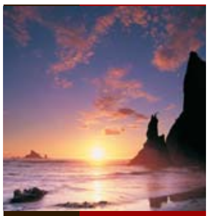

NEWSLETTER

December 2006

Prime Value Asset Management Limited

Building Wealth Together

FUND AWARDS 2006 AUSTRALIA — WINNER Boutique Fund Manager — STANDARD &POOR'S

FUND AWARDS 2005 AUSTRALIA — WINNER Boutique Fund Manager — STANDARD &POOR'S

FUND AWARDS 2005 AUSTRALIA — WINNER Australian Equities — STANDARD &POOR'S

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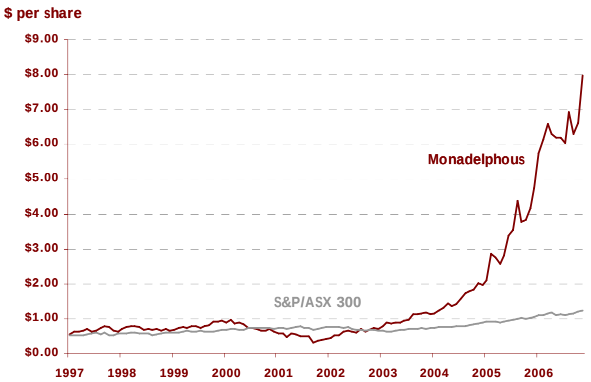
Prime Value's 2007 New Year's Revelations!

The Prime Value funds have continued to achieve their performance objectives since inception due to careful stock selection and portfolio construction. In this newsletter, we highlight two companies held within our portfolios, including the investment considerations and risks.

MONADELPHOUS GROUP (MND)

Monadelphous is a Western Australia based engineering company with more than 30 years of operating experience. Its turnover grew from a modest $50m in the early 1990's to around $150m in 2002, when it undertook a strategic review. At this time, Monadelphous decided to focus on two main operating divisions: **engineering construction** and **maintenance and industrial services** for the resources, energy and infrastructure sectors. The development of maintenance services reduces risk and could provide earnings growth during periods of slower growth in construction activity in the resources sector. Since the review, sales revenue has more than tripled to $532m and earnings quadrupled to $29m. Market capitalisation has grown from $3m in the early 1990's to over $550m.



Prime Value began investing in Monadelphous at an early stage. From a macro-economic perspective, Monadelphous operates in the resources sector, which we believe is attractive and which forms a large part of the Australian economy. However, by servicing the sector rather than being directly involved in mining, the company benefits from resource sector growth but is less exposed to commodity price risks.

From a bottom-up approach the company is very well managed with a solid business approach. Monadelphous is highly regarded by its clients, which include key resources players such as BHP Billiton and Rio Tinto, and management has a proven ability to manage large scale projects, demonstrated by its excellent delivery track record. The company has a conservative balance sheet with a positive net cash balance and strong operating cash flow, which increased by 178% to $67m last year. It has demonstrated its ability to sustain high dividend payouts, having paid 33 cents fully franked last year and being forecast to pay 44 cents fully franked this year, giving a yield of 4.9% (based on a share price of $9.00).

The company has shown consistent profit growth and strong free cash flow for the last few years and currently trades at a valuation multiple (EV/EBIDTA) of 14.3 times, similar to its peers. But its strong balance sheet allows the company to pay higher dividends.

Going forward, strong resources demand, which has driven investment into plant and infrastructure, is expected to remain at relatively high levels and Monadelphous has a strong project pipeline for the next 2 to 3 years. However the company also aims to mitigate the risk associated with the current materials boom by negotiating longer term contracts with recurring revenues and by leveraging its capabilities into other sectors like oil and gas.

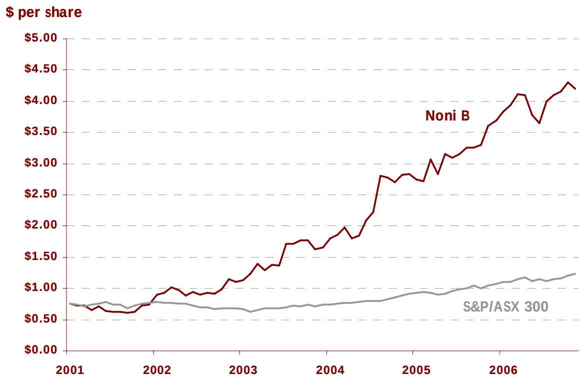
Monadelphous' demonstrated ability to handle large scale projects and its high reputation in the resources sector has resulted in new contract wins such as the BHP Billion Iron Ore project in the Pilbara region and a project to upgrade port facilities at Nelson and Finucane Island sites. From a small engineering company, Monadelphous has become a benchmark operation for other companies in construction and maintenance services for the resources sector.

NONI B (NBL)

Noni B is a specialty retailer of women's apparel and accessories, operating more than 190 stores nationwide under the "Noni B" and "La Voca" brands. Last year's sales increased by 7.8% to $115m and net profits increased 24.1% to $8.2m. Earnings per share grew 23% to 25.5 cents per share. Future organic growth is expected to come from further store roll-outs and increased store turnover.

We generally do not favour the consumer discretionary sector, with increases in interest rates or petrol prices potentially resulting in a decline in consumer spending. However, Noni B targets the so called "classic quality"' market segment, which is not only a more defensive target market but also less competitive. Its customers tend to have a higher disposable income and are generally more resistant to slowdowns in economic growth, thus making it possible for Noni B to generate higher profit margins and better withstand downturns in the consumer sentiment.

From a bottom-up approach we applaud management's focus on strict cost control and increase in profit margins. Improvements in inventory management, by better matching products to individual stores, have enabled the company to increase store sales at full prices and improve profit margins. This is reflected in the increase in margins from 6.7% in 2004 to 9.7% in 2006.



Approximately 40% of the stock is held by the founding Kindl family and the shareholder oriented management has consistently returned excess funds in the form of special dividends. Noni B has been able to generate sustainable high free cash flows and, despite continuous store expansion and upgrades, it has paid out 60- 70% of its earnings as normal dividends as well as a number of special dividends. Its forecasted dividend is 19 cents, giving a yield of 4.4% (based on a share price of $4.30). The stock is trading at prospective price earnings multiple of 14.5, an undemanding multiple compared to other fashion retailers.

Noni B possesses many of the attributes that Prime Value is searching for when constructing portfolios. It has strong management with a focus on returns to shareholders, a strong financial position with good cashflow and operating earnings, a good dividend position and an undemanding valuation. For this reason, Prime Value is happy to continue holding the stock despite concerns about the retail sector and discretionary demand.

PRIME VALUE GROWTH FUND

The Growth Fund (PVGF) aims to provide superior medium to long term capital growth, with some income, by managing portfolio of predominantly Australian assets.

For the six months ended 31 December 2006, the Fund achieved a return of 13.2% compared with the benchmark S&P/ASX 300 Accumulation Index return of 14.4%. While slightly lower than the benchmark return, there are several aspects of performance which are encouraging.

The fund's sectoral tilt was substantially negative, with the key overweight position in both the energy and materials sector, along with an underweight position in the financials sector, detracting from performance. While the sectoral tilt detracted from performance, our key strength, stock selection, was a key positive during the half. The key contributors to performance included miner Zinifex, mining services group Monadelphous (see company profile on page 1), financial services companies Babcock & Brown and construction company Watpac.

Unsurprisingly, the main detractors from performance included BHP Billiton, Oil Search and Woodside Petroleum.

Average annual returns for 1, 3, 5 and 7 years are now 24.2% (benchmark 24.5%), 28.5% pa (benchmark 24.9% pa), 25.6% pa (15.4% pa) and 18.2% pa (benchmark 13.1% pa) respectively.

Portfolio Outlook

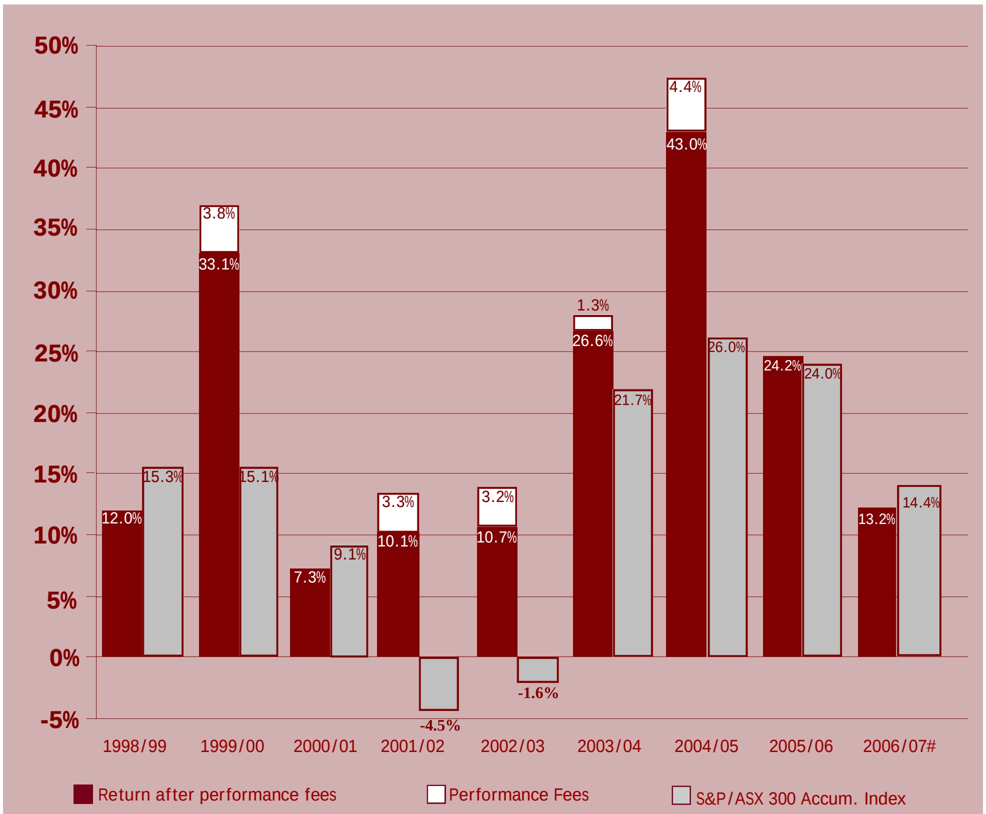
The defensive nature of the portfolio will be retained as we are mindful of the need to balance the protection of capital while still achieving reasonable gains if the market rises.

The portfolio tilt in resources has been reduced, particularly in stocks reliant on increasing commodity prices to achieve long term valuations. However we are still keen on those companies servicing the mining industry, along with companies exposed to the higher growth regions of Western Australia and Queensland.

The portfolio has also shifted towards the larger cap stocks over the last year or so. This has partly reflected relative valuations but also our overall cautious stance. We will continue to monitor and seek out high quality small cap stocks.

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 6 out of the last 8 financial years.

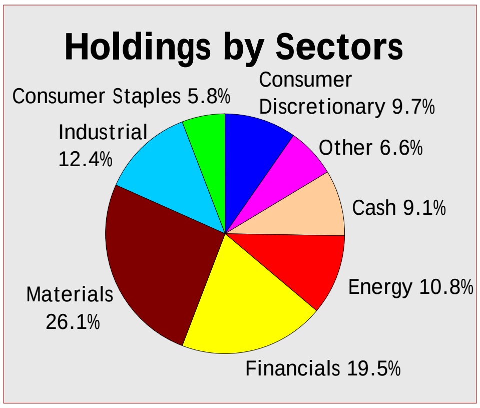


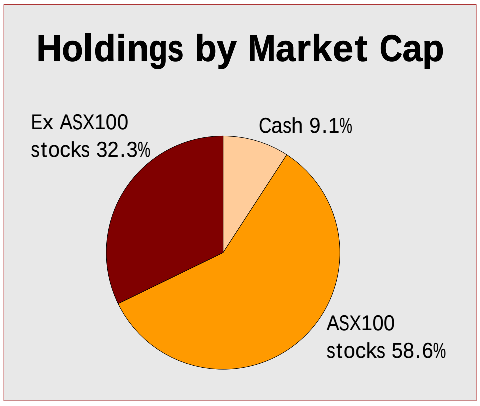
For period from 1 Jul 06 to 31 Dec 06

*Past performance is not necessarily an indicator of future performance.

Portfolio Holdings

Charts 1 & 2 provide a breakdown of the stocks in the Growth Fund as at 31 December 2006. 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) is approximately 32.3%.





Distributions (Class A Units)

Distributions	2004/05	2005/06	2006/07 Half Year
Distribution (per unit)	$0.1586	$0.1097	$0.0720
Distribution (% of Unit Price)	7.2%	4.4%	2.5%
Imputation Credit (per unit)	$0.0128	$0.0143	$0.0138
Franking Level (%)#	18.8%	30.4%	44.7%

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
Babcock & Brown	Financials
Monadelphous Group	Industrials
Orica	Materials
Rio Tinto	Materials

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

PRIME VALUE IMPUTATION FUND

The Imputation Fund (PVIF) 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 2006, the fund achieved a return of 14.8%, outperforming the benchmark S&P/ASX 300 Accumulation Index return of 14.9%. We are very pleased with the improved performance especially for a more defensive portfolio.

At a sectoral level, the fund benefited from an underweight position in the materials sector and an overweight position in the consumer discretionary and industrial sectors. This was offset by an underweight position in the financials sector and an overweight stance in the energy sector. The cash holding detracted from performance in a strongly rising market.

At a stock level, the key contributors to performance included mining service company Monadelphous (see profile on page 1), mining company Zinifex, National Australia Bank, WA Newspapers and Westfield Group and retail stock Noni B. The positions which detracted from performance included BHP Billiton, AWB, Woodside and Willmott Forests.

Average annual returns for 1, 3 and 5 years are now 22.5% (benchmark 24.5%), 23.7% pa (benchmark 24.9% pa), 30.1% pa (15.4% pa) respectively.

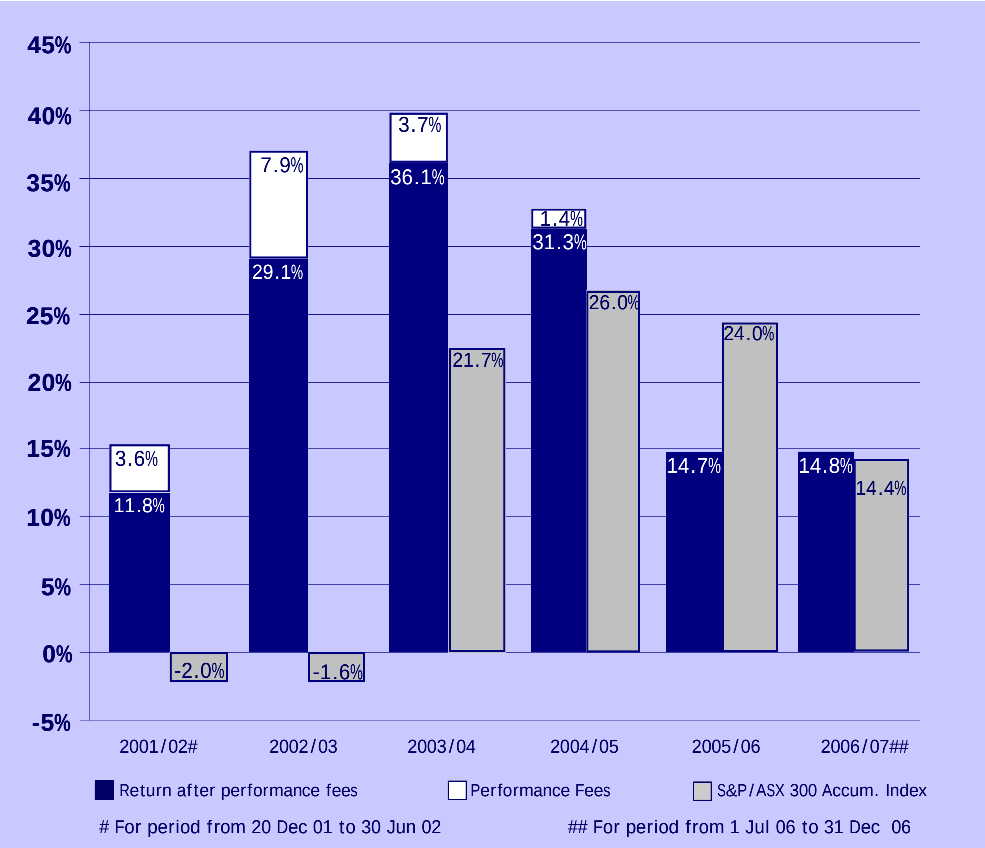
Portfolio Outlook

The portfolio will retain its defensive tilt towards high yielding and value industrial companies with a bias towards tax effective income. Franking credits potentially represent an additional 2% pa return to Australian resident investors. There are unlikely to be significant changes to the sectoral allocation of the fund.

The portfolio has also shifted towards the larger cap stocks over the last year or so, partly reflecting relative valuations but also our overall cautious stance. We will continue to monitor and seek out high quality small cap stocks over coming months, particularly those high-yielding and "value" industrial companies which have lagged the market, despite strong business fundamentals, and now offer compelling valuations.

Historical Performance (Class A Units)*

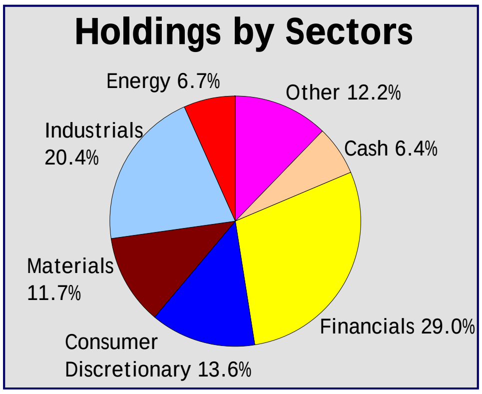
Annual Return of PVIF and S&P/ASX 300 Accumulation Index by Financial Year. This shows the performance of the PVIF for each discrete financial year and demonstrates the PVIF has consistently delivered superior, positive returns.

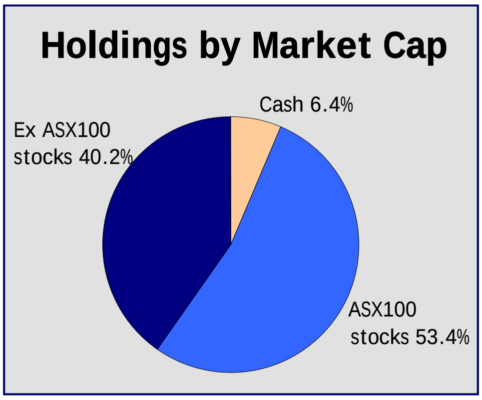


*Past performance is not necessarily an indicator of future performance.

Portfolio Holdings

Charts 3 & 4 provide a breakdown of the stocks in the Imputation Fund as at 31 December 2006. The portfolio has a lower weighting in energy and resources stocks, and is overweight in industrial and consumer stocks. The proportion of small cap companies (outside the ASX 100 stocks) is approximately 40.2%.





Distributions (Class A Units)

Distributions	2004/05	2005/06	2006/07 Half Year
Distribution (per unit)	$0.1238	$0.1536	$0.0885
Distribution (% of Unit Price)	5.1%	5.9%	3.0%
Imputation Credit (per unit)	$0.0247	$0.0273	$0.0272
Franking Level (%)#	46.6%	41.5%	71.7%

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
Monadelphous Group	Industrials
National Australia Bank	Financials
Wesfarmers	Industrials
Westfield Group	Financials
Westpac Group	Financials

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

Dear Investor,

2006 was another very strong year for Australian equities, with the year again split into two distinct investment periods. The highlights for the December half-year are summarised below -

5 strong consecutive years for the Prime Value Imputation Fund & 8 strong consecutive years for Prime Value Growth Fund

The Imputation Fund celebrated its 5th birthday during December, achieving an average annual return over the last 5 years of 30.1% pa compared with the S&P/ASX 300 Accumulation Index performance of 15.4% pa. We are particularly pleased that the Imputation Fund performance has picked up over the last six months, achieving a return of 14.8% compared with the benchmark 14.4%, following a lacklustre result in 2005/06.

The Growth Fund has also performed well over the last 8 years, achieving an average annual return of 22.8% pa (benchmark 13.5% pa).

S&P Australian Fund Awards

Prime Value was once again rewarded for its consistent and superior returns by being named the Boutique Fund Manager of the Year for 2006 at the Standard and Poor's Fund Awards. Having also won this prestigious award in 2005, we are very honoured by this achievement.

Strengthening the Investment Team

We are pleased to welcome Andreas Rosenau to the investment team, joining Han Lee, Leanne Pan and Fiona Clark. Andreas' primary role is to provide fundamental research, including report writing, financial analysis and modelling of companies. Prior to joining Prime Value, Andreas was the Financial Controller for Wella AG (Asia Pacific Region). He has held various senior financial and business positions in Europe and Asia.

Community Support

Prime Value was one of the sponsors for the annual Head of Yarra Rowing competition in November 2006. Consistent with our culture and core values, we will continue to selectively sponsor some sporting and community events.

As in past years, we sent a donation to the Salvation Army Christmas Appeal in lieu of sending Christmas cards.

Investment Review

Despite projections for more modest returns from Australian equities, the share market put in another strong performance during 2006, with the benchmark S&P/ASX 300 Accumulation Index achieving a return of 24.5%. The key influences included strong equity markets globally, strong global and domestic economic conditions and higher commodity prices. Domestically, the market was impacted by positive earnings surprises, strong profit performances and increases corporate activity.

The market experienced a significant pull-back in May—July. While a recovery ensured and new highs were seen, there was a fundamental change in the composition of returns, with the previously strong energy and resources sectors lagging the market for the remainder of the year.

The December half saw the emergence of significant corporate activity (and speculation of activity), particularly in the media sector as a result of changes to media ownership regulations.

In addition, a resurgence in Private Equity (or leveraged buy-out) activity, which included Coles Myer and Qantas as take-over targets, led to consumer discretionary (particularly media) and industrial stocks performing well during the December half-year.

The better than expected result from the government's sale of Telstra resulted in a strong recovery in the telecommunications sector, and the defensive utilities sector was the best performing sector in an otherwise volatile market.

Investment Outlook

Calendar 2006 was the third straight year that the Australian market returned more than 20% for investors. It has finished the year at a record high, and outperformed all developed markets on both a 12 month and 3 month basis. Such strong performances would possibly not be repeated in 2007, and it would be prudent for us to adopt a somewhat defensive stance.

Private equity and superannuation flows have pushed the market into somewhat expensive territory, especially in the industrials. Although fully valued, we realise that corporate balance sheets are healthy, cash flow generation remains strong and gearing ratios continue to fall. Companies with low gearing levels that are able to return capital to shareholders – in a tax effective manner – still look reasonably attractive.

The environment for Australian banks remains healthy. While valuations are not cheap, and not compelling on global comparisons, this sector still offers attractive value within the Australian market.

From a macro economic point of view, the non-cyclical industrial stocks provide a better earnings outlook than the cyclicals. But the non-cyclicals have been outperforming for the past 12 months and their unattractive valuation is offsetting the more favourable earnings outlook. The cyclical stocks, on the other hand, look unattractive from a macro economic point of view, however this is balanced by increasing relative value across a number of industries.

Having been sold off due to speculative sales and global growth fears, the resources sector now looks much more attractive. The top down macro view and bottom up earnings expectations are reasonably aligned; the oil price has moved back from a high of US$79 in July 2006 to US$55 and the current copper price is comparable to the average level of the 1960's commodity super-cycle.

When you have stocks like BHP Billiton and Rio Tinto trading at a prospective price earnings multiple of around 10.0x and Zinifex at 5.0x, compared to a market PE ratio of somewhere around 15.0x, this just about explains why the resources sector should still play an important part in an Australian equities portfolio.

While we are confident of the basic fundamentals supporting the market, we are cautious that once again, there will be great dispersion in the individual performance of individual companies. This creates an environment where superior stock selection skills will be the key determinant of success. Prime Value has consistently demonstrated strength in this area.

We remain committed cornerstone investors ourselves and are confident that we will continue to add value to your investment portfolio. We welcome your feedback and comments and thank you for your continuing support.

Han K Lee
Managing Director

Y Yong Quek
Executive Director

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