



## Minimising Mistakes When It Counts

June 2008

Building Wealth Together

Prime Value Asset Management Limited

We have focussed on two companies featured in the portfolios. Orica is a diversified materials company which is attractive for its indirect exposure to the commodity price cycle, while ABB Grain is a defensive consumer staple with exposure to the attractive agricultural sector.

### ORICA (ORI)

Orica has been transformed into a global mining services business in recent years. In 2006, it completed the acquisition of a large part of Dyno Nobel's businesses, making it the largest global manufacturer of commercial explosives. The more recent Minova and Excel acquisitions provide specialist chemicals and stabilisation systems for underground mining and civil engineering and Mining services now contribute more than 70% to Orica's earnings.

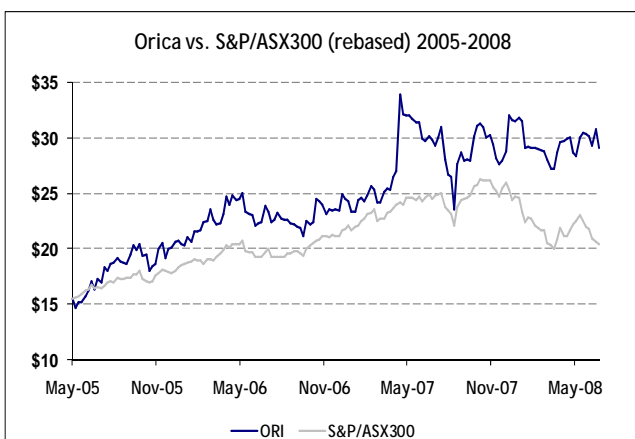
Chemnet supplies chemicals for automotive, white goods and water and has underperformed in recent years. The company divested its fertiliser business Incitec Pivot, which ironically took over competitor Dyno Nobel and competes now directly with Orica. The Consumer Products division, which includes coating brands Dulux, British Paints and Berger, is also to be demerged in early 2009.

Orica reported a strong result for its financial year ending September 2007, with net profit of \$488 million on sales revenue of \$5.5 billion. Net profit margin increased to 8.4% and return on equity increased to 18.3%. In July, Orica announced a \$600-\$900m capital raising to pay down debt and fund future growth opportunities, including a \$USD550 Indonesian ammonium nitrate plant, green field opportunities in South America and brown field opportunities in Australia.

The key earnings driver for Orica's products is mining production across a diverse range of commodities and geographies. Infrastructure and mining services demand increases are positive, with strong growth in iron ore production in WA and improved coal volumes in Eastern Australia, but the group faces integration risk due to its acquisitions, and may not be able to pass increasing raw material costs to customers. The capital raising also has a dilutive effect on shares

The stock currently trades at prospective P/E of 13x and 5% dividend yield, and management confirmed profit guidance for FY08 as higher than FY07.

The group's earnings are more reliant on production volumes rather than design, construction and exploration, which makes it relatively more defensive compared to other stocks in the sector, and growing iron ore and coal volumes should be positive.



### ABB Grain Limited (ABB)

Established as Australian Barley Board in 1939 with a monopoly in barley exports, the single barley trading desk disappeared in 2007 and ABB has since restructured and merged its shareholding structure. The business is now spread across the full rural value chain, from farm inputs (seeds, fertiliser), to storage and handling, marketing, processing and shipping.

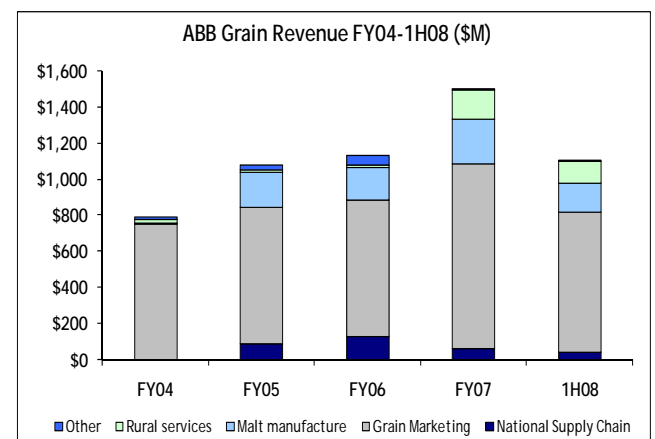
The National Supply Chain division operates more than 100 silos and 7 export terminals with 10mmt handling capacity. ABB has tried to grow handling of non-grain commodities to offset lower grain volumes as a result of the drought. It has more than 90% market share in South Australia and infrastructure assets are regarded as the backbone of the company, but earnings depend on handling volume. The Malt division has 8 malt houses and is Australia's largest maltster, operating close to full capacity of 500kmt pa. ABB will build a new malt plant in NSW to add another 110kmt capacity and \$190m raised in June will assist funding the expansion.

ABB operates a vertically integrated grain marketing model with access to around 20,000 growers (barley, sorghum, etc) in Australia to around 20 global customers, while Rural Services is a new division formed out of a number of acquisitions in fertiliser, wool and livestock.

Management guidance for the financial year ending September 2008 is \$33-\$38m NPAT. The stock currently trades at a prospective P/E 14x and dividend yield of 4%, but earnings can be volatile. The industry outlook is positive, with world population growth, urbanisation and industrialisation in Asia driving strong demand for food, feed for high protein meat and dairy diets (barley, sorghum) and malt for beer consumption. ABB is in a good position to benefit from its vertical integration and demand for agricultural products

As ABB operates in a commodity market, volumes and efficiencies are more important than product differentiation, so the key future earnings driver will come from improvements in supply chain efficiencies. Australian companies are still small compared to international companies, so further consolidation in the grain handling sector is possible.

Investments in agri-business are volatile by nature since earnings are seasonal and depend on weather conditions, rainfall, commodity prices, crop volatility, and changes in regulation. Upside exists in the medium term because ABB is exposed to structural changes in the industry and demand for protein rich food in emerging markets.



# 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 30 June 2008, the Fund achieved a return of -8.7% compared with the benchmark S&P/ASX 300 Accumulation Index return of -16.1%.

At a sectoral level, the Fund benefited from an underweight position in the financials and listed property trusts, which suffered due to credit concerns. Similarly, the overweight position in the outperforming energy sector and, to a lesser extent materials, was also positive. In addition, the Fund maintained higher than normal levels of cash, which protected almost 3% of investment value.

At a stock level, the biggest contributors to performance involved holdings in the re-

sources, energy and mining services sectors, particularly BHP Billiton, Queensland Gas Company and Woodside Petroleum. There were also positive contributions from mining services (Ausdrill, Monadelphous), financials (Washington H Soul Pattinson) and utilities (AGL).

Consistent with the philosophy of minimising mistakes, the Fund has avoided many of the stocks affected by the credit crunch (Centro Properties, MFS, ABC Learning). The main detractors from performance included Primary Health Care, Woolworths and National Australia Bank.

Average annual returns for 1, 3, 5 and 10 years are now -2.5% (benchmark -13.7%), 16.5%pa (11.4%pa), 24.5%pa (16.2%pa) and 20.3%pa (11.2%pa) respectively.

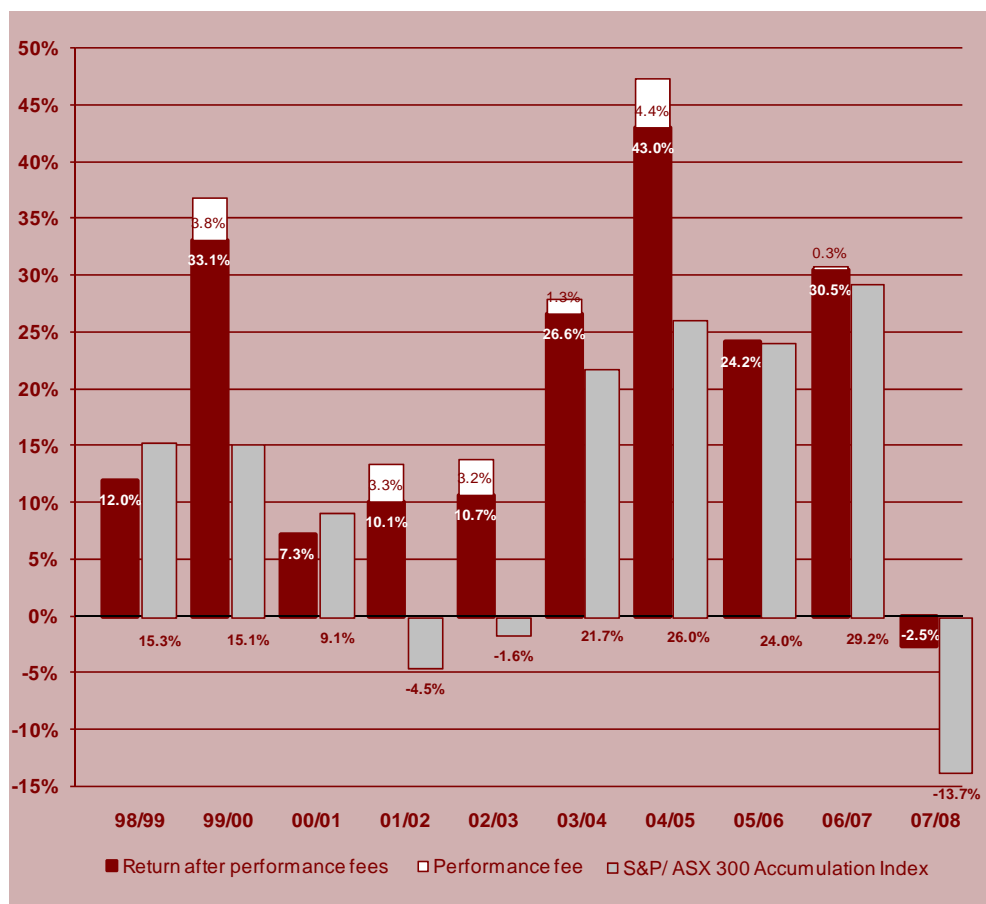
## Portfolio Outlook

Due to our positive longer term view on the outlook for companies exposed to growth in China and other emerging economies, we maintain our core overweight position in diversified miners, energy companies and selected mining services companies such as Monadelphous, Orica and Worley Parsons. Despite their share price weakness, we are underweight banks and other financials, along with those companies with highly geared balance sheets or low interest cover ratios.

With continued volatility expected, our cash holdings are likely to stay above long-term levels; however we will monitor sectors which we feel are poised for growth, including some agricultural companies and some health care 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 superior & positive returns. The Fund out-performed in 8 out of the last 10 financial years.



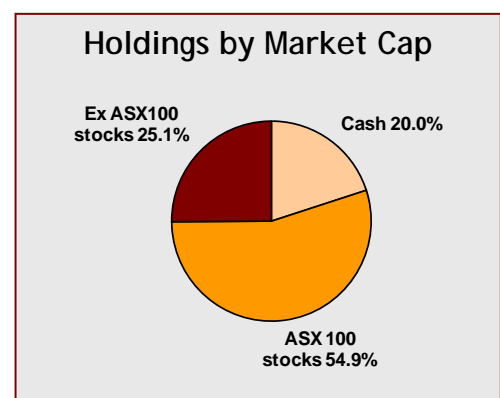
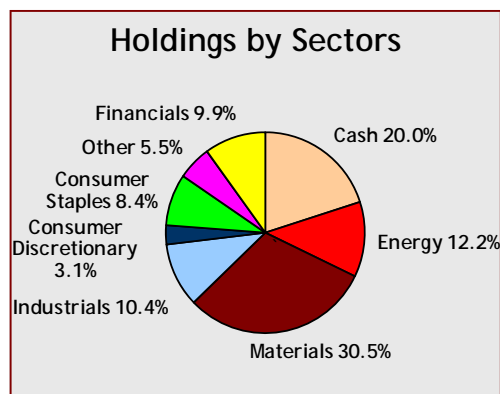
\*Past performance is not necessarily an indicator of future performance.

Distributions (Class A Units)	2005/06	2006/07	2007/08
Distribution (per unit)	\$0.1097	\$0.1632	\$0.1218
Distribution (% of Unit Price)	4.4%	5.4%	3.8%
Imputation Credit (per unit)	\$0.0143	\$0.0226	\$0.0223
Franking Level (%)#	30.4%	32.3%	42.8%

# 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 likely 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.

## Portfolio Holdings

The chart below provides a breakdown of the stocks in the Growth Fund as at 30 June 2008. The portfolio is overweight in the energy and material sectors, and underweight in the financial sector, particularly commercial banks. The level of small cap stocks (outside the ASX 100) is approximately 25.1%.



Top Five Holdings	
Name	Sector
BHP Billiton	Materials
Monadelphous	Industrials
Orica	Materials
Rio Tinto	Materials
Woodside Petroleum	Energy

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 30 June 2008, the PVIF achieved a return of -15.8%, slightly outperforming the benchmark return of -16.1%. The Fund's sectoral tilt, which favours the higher yielding industrial sector rather than lower yielding materials stocks, detracted from performance, as the materials sector has dominated the market's performance. However the Fund was overweight in energy stocks and underweight in financials, which was positive. In addition, the Fund maintained higher than normal levels of cash, which protected almost 2% of investment value.

Stock selection was a key positive for the Fund, which particularly benefited from holdings in the energy sector, including Gloucester Coal, Santos and Woodside Petroleum. Most importantly, the Fund avoided many of the stocks which were affected by the credit crunch, including ABC Learning, Centro Properties and MFS. The companies which detracted from performance were the major banking stocks, as well as Qantas, which suffered due to its exposure to higher oil prices.

Average annual returns over 1, 3 and 5 years are now -18.5% (benchmark -13.7%), 7.1%pa (11.4%) and 17.9% (16.2%pa).

## Portfolio Outlook

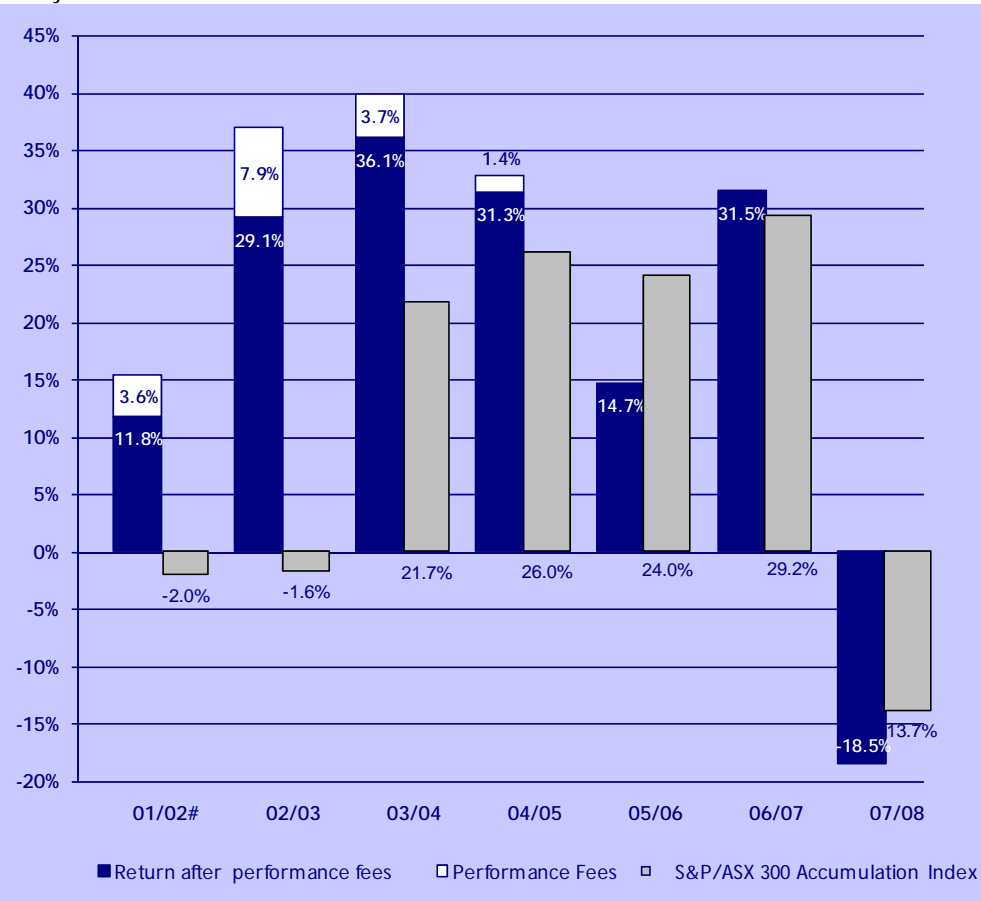
The PVIF will remain "true to label", meaning it will continue to focus on stocks offering a degree of both earnings certainty and

dividend income certainty, with a bias towards a higher stream of tax effective income. The domestic orientated component of the portfolio will favour the higher yielding energy and mining services companies and conservatively geared defensive industrials. While underweight relative to the benchmark, the Fund will maintain a core holding of quality banks due to the strong yield and high level of imputation.

We will continue to avoid domestic cyclicals which may be exposed to rising costs and margin pressure, and will monitor some of the more attractive small companies over coming months, as many quality companies in this sector offer attractive 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. The Fund out-performed in 4 out of the last 6 financial years.



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

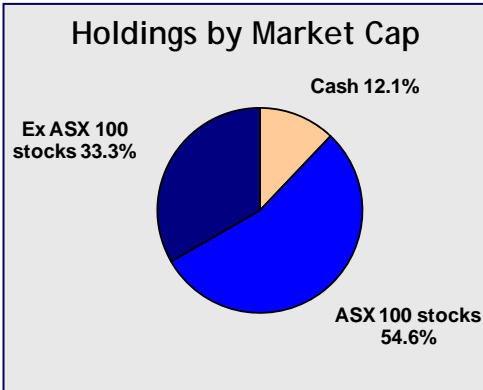
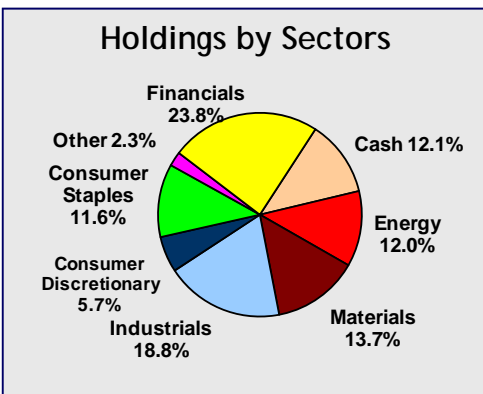
# The return for 2001/02 is for the period from 20 Dec 01 to 30 Jun 02

Distributions (Class A Units)	2005/06	2006/07	2007/08
Distribution (per unit)	\$0.1536	\$0.1849	\$0.1527
Distribution (% of Unit Price)	5.9%	6.0%	5.3%
Imputation Credit (per unit)	\$0.0273	\$0.0427	\$0.0410
Franking Level (%)#	41.5%	53.9%	62.7%

# 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 likely 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.

## Portfolio Holdings

The chart below provides a breakdown of the stocks in the Imputation Fund as at 30 June 2008. The portfolio is underweight in materials companies and is overweight in industrial and consumer stocks. The proportion of small cap companies (outside the ASX 100) is approximately 33.3%.



Top Five Holdings	
Name	Sector
Gloucester Coal	Energy
Monadelphous Group	Industrials
National Australia Bank	Financials
Wesfarmers	Consumer Staples
Westpac	Financials

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

Dear Investor,

### Prime Value Growth Fund

During April, the Prime Value Growth Fund celebrated its 10th year of providing investors with attractive returns in excess of the market. The Growth Fund achieved a return of -2.5% for the 2007/08 financial year, far in excess of the S&P/ASX 300 Accumulation Index (benchmark) return of -13.7%. An investment of \$100,000 at the commencement of the Fund would have increased to approximately \$625,000, more than double the \$277,000 achieved by investing in the benchmark. Most importantly, the Fund has outperformed in testing and difficult market conditions, similar to the out-performance during the negative market conditions over 2001-2003.

The key reasons for the Fund's out-performance can be summarised as:

1. Superior stock selection
2. Avoiding the disasters, consistent with our philosophy of minimising mistakes
3. Sectoral positioning, including being overweight in energy companies, underweight in financial companies (including property trusts) and holding higher than normal levels of cash.

Despite the exceptional out-performance, this is the first financial year of negative returns in the Fund's 10 year history and we are mindful of the loss of capital our investors have experienced.

### Prime Value Imputation Fund

While performance exceeded the benchmark in the last half-year, the Imputation Fund has had a disappointing full-year, achieving a return of -18.5% compared to the benchmark return of -13.7%. Much of the under-performance relates to the sectoral allocation of the fund, namely the underweight position in the lower yielding (and market dominating) materials sector and the overweight position in the higher yielding (and poor performing) industrials sector. While the Fund avoided many of the corporate disasters, stock selection also detracted from performance over the full year.

During its 6+ year history however, the Fund has out-performed in 4 financial years, only under-performing in those years where the resources sector has dominated market performance. The annualised performance since inception is 21.5%, out-performance of 10% compared with the benchmark return of 11.5%.

We expect the investing environment for this Fund will remain challenging but wish to remain resolute in our mandate of providing regular tax-effective income with some capital growth.

### Investment Review 2007/2008

The Australian equity market experienced one of its worst downturns during 2007/08, with the S&P/ASX 300 Accumulation Index falling by 13.7%. The overall return, however, conceals what was a truly disastrous performance for the non-resource based industries (Consumer Discretionary, Property Trusts, Industrials and Financials all fell in excess of 30%), while the Energy sector rose 35% and Materials rose 18%. The year began promisingly but entered a bear market (defined as a fall of 20% or more) during the March 2008 quarter.

There were three key themes affecting market conditions. The first began with the housing crisis in the US, which led to many homeowners defaulting on their mortgages and escalating levels of bad debt write-offs by US banks and credit providers. This flowed through to Australian banks and financial institutions as their exposure to the bad loans led to expectations of write-downs and profit downgrades.

The second key theme, which is strongly inter-related with the first, was a tightening of credit conditions, making it more difficult for companies to borrow money or refinance existing debt obligations. This led to the failure of many highly geared companies, as well as balance sheet restructuring and dividend reductions from traditional borrowers.

During April and May, there were hopes that the worst of the credit crunch was over, as the US Federal Reserve cut interest rates and rescued troubled US financial institution Bear Stearns. However renewed concerns emerged during June as a result of escalating commodity prices, particularly oil (up almost 100% over the year) and soft commodities. With monetary policy seen as unviable in an environment of rising inflation, the double whammy of slower global growth and high inflation, or "stagflation", was seen as the new calamity.

Against this sombre backdrop, there were some positives. Corporate earnings and guidance announcements showed no real substantial contractions apart from the banking write-offs; while corporate activity remained a strong feature, particularly in the resources sector. Outlook statements in the upcoming reporting season will be watched intensely.

### Investment Outlook

The global economy is moving from a credit crunch to an inflation crunch, which means potential policy tightening. While some may not be convinced about the longevity of the current commodity price cycle, the flow-through to prices for finished goods and services is already underway. The most dramatic impact of the jump in material costs is the redistribution of purchasing power and spending between countries and within sectors. US consumer-led global growth is behind us, while strong demand from commodity exporters is with us.

A second impact on growth relates to the large relative price shifts in the value of capital stocks and investments. For example, think of airplanes parked in the desert due to high oil prices, idle aluminium smelters due to higher operating costs, empty hotels rooms due to high travel costs.

The environment for equities is challenging but the environment for equity volatility is attractive. The combination of high nominal interest rates, credit crunch, the re-emergence of inflation and higher energy prices are translated into margin pressure for companies. Outright exposure to defensive and high yielding stocks should be counter-balanced with holdings of breakeven companies with potential.

We maintain our sectoral preference for quality diversified miners and energy companies, as well as selected mining services companies for defensive growth. We are also monitoring opportunities in the agricultural sector. The banking sector has a reasonably healthy balance sheet position and pricing power, but further deleveraging is required and there is an ongoing risk to EPS growth. We expect further volatility in this sector.

In general, the important themes for investing in this challenging environment are:

1. Rising debt costs, which will affect those companies with highly geared balance sheets and low interest cover ratios.
2. Margin pressure, which will favour those companies with pricing power (who can pass on cost increases) and strong revenue growth (to offset falling earnings)
3. Earnings certainty, where even modest growth, if delivered as forecast, will lead to relative outperformance.
4. Asset quality, as returns are likely to be volatile and lower than historical levels.

We want to thank you for your continued support and adopting a medium-long term investment approach like our own, based on strategic long term value rather than relying on shorter term trading opportunities. We will continue with our core philosophy of minimising mistakes, our investment strategy based on superior stock selection and we remain committed corner-stone investors in our funds.

Han K Lee  
Managing Director

Y Yong Quek  
Executive Director