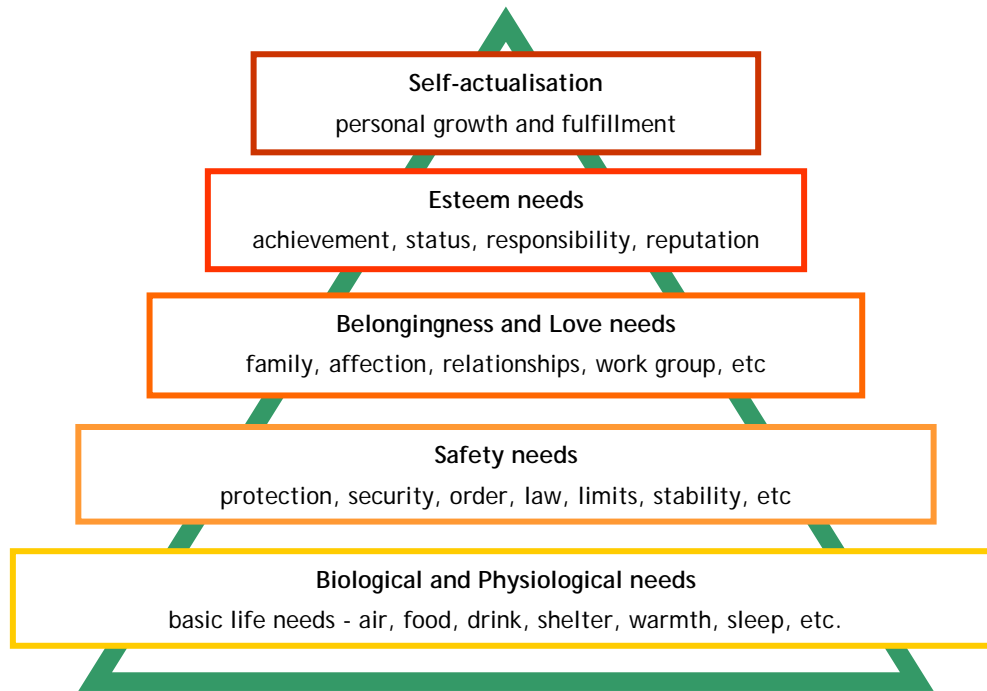




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Theory of Needs Leads Way for Commodities



Economists often try to take psychological theories of human behaviour and translate them into patterns of consumption and demand. An example of this is Abraham Maslow's hierarchy of needs. The basic premise behind Maslow's original hierarchy was that a person's needs had an order of priority, with air being required before water, water before food etc. Once our basic physiological needs are met, we search for security and stability. Once we feel safe, we need to feel loved and part of a community. The next basic need is esteem, both the opinions others have of us and self-esteem. The final stage of "self-actualisation" is where all our basic needs are met and we try to improve ourselves, our environment and community. The original theory has been through a number of revisions and improvements but economists translate it to explain spending and demand patterns of both individuals and macro economies.

The translation is that as wealth in an economy increases, not only does demand increase, but the composition of that demand changes. In the same way that sausages may have an inverse demand curve (i.e. some people eat less sausages when their income increases), the types of product an economy consumes will change as it moves up the hierarchy of needs.

The reason this is of interest to economists is that it helps to explain why the emerging economies of Brazil, Russia, India and China (sometimes referred to as the BRIC economies) will be so important over the next decade. These economies are still at the lower end of the hierarchy - as they continue to grow, demand for raw inputs does not simply grow at the same rate. This is because the products corresponding to the "higher" end of the hierarchy generally require greater levels of raw materials and energy and are of a "value added" type. The examples are numerous - "branded" packaged foods, stainless steel kitchen appliances, expensive jewellery, bigger houses and cars, air travel etc.

As a result, many analysts believe that the commodity price cycle is far from over and that resource companies and those providing the inputs for growth in emerging economies have huge potential. The caveat to this is that because the prices of things produced in the BRIC economies will likely fall, those companies in competition with these economies, predominantly the manufacturing sector, are in for a tough time.

In addition, the savings increase from these emerging and developing countries that has seen bond yields fall across most of the globe (and particularly in the US) may continue to underpin financial assets, including equity markets.

Demand for "basics" - food, shelter, infrastructure, national security

Moving up the "hierarchy of needs"



Demand for "luxury" goods - expensive cars, travel, leisure, status object

PRIME VALUE GROWTH FUND

The Growth Fund aims to provide superior medium to long-term capital growth, with some income, by managing a portfolio of predominantly Australian equities.

For the six-months ended December 2005, the PVGF achieved a return of 13.1%, compared with the benchmark S&P/ASX 300 Accumulation Index return of 13.9%. At a sectoral level, the Fund was well placed by being overweight in the materials and energy sectors and underweight in financial and consumer related sectors.

We have been cautious during the period, holding around 15-20% in cash, in order to be opportunistic and to protect against an "energy shock" induced slowdown. The latter did not occur and the cash holding reduced performance by around 2.0% in this half and

more than 3.5% over the 2006 calendar year.

At a stock level, the major contributors to performance were largely resources and energy stocks, or those that service these industries. They include Zinifex, Rio Tinto, BHP, Monadelphous and Newcrest Mining. We have since "taken some profits" and reduced our holdings in Newcrest and Zinifex. The biggest detractors from performance include Gunns, Gloucester Coal and some of the consumer related and media stocks.

Average annual returns for 1, 3, 5 and 7 years are at 20.4%pa (benchmark 22.5%pa), 33.3%pa (benchmark 21.7%pa), 25.0%pa (benchmark 12.7%pa) and 24.1%pa (benchmark 13.2%pa) respectively.

Portfolio Outlook

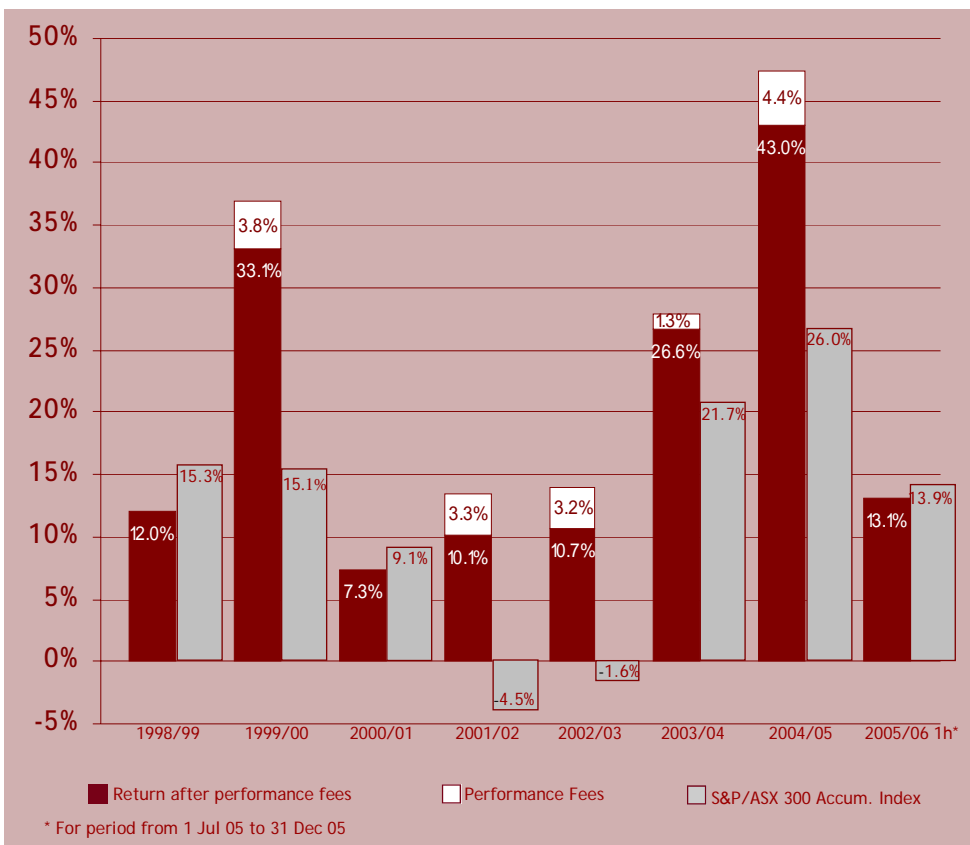
All categories of commodities; base metals and precious metals, energy and agricultural products, have enjoyed substantial price gains.

A flood of investment funds is driving base metal prices possibly much higher than can be supported by the economic fundamentals, and this situation may well continue for a little longer.

The Growth Fund is very well placed to take advantage of the continued resources and energy sectors out-performance. However, we will also closely monitor our underweight position in those companies exposed to domestic consumer demand and the cyclicals.

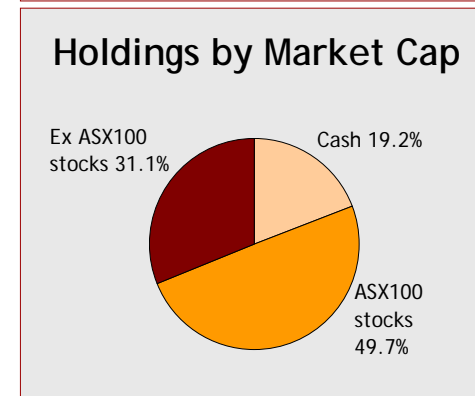
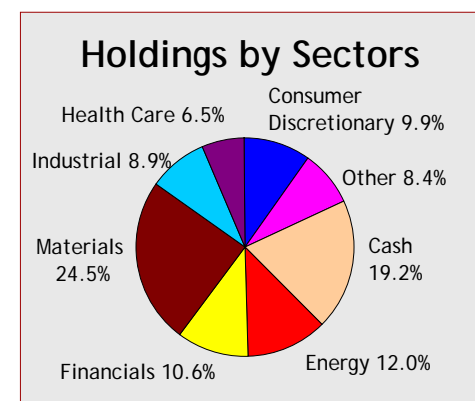
Historical Performance (Class A Units)

Annual Return of PVGF and S&P/ASX Accumulation Index by Financial Year. This shows the performance of the PVGF for each discrete financial year, demonstrating consistently positive & attractive returns. The Fund out-performed in 5 out of the last 7 financial years, with benchmark returns over the last 6 months.



Portfolio Holdings

Charts 1 & 2 provide a breakdown of the stocks in the Growth Fund as at 31 December 2005. The portfolio is overweight in the energy and materials sectors, and underweight in the financial sector, particularly commercial banks. The level of small cap stocks (outside the ASX 100) has dropped to 31.1%.



Distributions (Class A Units)

Distributions	2003/04	2004/05	Dec' 05
Distribution (per unit)	\$0.1676	\$0.1586	\$0.0600
Distribution (% of Unit Price)	10.2%	7.2%	2.5%
Imputation Credit (per unit)	\$0.0187	\$0.0128	\$0.0071
Franking Level (%)#	26.0%	18.8%	27.6%

The "level of franking" is a measure of the grossed-up imputation credit relative to the total distribution made. Unlike the franking level of a company's dividend however, the "denominator" includes not just dividends, but realised capital gains as well. In times where capital growth is strong, distributions are like to be higher, and the "level of franking" will be proportionately lower. This does not necessarily mean that dividends received were low or that they were not highly franked.

TOP FIVE HOLDINGS

Name	Sector
BHP Billiton	Materials
Gunns	Materials
News Corporation	Consumer Discretionary
Orica	Materials
Rio Tinto	Materials

Note: The portfolio is generally comprised of 30 - 60 stocks.

PRIME VALUE IMPUTATION FUND

The 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.

For the six-months ended 31 December 2005, the PVIF achieved a return of 7.5%, less than the benchmark return of 13.9%. We are disappointed with the returns for the half. This is an unfortunate consequence of a defensively managed fund. The key reasons for underperformance are as follows:-

1. At a sectoral level, the Fund could not benefit as much from the strong performance of the resources and energy sectors, which generally have low dividend yields; instead PVIF held higher positions in the better yielding industrials and consumer sectors which under-

performed the benchmark.

2. We have been cautious and cash levels have been around 10-20% to enable us to be opportunistic to protect against an "energy shock" induced slowdown. The latter did not occur and the cash holding detracted around 2.0% from performance in this half.

3. At a stock level, the biggest detractors over the last six months have been Gunns, Wesfarmers, Gloucester Coal, as well as some of the consumer related and media stocks.

Average annual returns for 1, 2 and 3 years are 12.3%pa (benchmark 22.5%pa) 24.4%pa (benchmark 25.2%pa) and 35.8%pa (benchmark 21.7%pa) respectively.

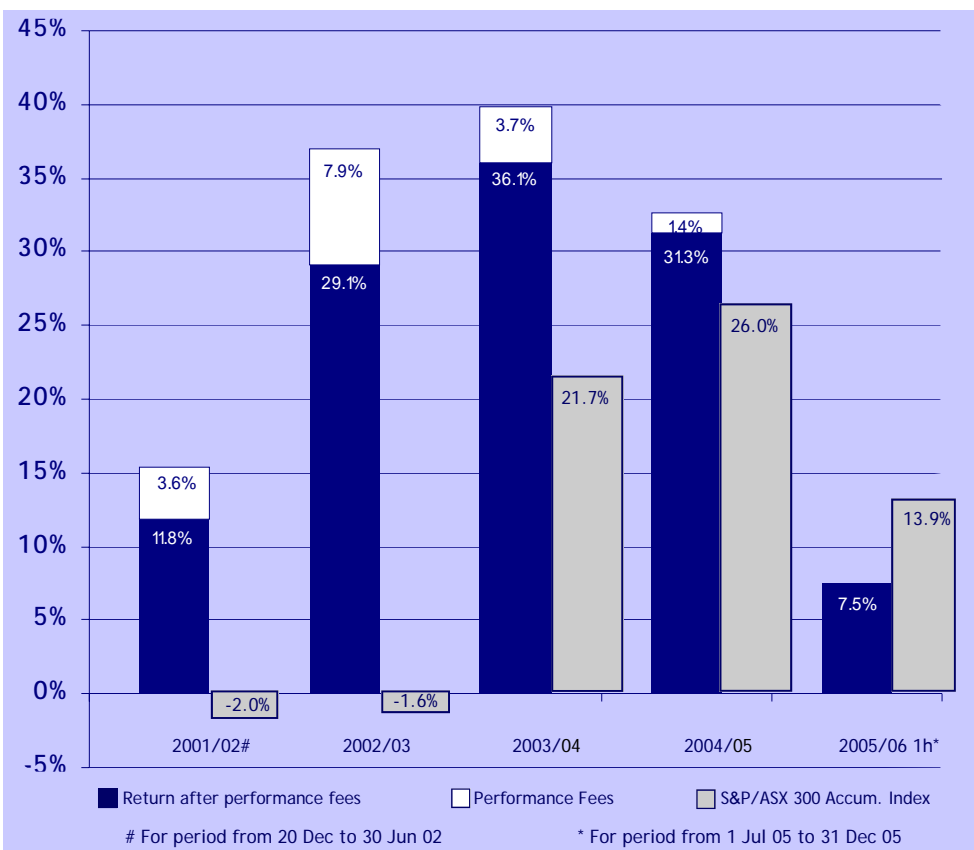
Portfolio Outlook

Despite our short-term underperformance, our patient long-term investors understand our investment philosophy and know that during environments where growth biased companies outperform, income generating stocks may not offer the same degree of capital return.

The Fund will maintain its focus on more defensive and high tax effective dividend yielding stocks, which will generally mean a lower weighting in the resources/energy sectors. In the current environment, with commodity prices at all-time highs and interest rates low, this balance between wealth creation and preservation must be managed carefully. We expect that the Fund will continue to achieve solid, attractive returns over the medium to long term.

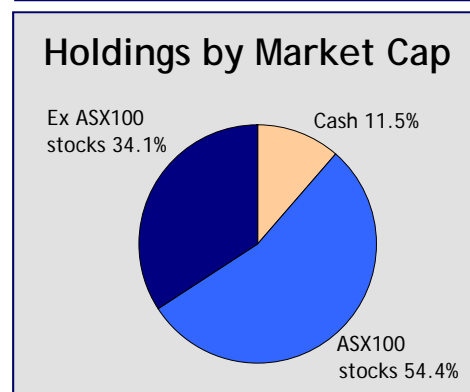
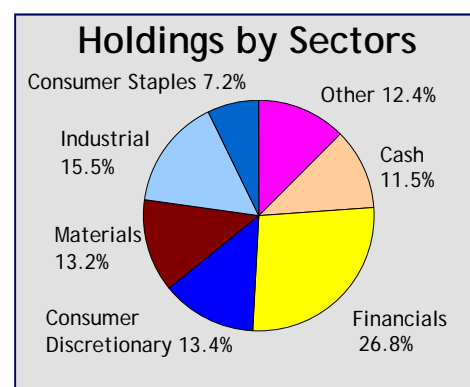
Historical Performance (Class A Units)

Annual Return of PVIF and S&P/ASX 300 Accumulation Index by Financial Year. This shows the performance of the PVIF for each discrete financial year and demonstrates the PVIF has consistently delivered superior, positive returns. The last six months saw the fund posting reasonable and respectable returns, although somewhat disappointingly below benchmark.



Portfolio Holdings

Charts 3 & 4 provide a breakdown of the stocks in the Imputation Fund as at 31 December 2005. The portfolio has a lower weighting in energy and resources stocks, and is overweight in industrial and consumer stocks. The proportion of larger companies (ASX 100 stocks) has increased further to 54.4%.



Distributions (Class A Units)

Distributions	2003/04	2004/05	Dec' 05
Distribution (per unit)	\$0.1911	\$0.1238	\$0.0640
Distribution (% of Unit Price)	9.9%	5.1%	2.5%
Imputation Credit (per unit)	\$0.0303	\$0.0247	\$0.0152
Franking Level (%)#	37.0%	46.6%	55.4%

The "level of franking" is a measure of the grossed-up imputation credit relative to the total distribution made. Unlike the franking level of a company's dividend however, the "denominator" includes not just dividends, but realised capital gains as well. In times where capital growth is strong, distributions are like to be higher, and the "level of franking" will be proportionately lower. This does not necessarily mean that dividends received were low or that they were not highly franked.

TOP FIVE HOLDINGS

Name	Sector
Gunns	Materials
NAB	Financials
Noni B	Consumer Discretionary
Wesfarmers	Industrials
Westpac Bank	Financials

Note: The portfolio is generally comprised of 20 - 60 stocks.

Dear Investor,

2005 was a year of strong but volatile returns for the Australian equity market presenting some challenging conditions for investing. Despite these challenges, the last six months have presented some highlights. The key events and issues are summarised below.

S&P Australian Fund Awards 2005

Prime Value Asset Management Limited was recognised at the Standard & Poor's Australian Fund Awards 2005 by being awarded the Australian Equities sector award and the group award for Boutique Fund Manager of the Year. We were honoured to win these very prestigious awards.



Strengthening our Management Team

We are pleased to welcome Wayne Morrissey to our team as Financial Controller. Wayne is responsible for financial and management accounting, administration and all back office functions of the Prime Value Funds. Wayne has had 10 years operational experience in the funds management industry, including HSBC Asset Management (Australia) and the Norwich Union Group.

Inclusion in Major Platforms

The Prime Value Funds are available for investment through a variety of IDPS schemes including Asgard, BT Wrap and SuperWrap, Macquarie Wrap Solutions, PremiumChoice, Portfolio Advantage, Netwealth and WealthTrak.

Community Support

Prime Value was one of the sponsors for the annual Head of the Yarra Rowing competition held in Nov 2005. We also made a small donation to the Salvation Army Christmas Appeal in lieu of sending Christmas cards.

Investment Review 2005

The Australian share market put in another solid year in 2005, with the S&P/ASX 300 Accumulation index rising by 22.5%. The key influences included strong equity markets globally, strong global growth, record-breaking commodity prices, a generally good reporting season and favourable corporate activity.

Growth in the Australian economy moderated over 2005, highlighted by a shift in the composition of growth from the consumer and housing sector to the business investment and export sector. The key risk to the domestic economic background is the consumer, with sentiment falling due to rising petrol prices, the housing market correction and concerns about the economic outlook.

While the Australian market was generally high, the key drivers were the mining and resources stocks, which benefited from one of the strongest rallies in commodity prices in decades. Commodities were driven by increased demand, supply constraints and an increased perception as financial assets. Gold, palladium, copper, oil and other base metals reached multi-year or all-time highs. At a stock specific level, the market was also supported by a generally positive reporting season, with strong earnings growth and some positive company statements about future conditions.

Despite the positive factors, the market has experienced significant volatility over the last 12 months. The market fell substantially in May, following a number of corporate earnings downgrades, inflation fears and a record current account deficit. Another consolidation occurred in October, resulting from fears that equity valuations were stretched. In both cases, the market recovered and record highs were reached during December. High levels of volatility present challenging investment conditions and make stock selection, the area where we have traditionally added the most value, more difficult.

Another feature of returns during 2005 was the concentration of strong performance to just a few stocks. The top 20 stocks accounted for more than 80% of the total market return and these paid a dividend yield much lower than the market. This feature reduces the opportunity for diversified fund managers, particularly those with an income biased mandate, to exceed benchmark returns.

Investment Outlook

After another year of excellent returns for Australian equities, what can we expect for 2006? Overall, we expect reasonable profit growth and a tight supply/demand balance to underpin returns. The key underlying factors for continued increases are all still supportive, including favourable global economic conditions, still attractive (although slowing) profit growth, strong commodity prices, low interest rates and inflation, healthy balance sheets, attractive yields and continued positive supply/demand fundamentals for equity investment. However, volatility has been increasing over recent months and some analysts feel valuations are stretched. Here are some of our thoughts about the key influences on markets over 2006:

- At a global level, the key theme has been the perception of rising inflation risk and higher interest rates against a backdrop of generally good news on global growth.
- Domestically, overall profit conditions remain robust but confirm a two-tiered state of the profit cycle; with energy, mining, and mining related sectors strong, financials solid but manufacturing, residential construction and consumer related sectors still weak.

Overall, we expect 2006 returns to be more modest after the strong run over the last 2 years, but to remain attractive. Sector consolidation/profit taking activities mean volatility will continue to be a factor during 2006. The reporting seasons should give some indication of the potentially increasing earnings risk (higher cost) and inflationary pressure from a tight labour market and high capacity utilisation. Key risk factors in our view will be disappointing profit performances, surprises in inflation, an overzealous US Federal Reserve (with a new Chairman!) or a dramatic fall in residential property which may affect consumption. Some "X" factors could include an outbreak of bird flu or a serious hiccup in China's growth, etc. While not of a high probability, the implications of these on the market could be significant.

Our portfolio tilts will remain in Resources (both Diversified Resources and Energy) but we will be looking closely at some oversold defensive stocks, as well as some Banks. Also preferred are stocks with exposure to the capex cycle. The domestic cyclical stocks will remain under pressure, however these may present opportunities at the right price.

We have noted over the last six months a number of new investors who have been referred to us by existing investors. We appreciate the referrals and the message it sends about the level of service and investment performance we provide. Thank you for the continued support! We remain committed cornerstone investors ourselves and are confident that we will be able to continue to add value to your investment portfolio while offering superior products and service.

Han K. Lee
Managing Director

Y. Yong Quek
Executive Director