

Investment Market Update No. 25

February 2006

Editorial

This week is the start of a new look for The Rock Investment Planning Limited. In this issue I have gone into some detail regarding the people who are working for you at The Rock Investment Planning Limited, and the new people behind the business.

In this issue we cover:

1. A new era;
2. What this means to you;
3. Introducing our staff;
4. Our Directors;
4. Training Days;
5. Investment outlook;
6. Investment Briefs.

David French

Managing Director and Head of Financial Planning

A new era

Effective Monday 13 February, The Rock Investment Planning will become owned by a group of investors including 3 existing staff members. The staff members involved are David French, Zac Sorensen and Bob Stewart.

What this means to you

As discussed in a recent letter to clients, it's business as usual at TRIP. Since February 2001, we have been providing client focused, fee for service financial advice and investment services. Being owned by private investors, our fee for service philosophy continues to mean that we are not influenced by kick-backs from managed funds, and that we are always working in your best interests.

We expect that the new structure will free up time to become even more client focused. Over the next 6 months we will be focusing on maintaining and improving client portfolio returns, updating client details in our client management system, undertaking individual reviews of all client accounts, and improving our portfolio administration system.

As time progresses we will be adding some new services to our offering, including the ability to place term deposits, and broker loans. We will also be changing the name of the business, to reflect our new, fresh image and our complete dedication to customer service.

Along the way we will be looking for opportunities to add value to your situation. A recent example was our ability to reduce fees for accounting administration of Self Managed Superannuation Funds.

Introducing our staff

David French is Managing Director and Head of Financial Planning. Starting with just himself and a desk, David was responsible for building The Rock Investment Planning from scratch. The business now looks after about \$75 million in investments for around 200 clients, and average compound annual returns since inception have been about 12 per cent (ahead of the market for similar investment profiles). David has 16 years experience in finance and economics, 12 of which are in investment markets. David was rated as high as #3 in Australia as an investment analyst, holds a Bachelor of Economics, a Diploma in Corporate Management and is PS146 compliant. David has also completed a range of other courses relating to valuation of companies and investments. David deals with all financial planning, investing and superannuation matters for new and existing clients.

Zac Sorensen is a Senior Financial Planner with The Rock. Zac has been with us for 4 years during which time he completed a Diploma in Financial Planning with the Financial Planning Association of Australia, training directly under David French. He is PS 146 compliant and deals with all financial planning, investing and superannuation matters for new and existing clients.

Bob Stewart is from a stockbroking background where he has over 38 years experience. Bob is PS146 compliant and his focus is on providing advice to clients who wish to purchase or sell equities and fixed interest investments.

Aside from David, Zac and Bob we also have a well trained support staff to assist in the day to day management of your investment needs.

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Carmen Blanch has been with TRIP for 3 years. She is now Office Manager, a role focused on ensuring that client's investment strategies are properly implemented and client assets are correctly registered. Carmen was instrumental in assisting in building and running the Portfolio Administration System through which client's investments are maintained. She is expert at using the ASX' CHESS system and has completed the course Stockbroker's Administration Procedures. Carmen is now completing Diploma of Financial Services – Financial Planning.

Rae Howkins is a Chartered Accountant who has completed a Bachelor of Business (Accounting) with distinction. After 6 years with a local accounting firm, Rae recently joined us to take up the position of Accountant/Portfolio Administrator. Her role is to maintain client portfolios, including addressing ATO and Centrelink requirements. Rae has substantial experience in dealing with self managed superannuation funds, trusts and companies.

Samantha Davies joined us recently to attend to this year's self managed superannuation accounting requirements. Sam was so good at it that we offered her a full time role as a trainee financial planner. Sam has a Bachelor of Business (Accounting), and has worked in accounting public practice for 6 years, 3 of which were dedicated to self managed superannuation. She is about to start studying toward the Diploma of Financial Planning.

Roland Dodd is our dedicated IT Programmer/Networker. Roland joined us from Central Queensland University where he was co-ordinating and lecturing in various IT subjects. He is currently completing a PhD in Intelligent Systems through Royal Melbourne Institute of Technology. Roland has a Bachelor of Information Technology, and through RMIT was also doing applied PhD work for the Sugar Research Institute in Mackay. Roland's job initially is to set up our new computer network (almost complete) and to maintain and develop the Portfolio Administration System and other office software. To that end, we have a list of client requests that we will be working toward completing.

Our Directors

Michael Cranny is Chairman of The Rock Investment Planning Limited and Chairman and Managing Director of Tropical Pines, a large scale pineapple producer and marketer. Mick is also a land developer, and has held a number of board positions including Yeppoon District Co-operative, and Freshmark. He has been an advisor to Golden Circle and is involved in

a large number of church and community related voluntary activities. As a result of a by-election, Mick was last week elected as Councilor to Livingstone Shire Council. He is 57 and is married to Pixie with 7 children.

David French is Managing Director and Head of Financial Planning. His profile is included above under "Introducing our staff". David is 42, and is married to Sandra with 3 children.

Leo Senese is based in Brisbane and has been a stockbroker and investment advisor for 7 years. His experience spans stockbroking, financial advice, fixed interest dealing and foreign exchange dealing. He has worked for major investment houses including ABN Amro Morgans, Goldman Sachs JB Were, and Westpac Institutional Bank. Leo's formal education includes a Bachelor of Commerce, and Graduate Diplomas in Financial Planning and Applied Finance and Investment. Leo is 34 years old, and is married with two children.

Mark Hayes is 49 years old, and has run his own private accounting business since 1991. He has special interests in self managed superannuation, and other investment structures and is a substantial investor in property and businesses in his own right - including at various times, a hairdressing salon and a clothing store. Mark has a Bachelor of Arts in Accounting and a Graduate Certificate in Financial Planning.

Training days

We are using the change in ownership to take a more structured approach to staff training. This will involve staff attending several formal training days throughout the year.

Staff will not be in the office on Friday 17th February 2006, and Thursday 2nd and Friday 3rd of March 2006. We will have a receptionist in attendance on those days to take messages, or if the matter is urgent you can call me on (0412) 534637.

These two training sessions are close together to address the training needs of existing and new staff, in a timely fashion. Future initiatives will be spread throughout the year. We hope these early sessions do not cause any undue inconvenience.

Investment outlook

We believe that the Australian Investment Market is a bit topky, following a very robust bull run in resources and banks. At the same time, interest rate sensitive

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stocks, like infrastructure and hybrids have suffered. The combined effect of the relatively strong Australian dollar and a weakening in commodity prices, means international shares are beginning to look attractive. Although there are lots of alternatives, we like to use the Platinum International Fund because of its stock-picking approach, reasonable fees, use of some currency hedging and excellent management.

Contrary to broader market expectations, we do not believe that interest rates are likely to increase. In Australia, the housing market continues to soften, petrol prices remain high and interest rates are significantly higher than 3 years ago. This is impacting on retail sales, and on building products. According to press reports, the availability of tradespeople in Sydney is increasing indicating less pricing pressure in the renovation sector.

We also do not believe that China is a panacea for world growth. China is a command economy that has sharp bursts of growth before the government turns off the tap. This has been a feature of China's economic history for at least the last 20 years. China is indeed becoming more westernised, but arguments suggesting that if everyone in China just built a house, or bought a Coke and a car, the West would be rolling in greenbacks, have historically been shown to be the stuff of dreams. The Chinese are too smart for that, and for the naïve, have a knack of turning dreams into nightmares.

Our investment view is to purchase out-of favour investments, selected international investments and the few hybrids that remain good value.

Investment Briefs

Babcock and Brown Infrastructure (BBI)

BBI is in the process of raising \$705 million by way of an entitlement offer and a placement. The funds will be used to finance the acquisition of PD Ports in Northern England and to reduce corporate debt pending new investment initiatives. The ports acquisition provides a defensive revenue base with good growth prospects. The acquisition is underpinned by expansion initiatives at Dalrymple Bay coal terminal and UK and Portugal Gas Networks.

Coal under the microscope

Coking coal exports for the year were 80.8mt, up 11 per cent, well above expectations at the start of 2005 – surprising given that all producers were complaining about the lack of infrastructure. Export levels are expected to hold, given the commissioning of

Rolleston and Minerva. UBS commented that pre-Christmas, Coal prices were expected to fall by 20 to 30 per cent, however some coal prices have continued to rise. BHP's \$115 per tonne for Hard Coking Coal is encouraging and is expected to underpin earnings of companies such as MCC and EXL.

Australian Agricultural Company (AAC)

AAC reported net profit of \$16.8 million for the 12 months ended December. The result was solid, given difficult seasonal and market conditions over much of the year. Highlights of the result were containment of overheads, strong cash flow and an asset revaluation which increased NTA by 25 cents to \$2.20. A strategic plan for future growth involved increasing the herd size, maintaining cash flow, selective acquisitions and rain – an overall strong position.

Bradken Limited (BKN)

Bradken announced in January that it is doubling the size of its Adelaide foundry and when complete the facility will add 30 per cent to the company's production of heavy machinery. The expansion is to meet a significant increase in demand from resource sector customers – BHP, RIO, Newcrest, MIM. Bradken is well placed to benefit as the mining and rail freight sectors strive to keep pace with the current commodity boom. Bradken trades at around \$4.70, and pays a 14.3 cents fully franked dividend.

Adelaide Brighton Limited (ABC)

ABC has about 60 per cent of the WA cement market and a growing portion of earnings is coming from WA Lime, where it was a 95 per cent market share. It is well placed to capitalise on a non-residential and resource driven investment cycle, which looks set to hike. Net profit for FY06 is forecast at \$84 million and the stock presently pays an 8.25 cent dividend. With a price target of \$2.40, the present market price of \$2.22 is favourable.

Roc Oil (ROC)

Rock's December quarter report highlighted that all key development projects are within budget and on schedule for 2006. The main areas of operation are:

- Offshore WA
- Onshore UK
- Onshore Angola.

Forecast earnings from Chinguetti, Cliff Head, Bland and Enoch fields are expected to be driven over 2006 and into 2007. The target price is \$3.81, against a market price of \$2.82.

You are advised to seek advice regarding your particular situation before acting on anything contained herein.

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