyst and Manager, Investor Relations. She has a broad investment background covering Australian and International Equity Portfolio Management, Corporate Investor Relations and Risk Management. She has previously worked at WMC Resources, Commonwealth Funds Management and Asahi Life. Fiona has a Bachelor of Economics (Actuarial) from Macquarie University, a Graduate Diploma in Applied Finance & Investment and a Diploma in Treasury Management.*



*She joins the Investment Team, which consists of Han Lee, Leanne Pan and Michael Chien. Fiona will also be handling investment queries so feel free to contact her regarding your investment.*

*While the team is growing, the important things remain constant. The people who began the Funds are still responsible for their management, and the key investment philosophy, objectives and processes are unchanged.*

### **Community Support**

*Prime Value was one of the sponsors for the annual Head of Yarra Rowing competition in November 2004. Consistent with our culture and core values, we will continue to selectively support some sporting and community events.*

### **Investment Outlook**

*While growth is expected to remain reasonably robust during 2005, equity market returns are likely to be more modest. Some of the key influences include:*

- *high oil and commodity prices and their impact on input costs and margins*
- *stabilisation of the housing market, and the impact on residential construction and consumer spending (reduced wealth effect)*
- *potentially higher interest rates*
- *continued corporate activity and increased capital investment by companies as a result of low gearing and strong cashflow*
- *likelihood of profit downgrades.*

*The slower domestic economy in 2005 will provide a more challenging environment for earnings growth. Defensive stocks such as food retailing, healthcare, media and alcohol should be positive in this environment. Other attractive sectors include Diversified Resources and non-bank Financial Services. By contrast, the less attractive sectors will include consumer cyclicals such as discretionary retail, airlines, banks and telecommunications, as well as building materials. Larger companies, or those with a firm market position, may benefit from an ability to maintain margins and consumer loyalty.*

*As was the case in 2004, stock selection will be the crucial element for outperformance – one of our competitive strengths as a boutique Manager. The stocks with the best potential are those with strong balance sheets, a history of strong returns and attractive & viable growth prospects.*

Han K Lee  
Managing Director

Y Yong Quek  
Executive Director

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