NEWSLETTER

June 2006

Prime Value Asset Management Limited

Building Wealth Together

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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Celebrating 8 Consecutive Years of Strong Investment Performance

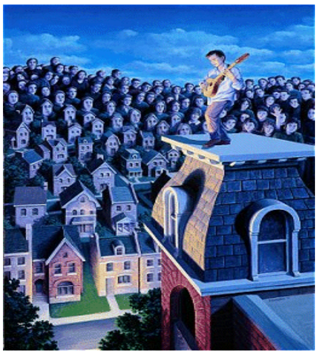
Funny Investment Habits

Investing in equities is based on some key principles and relies on the assumption that markets are efficient and investors are rational. However markets are moved by people and people don't always act rationally or do things "by the book".

Behavioural Finance represents an area of study which tries to create theories about these aspects of human nature which don't fit well with rational or traditional theories.

The behavioural experts argue that the brain is so clever that it learns to take short-cuts when making decisions based on previous patterns and that sometimes the short-cuts might not actually be in the right direction (sound familiar?)

Faces or Places?



One of the easiest examples is optical illusions - vision is a very complex problem that requires the brain to process a lot of data: colours, depths and shapes.

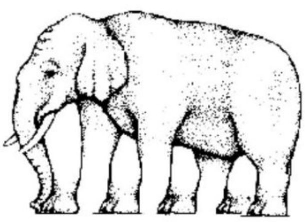
The brain uses a set of tools to make rapid estimates and while usually accurate, sometimes the estimate is wrong, producing an optical illusion.

Studies in Behavioural Finance have shown that the brain has similar tools for processing financial data and producing estimates when making investment decisions. And, similar to optical illusions, these tools can cause mistakes.

One of the most familiar to us all will be the well-know "skewed risk profile".

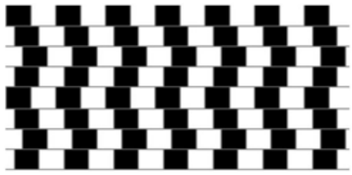
This means that we feel a loss much more than we feel a gain, even when the gain may be much greater. There have been numerous studies into this effect, with many results suggesting that the ratio is 3 to 1. In other words we feel the loss 3 times as much as we appreciate the equivalent gain.

How many legs does this elephant have?



This is particularly interesting because financial markets focus only on statistical risk, defined as the volatility of returns over time. This is a measurement of uncertainly, but not of true risk, the risk of loss!

There are a lot of interrelated theories and here are some other examples where humans don't behave rationally



Are the horizontal lines parallel, or do they slope?

Herd mentality – everyone is smarter than me; and if the stock goes down I can say everyone else thought it was a great buy too!

Anchoring – as any salesman will tell you if bargaining over price, start with a high reference point. In investment terms, this means that when a company is in a turnaround situation, investors may be anchored to their original estimates about earnings. It takes a while for them to recognise an investment opportunity or a time to sell.

Regret theory – the emotional response to admitting that you got it wrong. Investors may hold on to loss making positions to avoid the embarrassment of admitting they made a mistake.

Over and under reacting – placing more importance on recent news, even though the impact on the company's position may be quite minimal.

Buying high and selling low – investors often buy when they are optimistic and sell when pessimistic. This leads to buying on good news and selling on bad and creates volatility in market performance.

Is this woman old …or young?

At Prime Value, we encounter the same human limitations as anyone else. When inundated with an overload of information, a fund manager may well take short cuts based on previous patterns and experience. A mathematically based approach, on the other hand, does not take short cuts, and tends to process and give equal weighting to all information, even the often less relevant information. It therefore tends to produce average results.

In order to achieve better than average results, one still needs to rely on the human brain and subjective judgment. At Prime Value, we believe fund managers should read and understand investment and theories. But really, you cannot make money by just knowing and implementing Finance theories alone. We therefore believe that investment is a combination of both science and art, or common sense. The minimisation of mistake as our investment approach seems boring, yet has delivered a consistent and superior investment track record.

PRIME VALUE GROWTH FUND

The Growth Fund (PVGF) 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 30 June 2006, the Fund achieved a return of 9.8% compared with the benchmark S&P/ASX 300 Accumulation Index return of 8.8%.

At a sectoral level, the PVGF benefited from an underweight position in the telecommunications sector and our overweight positions in the energy and materials sectors. We have maintained our cautious stance throughout the period due to expectations of sustained volatility, and while the market did experience high volatility and a pull-back during May, the cash holding of the Fund detracted around 3.5% from the performance for the financial year.

At a stock level, the biggest contributors to performance involved holdings in the resources, energy and mining services sectors, particularly BHP Billiton, Zinifex and Monadelphous. During the period we "took some profits" on some of the better performing stocks but we are still confident about the sector and have maintained a core position.

The main detractors from performance included Gunns, DCA Group and Coca-Cola Amatil.

Average annual returns for 1, 3, 5 and 7 years are now 24.2% (benchmark 24.0%), 32.8%pa (benchmark 23.9%pa), 24.8%pa (benchmark 12.3%pa) and 25.2%pa (benchmark 14.4%pa) respectively.

Portfolio Outlook

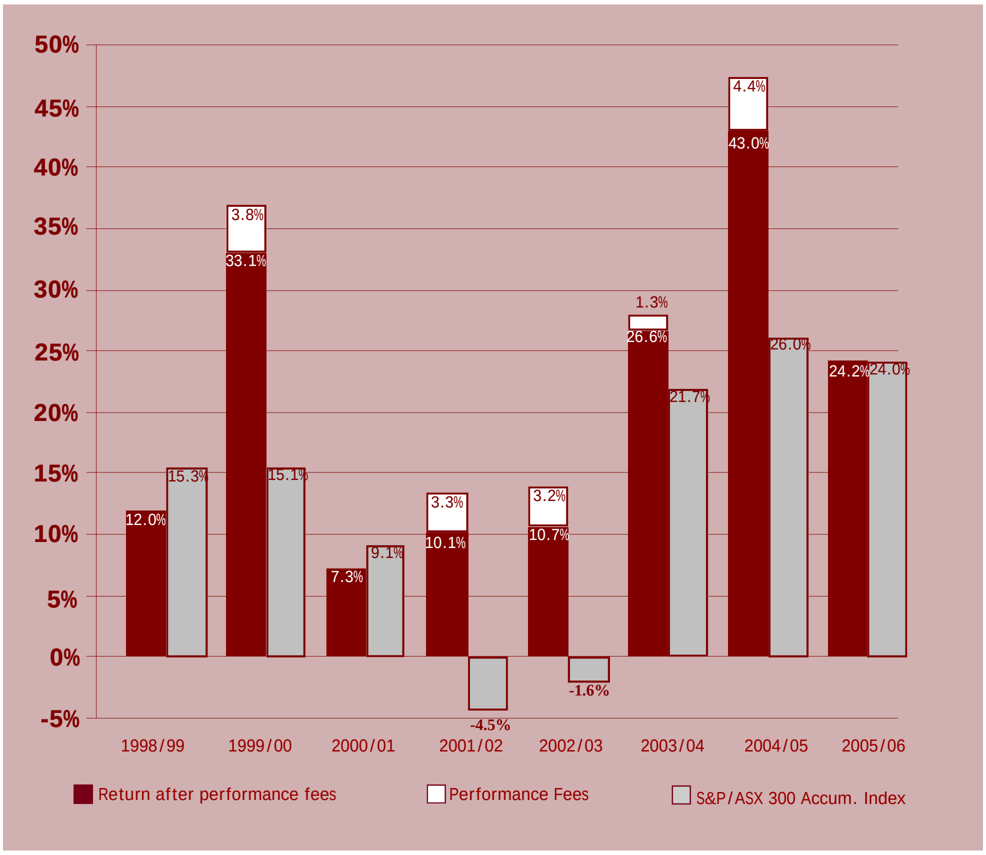
It is virtually impossible to pick the end of any resources boom or bubble (without the benefit of hindsight, of course!) and metal stocks appear to be more or less fully priced. However we still see compelling valuations in the oil and gas sector and will maintain our portfolio tilt in this sector.

We will also monitor sectors which we believe are poised for growth, including some financial services companies and some health care stocks.

Although the market may move sideways with continued volatility in the short-term, we are confident that PVGF will continue to achieve its objectives over the medium term.

Historical Performance (Class A Units)*

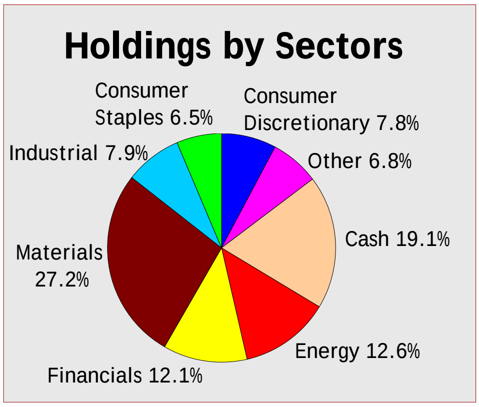
Annual Return of PVGF and S&P/ASX Accumulation Index by Financial Year. This shows the performance of the PVGF for each discrete financial year, demonstrating consistently positive & attractive returns. The Fund out-performed in 6 out of the last 8 financial years.

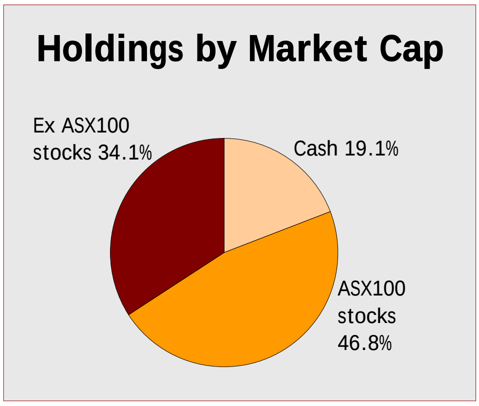


*Past performance is not necessarily an indicator of future performance.

Portfolio Holdings

Charts 1 & 2 provide a breakdown of the stocks in the Growth Fund as at 30 June 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 34.1%.





Distributions (Class A Units)

Distributions	2003/04	2004/05	2005/06
Distribution (per unit)	$0.1676	$0.1586	$0.1097
Distribution (% of Unit Price)	10.2%	7.2%	4.4%
Imputation Credit (per unit)	$0.0187	$0.0128	$0.0143
Franking Level (%)#	26.0%	18.8%	30.4%

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
BHP Billiton	Materials
News Corporation	Consumer Discretionary
Orica	Materials
Rio Tinto	Materials
Zinifex	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 30 June 2006, the PVIF achieved a return of 6.7%, lower than the benchmark return of 8.8%. While the PVIF underperformed for the period, we were pleased with the improvement in the fund's return, particularly during the latter half of the period where the market experienced considerable volatility and a significant consolidation phase.

PVIF's sectoral tilt, which favours the higher yielding industrial sector rather than lower yielding materials stocks, was one of the key reasons for the lower than benchmark return.

Similarly, the cash position we have held due to our cautious stance regarding sustained volatility detracted about 2.8% from the financial year performance.

At a stock level, the fund benefited from holdings in Record Investments, Monadelphous and BHP Billiton, but detractors from performance included Trafalgar Corporate Group, Gunns, Ten and Wesfarmers.

Average annual returns over 1,3 and 4 years are now 14.7% (benchmark 24.0%), 28.0% pa (benchmark 23.9%pa) and 30.7%pa (benchmark 17.0%pa).

Portfolio Outlook

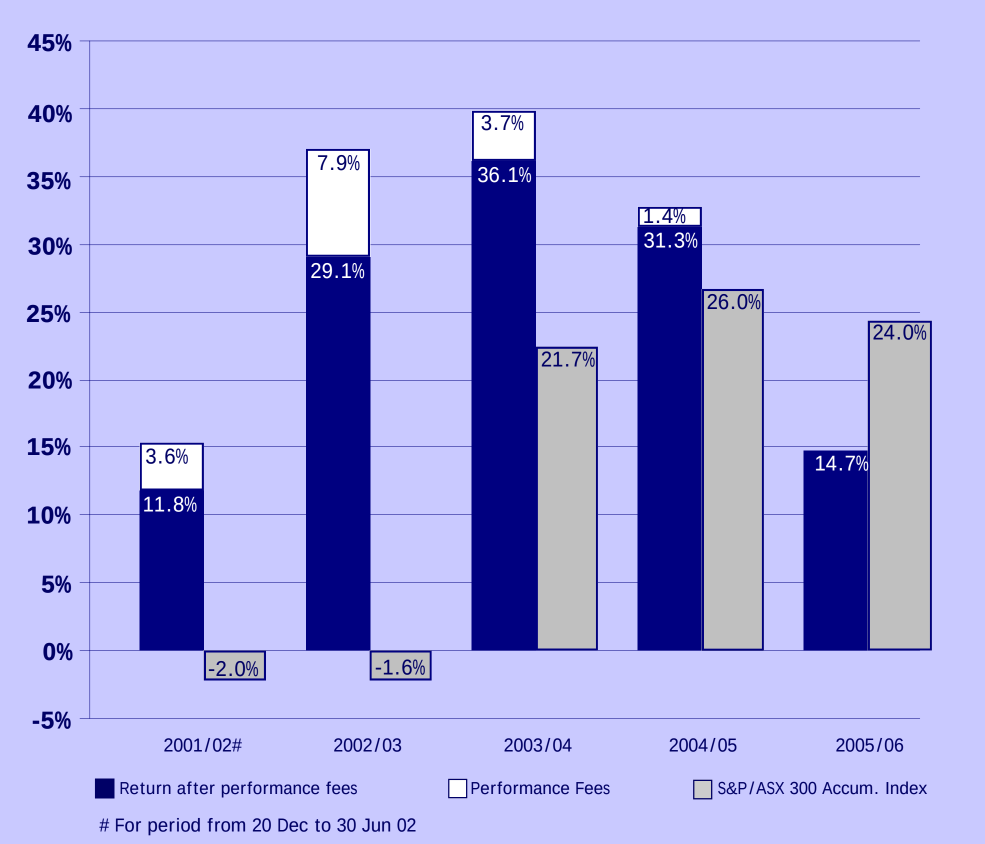
The PVIF will remain "true to label", meaning it will continue to focus on stocks offering a degree of both earnings certainty and dividend income certainty, with a bias towards a higher stream of tax effective income.

The domestic orientated component of the portfolio will favour some banks and financial services companies (particularly those involved in wealth management) and companies with strong pricing power and competitive strength. We will continue to avoid domestic cyclicals which may be exposed to rising costs and margin pressure.

We are confident that PVIF will continue to deliver against its stated objectives, particularly in a more defensive environment.

Historical Performance (Class A Units)*

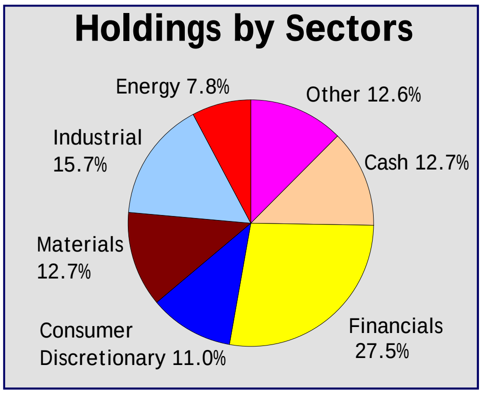
Annual Return of PVIF and S&P/ASX 300 Accumulation Index by Financial Year. This shows the performance of the PVIF for each discrete financial year and demonstrates the PVIF has consistently delivered superior, positive returns. The last twelve months saw the fund posting reasonable and respectable returns by remaining "true to label".

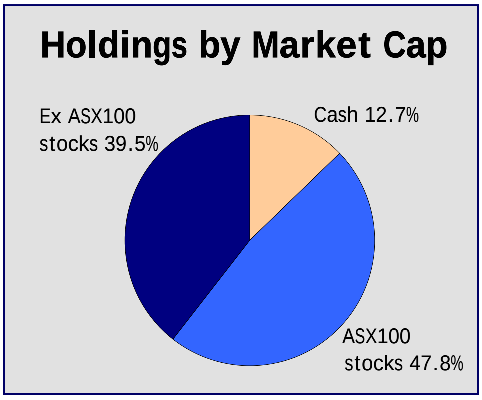


*Past performance is not necessarily an indicator of future performance.

Portfolio Holdings

Charts 3 & 4 provide a breakdown of the stocks in the Imputation Fund as at 30 June 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 39.5%.





Distributions (Class A Units)

Distributions	2003/04	2004/05	2005/06
Distribution (per unit)	$0.1911	$0.1238	$0.1536
Distribution (% of Unit Price)	9.9%	5.1%	5.9%
Imputation Credit (per unit)	$0.0303	$0.0247	$0.0273
Franking Level (%)#	37.0%	46.6%	41.5%

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

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

Dear Investor,

Celebrating 8 years of Strong Investment Performance

We are very pleased to report another year of solid investment performance. The Prime Value Growth Fund (PVGF) achieved a return of 24.2% for the 2005/06 financial year. Now operating for over 8 years, the average return since inception for the PVGF is 21.2% pa, an exceptional achievement compared to the 11.6%pa benchmark return.

The Prime Value Imputation Fund (PVIF) achieved a return of 14.7% for the financial year, which is lower than the benchmark but still a commendable performance for a defensive, tax-effective income biased fund. The average return since inception is 30.3% pa, more than double the benchmark average return over the same period of 14.2%. Encouragingly, PVIF's relative performance began to pick up in the later part of the year as the market experienced a period of consolidation and increased volatility.

Team Update

We are pleased to welcome Heather Sapsead, who joined us in February 2006 and is responsible for general administration matters, reception and general enquiries. Heather holds a Certificate II in Sport and Recreation Administration and has held administration and reception/office management roles in a variety of industries. She replaced Kelly Beeson who has returned to the United States.

Investment Review 2005/2006

The Australian equity market achieved its third successive year of above 20% performance, with the S&P/ASX 300 Accumulation Index rising by 24.0% over the 2005/06 financial year after increases of 21.7% in 2003/04 and 26.0% in 2004/05. Virtually all sectors posted positive performance apart from the telecommunications sector.

The increase was dominated by just a few stocks, including the biggest stock in the market, BHP Billiton, which alone accounted for around a quarter of the market's gains. Returns were skewed towards the resources and energy sectors, which benefited from substantial gains in commodity prices. Commodity prices reached historically high levels due to stronger global growth and demand, particularly from China and other growth economies, combined with falling inventories and supply forecasts.

The market experienced two periods of consolidation during the year. The first, in October 2005, saw the benchmark fell by 3.8% over the month and by around 6.6% from "top" to "bottom". In May 2006, the market fell by 4.7% and by almost 9.5% from "top" to "bottom". In both cases, the falls were driven by fears of inflation in the US and the implication that the continued increases in interest rates would have for future economic and market performance.

The market began to recover during June and finished the year on a more positive note due to easing of inflationary concerns and expectations of continued of good earnings for 2007.

Investment Outlook

Our view of the world **has changed** only marginally over the last six months. At a global level, the expansive phase in liquidity that we have experienced over the last two decades is coming to an end and central banks are now in a tightening mode. However, we do not believe that monetary conditions are tight enough to drastically dampen global growth, particularly in China and the other BRIC (Brazil, Russia, India, China) economies. This has positive implications for commodity prices and the resources/ energy sectors.

At a domestic level, we continue to see a "dualistic economy", with states exposed to resources experiencing "boom" conditions, while those without a resources base are struggling. The RBA has a difficult balancing act.

While some metal stocks appear more or less fully priced, we still see selective value and valuations are still compelling for oil and gas holdings. We maintain our portfolio tilt in Resources (Energy and to a lesser extent Diversified Resources), including industrial stocks which service the resources sector or would otherwise benefit from the resources "boom".

Cost pressures have been rising steadily in some sectors and margin contribution to growth is at risk. This means focusing on companies with pricing power and competitive strength. Consumer staples should maintain a strong position however domestic cyclicals and some of the small caps are likely to remain under pressure.

Recent positive changes to the taxation treatment of superannuation will benefit the major banks with their strong market position and some financial services companies.

The risks to the generally positive outlook are mainly exogenous and relate to global trade and current account imbalances, particularly in the US. Domestically, the key risk relates to the high levels of household debt. Excessive interest rate rises, a major fall in property prices and a resulting fall in consumer confidence could all trigger a major downturn in consumption and have negative implications for domestic economic and market conditions.

In addition, the increased presence of speculative interests in the resources sector is likely to lead to increased volatility in the market and we maintain a positive but cautious approach to this sector.

Overall, we remain confident that the market will be supported by strong fundamentals, though with continued volatility. However returns are likely to be less dramatic and there will be a wide dispersion in the performance of individual companies. For this reason, stock picking will continue to be the most important investment tool, and Prime Value has demonstrated superior strength in this capacity over various stages of the market cycle.

We continue to manage the portfolios consistent with motto of "Building Wealth Together". As cornerstone investors ourselves, we thought it was prudent to be somewhat cautious in 2005/2006 and will remain so in the next few months. Stewardship of our resources means knowing the balance between "wealth creation" (when there are ample investment opportunities) and "wealth preservation" (when the market is somewhat volatile).

We are confident that we will continue to add value to your investment portfolio and welcome your feedback or comments.

Han K. Lee
Managing Director

Y. Yong Quek
Executive Director

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