



Australian Value Funds Management Ltd

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ACN 009 487 674

Australian Value Funds Management Ltd

A.B.N. 70 009 487 674

Half-Year Financial Report

**For the Six Months Ended
31 December 2004**

Directors' Report

Your directors present their report on the company and its controlled entities for the half-year ended 31 December 2004.

DIRECTORS

The names of the company's directors in office during the half-year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

Peter Kennedy (Chairman)

Lee lafrate

Andrew Darbyshire

REVIEW AND RESULTS OF OPERATIONS

The Company made a \$41,546 net profit in the six months to 31 December 2004. No tax was provided for.

The profit was derived principally as a result of gains realized on investments held by the Company, coupled with trading profits generated by the activities of Armytage Private Limited, the Company's Investment Manager.

The six month period represented a major turning point for the Company, culminating in the completion of a successful \$6Million capital raising and the re-listing of the Company on the Australian Stock Exchange on 7 December 2004.

The period leading up to the raising and re-listing was frenetic. On behalf of the shareholders I wish to formally acknowledge the efforts of my co-Directors, Mr Lee laFrate and Mr Andrew Darbyshire in successfully managing this outcome, which has benefited all shareholders. The Directors similarly acknowledge the efforts and assistance of E L & C Baillieu as Lead Manager to the capital raising, Armytage Private Limited as the Company's recently appointed Investment Manager. In all, the outcome and the subsequent market response has been most gratifying.

Since 1 January 2005, the Company has concluded its purchase of a 28% stake in Carroll Pike and Piercy Pty Limited ("CPP") a specialist superannuation service provider, as outlined in the Company's Prospectus. This investment is anticipated to produce a solid contribution to the Company's earnings for the next six month period and beyond.

As part of the CPP arrangement, a representative Director of CPP, Mr Nicholas Pike, has been appointed to the Company's Board. Mr Andrew Darbyshire, a Director of the Company, has been appointed to the CPP Board.

The Company has also recently appointed Campbell Kennedy as Chief Operating Officer and Company Secretary effective 2 February 2005. Campbell is a Chartered Accountant who has broad financial experience both in Australia and more recently in Edinburgh, Scotland, where he has spent much of the last 2 years working with The Halifax Bank of Scotland.

The Board believes that Campbell's experience and background are appropriate for the role that he has been appointed to perform.

With the capital raising and re-listing of the Company's shares now firmly bedded down, the Board is focused on the task of achieving growth in the areas it outlined in the Company's Prospectus. The Board already has a number of opportunities under active consideration, both for the Company directly and also prospectively, in the superannuation services and related areas.

Similarly, Armytage Private Limited, as the Company's Investment Manager, is continuing to pursue its investment activities on behalf of the Company, in accordance with its mandate.

As at 31 December 2004, the Board of the Company had allocated a total of \$3.13m for Armytage to manage, of which approximately 32% was invested in strategic listed opportunities. The most material of these is a stake in the listed Palm Springs Limited, whose primary activity involves the supply of bottled spring water.

The market value of the Company's Armytage managed portfolio was \$172,647 higher than the cost price of the portfolio at 31 December 2004. The unrealised gains potentially available thereon were not brought to account at 31/12 in accordance with normal prudent accounting practices.

During the half year the Company also formalised its corporate governance statement. The corporate governance regime is generally in line with the published ASX guidelines.

As at 31 December 2004 the Company had a total of 1,926 shareholders of which 999 held less than a marketable parcel (post the share consolidation and issuing of shares to former creditors) as ratified by shareholders at the Company's Annual General Meeting held on 18 October 2004. The Company is currently examining available avenues to address the position of shareholders who hold less than a "minimum" marketable parcel.

A number of shareholders have also elected to exercise the options attaching to the Company's shares issued as part of the recently completed capital raising. As at 31 December 2004 a total of 5,333,906 options were exercised, raising \$1,066,781. In the period to 31 January 2005 a further 821,224 options were exercised raising an additional \$164,244.

Shareholders who have options as a result of subscribing to the recently completed capital raising should note that the options may be exercised at any time up to 30 September 2005.

The immediate outlook for the Company is positive. The next twelve to eighteen months are expected to see an increase in the Company's activities. As always, the Company will apply careful deliberation and diligence in assessment of all opportunities.

The Company, barring unforeseen circumstances, is anticipating a sound profit result for the next six month period. As the six months to 30 June 2005 will be the first "proper" period of actual operations (given that the capital raising was concluded only in December 2004), it is considered premature to provide any formal "earning guidance".

Suffice to say, the Board is confident of being able to report to shareholders a solid improvement for the full year result to June 2006. The Company will be working assiduously to ensure this outcome.

Signed in accordance with a resolution of the directors.



Peter Kennedy
Chairman

Date: 16 February 2005

Condensed Statement of Financial Performance
For the half-year ended 31 December 2004

	Notes	CONSOLIDATED	
		2004	2003
		\$	\$
REVENUE FROM ORDINARY ACTIVITIES	2	107,166	5,879
Expenses from ordinary activities	2	(65,620)	(30,673)
PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE	2	41,546	(24,794)
INCOME TAX EXPENSE RELATING TO ORDINARY ACTIVITIES		-	-
PROFIT FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE		41,546	(24,794)
NET PROFIT		41,546	(24,794)
NET PROFIT ATTRIBUTABLE TO MEMBERS OF THE COMPANY		41,546	(24,794)
TOTAL REVENUES, EXPENSES AND VALUATION ADJUSTMENTS ATTRIBUTABLE TO MEMBERS OF THE COMPANY AND RECOGNISED DIRECTLY IN EQUITY		-	-
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS		41,546	(24,794)
Basic Earnings per share (cents per share)		0.22	(0.05)
Diluted Earnings per share (cents per share)		0.08	(0.05)
Franked Dividends per share (cents per share)		0.00	0.00

Notes to the financial statements are attached

**Condensed Statement of Financial Position
For the half-year ended 31 December 2004**

	Notes	CONSOLIDATED	
		AS AT 31 DECEMBER 2004	AS AT 30 JUNE 2004
		\$	\$
CURRENT ASSETS			
Cash assets		6,685,308	511,999
Receivables		548,296	7,044
Other Financial Assets		828,744	118,822
Other		39,122	-
TOTAL CURRENT ASSETS		8,101,470	637,865
NON-CURRENT ASSETS			
Plant and Equipment		4,251	-
TOTAL NON-CURRENT ASSETS		4,251	-
TOTAL ASSETS		8,105,721	637,865
CURRENT LIABILITIES			
Payables		131,238	20,719
Provisions		-	85,805
TOTAL CURRENT LIABILITIES		131,238	106,524
NON-CURRENT LIABILITIES			
-		-	-
TOTAL NON-CURRENT LIABILITIES		-	-
TOTAL LIABILITIES		131,238	106,524
NET ASSETS		7,974,483	531,341
EQUITY			
Contributed equity		14,251,320	6,849,724
Reserves		1,634,267	1,634,267
Retained profits		(7,911,104)	(7,952,650)
TOTAL EQUITY		7,974,483	531,341

Notes to the financial statements are attached

Condensed Statement of Cash Flows
For the half-year ended 31 December 2004

	Notes	CONSOLIDATED	
		2004	2003
		\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customers		-	-
Interest Received		23,532	4,431
Dividends Received		3,635	1,447
Payments to suppliers		(74,410)	(43,759)
Sales from Trading Portfolio		6,439,185	-
Purchases for Trading Portfolio		(7,081,908)	-
NET CASHFLOWS FROM OPERATING ACTIVITIES		<u>(689,966)</u>	<u>(37,880)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
-		-	-
NET CASHFLOWS FROM INVESTING ACTIVITIES		<u>-</u>	<u>-</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares and options		6,863,275	-
NET CASHFLOWS FROM FINANCING ACTIVITIES		<u>6,863,275</u>	<u>-</u>
NET INCREASE/ (DECREASE) IN CASH HELD		6,173,309	(37,880)
Add Opening Cash Brought Forward		511,999	130,795
CLOSING CASH CARRIED FORWARD		<u>6,685,308</u>	<u>92,915</u>

Notes to the financial statements are attached

Notes to the Half-Year Financial Statements

For the half-year ended 31 December 2004

NOTE 1 - BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

The half-year financial report should be read in conjunction with the Annual Financial Report of Australian Value Funds Management Limited as at 30 June 2004. It is also recommended that the half-year financial report be considered together with any public announcements made by Australian Value Funds Management Limited and its controlled entities during the half-year ended 31 December 2004 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

(a) Basis of Accounting

The half-year financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards including AASB1029 "Interim Financial Reporting" and other mandatory professional reporting requirements (Urgent Issues Group Consensus Views).

The half-year financial report has been prepared in accordance with the historical cost convention. For the purpose of preparing the financial report, the half-year has been treated as a discrete reporting period.

(b) Changes in Accounting Policy

The accounting policies applied are consistent with the most recent annual financial report for the year ended 30 June 2004.

(c) Background Information for Users of the General Purpose Financial Report.

Australian Value Funds Management Limited was previously subject to the Deed of Company Arrangement, which was finalised during the period. Further details in respect of this were highlighted in the Annual Financial Report on the company and its controlled entities for the financial year ended 30 June 2004. The Company also undertook a successful capital raising and achieved re-listing of its shares on the ASX during the period.

Notes	CONSOLIDATED	
	2004	2003
	\$	\$

NOTE 2 - PROFIT FROM ORDINARY ACTIVITIES

(a) Specific Items

Profit from ordinary activities before income tax expense includes the following revenues and expenses whose disclosure is relevant in explaining the financial performance of the entity.

(i) Revenue from ordinary activities

Dividends received	3,635	1,447
Interest received	34,787	4,431
Profit/(Loss) on Trading Portfolio	68,744	-
	<u>107,166</u>	<u>5,878</u>

(ii) Expenses

Management, Registry Maintenance & Listing Costs	38,076	29,774
Accounting & Audit Expenses	19,059	
Other Expenses	8,485	
	<u>65,620</u>	<u>29,774</u>

Notes to the Half-Year Financial Statements For the half-year ended 31 December 2004

NOTE 3 - DIVIDENDS PAID OR PROVIDED FOR ON ORDINARY SHARES

There were no dividends paid or provided for on ordinary shares during the half-year ended 31 December 2004.

NOTE 4 - CONTINGENT ASSETS AND LIABILITIES

Since the last reporting date there has been no material change of any contingent liabilities or contingent assets.

NOTE 5 - COMMITMENTS NOTE

During the half-year ended 31 December 2004, the Company entered into an agreement with the shareholders of Carroll, Pike & Piercy Pty. Ltd. (CPP) to acquire a 28% interest in CPP. The agreement specified that the Company pay \$2,436,000 in consideration of the acquisition, comprising shares in Australian Value Funds Management Limited to the value of \$517,050 and \$1,918,950 in cash. As at 31 December 2004, the shares in the Company had been issued, with cash paid subsequent to balance date.

NOTE 6 - SEGMENT INFORMATION

The Company is currently operating as an investment company. It has no reportable business or geographic segments.

NOTE 7 - SUBSEQUENT EVENTS

On the 17th January 2005, the directors of Australian Value Funds Management Ltd finalised the settlement of a 28% stake in Carroll, Pike & Piercy Pty Ltd. Further details of the acquisition were highlighted in the Company's prospectus issued in November 2004 and in the Commitments note. (Refer Note 5)

NOTE 8 - INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Australian Accounting Standards Board (AASB) is adopting International Financial Reporting Standards for application to reporting periods beginning on or after 1 January 2005. The Company will be required to prepare its first fully AIFRS compliant financial report for the year ended 30 June 2006.

The Company is in the process of analysing the full impact of the AIFRS. Set out below are the key areas where accounting policies will change and may have an impact on the financial report of the Company. The actual impacts will depend upon the particular circumstances in existence at the time that the AIFRS are implemented. For those reasons it is not yet possible to quantify the impact of the Company's transition to AIFRS.

Notes to the Half-Year Financial Statements For the half-year ended 31 December 2004

NOTE 8 - INTERNATIONAL FINANCIAL REPORTING STANDARDS...(cont

(i) Trading Portfolio to be measured at Market Value

Under AIFRS, the Company's trading portfolio will need to be revalued continuously, with any increments and decrements in value being included in the Company's net profit. Currently, it is the Company's policy to value its portfolio at the lower of cost and net realisable value in aggregate. This change may result in increased volatility in the reported results for the Company's trading under AIFRS.

At 31 December 2004, the amount by which the market value of the Company's trading portfolio was in excess of its carrying value in the financial statements is approximately \$170,000 - this value has not been adjusted for any transaction costs anticipated on disposal of investments in the portfolio.

(ii) Impact on Income Tax as a result of measuring the trading portfolio at its market value.

As a consequence of the need to revalue the Company's trading portfolio to market value (as stated above), the Company will also be required to recognise an additional tax asset/liability under the AIFRS, which is intended to reflect the deferred tax effect of valuing its portfolio to market value. If applied at 31 December 2004, this would require the recognition of an increase in a deferred tax liability and income tax expense of approximately \$51,000. This would be reduced by any available tax losses.

(iii) Share Based Payments

Under AASB 2 Share Based Payments, the Company will be required to determine the fair value of options issued to employees as remuneration and recognise an expense in the Statement of Financial Performance. The standard is not limited to options and also extends to other forms of equity based remuneration. It applies to all share-based payments issued after 7 November 2002 which have not vested as at 1 January 2005. Reliable estimation of the future financial effects of this change in accounting policy is impracticable, as the details of future equity based remuneration plans are unknown.

(iv) Other impacts on Income Taxes

Under the Australian equivalent to IAS 12 Income Taxes, the Company will be required to use a balance sheet liability method which focuses on the tax effects of transactions and other events that effect the amounts recognised in either the Statement of Financial Position or a tax-based balance sheet. It is not expected that there will be any material impact as a result of adoption of this standard.

Australian Value Funds Management Limited

Directors' Declaration

In accordance with a resolution of the directors of Australian Value Funds Management Limited, I state that:

In the opinion of the directors:

(a) the financial statements and notes of the consolidated entity:

(i) give a true and fair view of the financial position as at 31 December 2004 and the performance for the half-year ended on that date of the consolidated entity; and

(ii) comply with Accounting Standard AASB1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board of Directors



Peter Kennedy
Chairman

Date: 16 February 2005



CHARTERED ACCOUNTANTS

DIRECTORS _____

DAVID L. JAFFE B.Bus. C.A.

STEPHEN J. ROSENTHAL B.Com. C.A.

ANGELO MAZZONE B.Ec. C.A.

MARTIN ARTENSTEIN B.Com. F.C.A.

CONSULTANTS _____

ERIC M. COHEN OAM B.Com. F.C.A.

GEORGE SBARRATO F.C.A.

INDEPENDENT REVIEW REPORT

To the Members of Australian Value Funds Management Limited

Scope

The financial report and directors' responsibility

OUR REF:

YOUR REF:

The financial report comprises the condensed statement of financial position, condensed statement of financial performance, condensed statement of cash flows, accompanying notes to the half-year financial statements and the directors' declaration for Australian Value Funds Management Limited and the consolidated entity (the Company) for the six months ended 31 December 2004 as set out on pages 3 to 9. The consolidated entity comprises both the Company and the entities it controlled during that six months.

The directors of the Company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the consolidated entity and that complies with Accounting Standard AASB 1029 "Interim Financial Reporting", in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error and for the accounting policies and accounting estimates inherent in the financial report.

Review approach

We conducted an independent review of the financial report in order to make a statement about it to the members of the Company, and in order for the Company to lodge the financial report with the Australian Stock Exchange and the Australian Securities and Investments Commission.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements, in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the *Corporations Act 2001*, Accounting Standard AASB1029 "Interim Financial Reporting" and other mandatory professional reporting requirements in Australia, so as to present a view which is consistent with our understanding of the consolidated entity's financial position and of its performance as represented by the results of its operations and cash flows.

A review is limited primarily to inquiries of the Company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required by an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Independence

We are independent of the Company and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. In addition to our review of the financial report, we were engaged to undertake other non-audit services. The provision of these services has not impaired our independence.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of Australian Value Funds Management Limited is not in accordance with:

- (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of the consolidated entity at 31 December 2004 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standard AASB 1029 "Interim Financial Reporting" and the *Corporations Regulations 2001*; and
- (b) other mandatory professional reporting requirements in Australia.

MCG PARTNERS
Chartered Accountants

ANGELO MAZZONE
PARTNER

Hawthorn East, Melbourne

Date: 17 FEBRUARY 2005

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Appendix 4D

1. Half Yearly Report

Name of Entity	Australian Value Funds Management Ltd
ABN	70 009 487 674
Half Year Ended	31 December 2004
Previous Corresponding Reporting Period	Half year ended 31 December 2003

2. Results for announcement to the Market

Revenue from ordinary activities	Up	1722% to \$107,166
Profit (Loss) from ordinary activities after tax attributable to members	Up	268% to \$41,546
Net profit (Loss) for the period attributable to members	Up	268% to \$41,546

Dividends	Amount per security	Franked Amount per Security
Final Dividend	Nil	Nil
Interim Dividend	Nil	Nil
Record date for determining entitlements to the dividends	Not Applicable	

Brief explanation of any of the figures reported above necessary to enable the figures to be understood:

For the details, please refer to the attached Financial Report for the 6 months period ended 31 December 2004. Also, please see attached the Directors Report for detailed commentary.

3. Net Tangible Assets per security:

	Current Period	Previous Corresponding Period
Net tangible asset backing per ordinary security	16.9 cents	0.5 cents

4. Details of entities over which control has been gained or lost during the period:

Control gained over entities

Name of Entity	-
Date(s) of gain of control	-
Contribution to consolidated profit (loss) from ordinary activities after tax by the controlled entities since the date(s) in the current period on which control was acquired.	-
Profit (loss) from ordinary activities after tax of the controlled entities for the whole of the previous corresponding period.	-

Loss of control of entities

Name of Entity	-
Date(s) of loss of control	-
Contribution to consolidated profit (loss) from ordinary activities after tax by the controlled entities to the date(s) in the current period on which control was lost.	-
Profit (loss) from ordinary activities after tax of the controlled entities for the whole of the previous corresponding period.	-

5. Dividends

	Date of Payment	Total Amount of Dividend
Final Dividend – Year ended 30 June 2004	Not Applicable	Nil
Interim Dividend – Year ended 30 June 2005	Not Applicable	Nil

6. Details of Dividend or Distribution reinvestment plans in operation are described below:

Not Applicable

The last date(s) for receipt of election notices for participation in the dividend or distribution reinvestment plan	Not Applicable
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7. Details of associates and joint venture entities

Name of associate or joint venture entity

	% Securities held
-	-

8. The information provided in the Appendix 4D is based on the interim financial report (attached), which has been prepared in accordance with Australian accounting standards.

9. The interim financial report is not subject to audit dispute or qualification.