

ASX ANNOUNCEMENT

CONTANGO CAPITAL PARTNERS LIMITED (CCQ)

Commentary for Shareholders - August 2011

1. 2010/11 Profit Overview

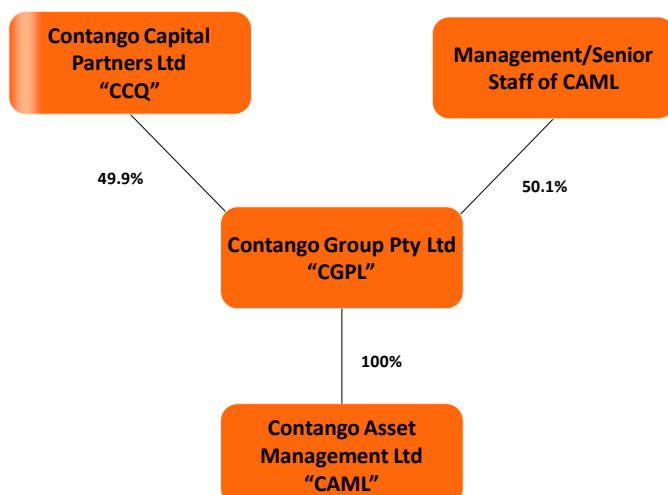
- CCQ's operating profit for the year to June 2011 was \$884,223. This compares with a profit of \$2,082,921 in 2009/10. An increase in profits from CCQ's unlisted investment in Contango Asset Management Limited ("CAML") - up to \$905,996 from \$756,822 was more than offset by a decline in the value of the company's holdings of listed financial services companies (-\$396,162 vs +\$1,051,276).
- CAML's profit increased from \$2,002,558 (2010) to \$2,194,861 (2011) – up 10% for the year. The increase in 2010 from 2009 was from \$1,460,921 – a rise of 37%. During the 2010 year, CCQ received \$652,960 as a dividend from CAML. In the 2011 year this was \$900,199 and the amount payable in FY12 will be \$987,608.
- No income tax expense has been taken to account due to the significant tax losses available to the Company.
- Dividend and interest income from listed investments amounted to \$1.0m.
- Costs were down by 24%.
- An Interim Dividend of 2.5 cents per share was paid on 21 April 2011 Final Dividend for the year of 3 cents proposed for payment in October 2011.
- NTA at 30 June 2011 of \$1.076 per share.
- Share price (including dividends) appreciated by 32.3% compared to an increase of 0.1% for the Diversified Financials Accumulation index over the year to 30 June 2011.
- The Company has no debt.

2. Market Environment – Outlook for Financial Services Companies

- Since the end of the financial year, there has been a significant further deterioration on conditions in financial markets. The Australian equity market has fallen by 12.4%. Financial services companies have been particularly hard hit with Banks down 13.7% and the Diversified Financials index down 18.2%.
- The weakness in global financial markets reflects structural problems in Europe and the United States. Although progress has been slow, there are signs that the major developed economies are taking steps to address these imbalances. China continues to deliver strong growth and to underpin the solid expansion of the Australian economy.

3. Business Update: Contango Asset Management Limited

- CCQ owns its 49.9% of Contango Asset Management Limited (CAML) through the structure depicted below. As required under Australian Accounting Standards, this investment is Equity Accounted (see 5 below for more details).



- CAML has progressively moved its strategy from being a core Australian equity funds manager to a specialist investment manager focussing on segments of the Australian markets that have the potential to provide high levels of added value.
- CAML has been building up expertise in niche market segments over the past several years and has been successful in winning a number of new specialist mandates.
- The loss of a major Australian equity client at the end of 2010, combined with a decline in the Australian equity market in the second half of the 2011 financial year contributed to a fall in funds under management. At 30 June 2011 funds under management amounted to \$750m compared with \$1,440m a year earlier. CAML took this opportunity to realign its core Australian equity strategy more closely with its other high alpha strategies.

4. CAML Staff Incentive Policy

- CAML's business strategy revolves around identifying niche segments of the Australian equity market and developing suitable products to exploit these opportunities. This strategy is dependent on attracting and retaining skilled investment professionals.
- During the course of the year, CAML updated its staff policies to bring them more into line with recent trends across the financial services industry. In updating its policies, it sought to ensure a closer alignment of interests between shareholders and staff as well as an appropriate balance between reward for short and medium term outcomes. The policy also recognises the importance of providing mechanisms that encourage the retention of key staff.
- Under CAML's bonus arrangements, no payments are made unless certain profit and performance targets are met. As a consequence, bonus payments may vary considerably from year to year.

5. Equity Accounting Treatment

- CCQ does not hold a majority of Contango Group Pty Limited. It holds 49.996% and therefore does not have control. This means that CCQ equity accounts its interest in CGPL. This affects the carrying value of the CGPL investment in CCQ's Balance Sheet as well as the share of profit from CGPL that CCQ reports in its profit.

- For the 2010/11 year, the amounts were calculated as follows:

Value of CGPL in CCQ's Balance Sheet	
▪ carrying value at 30 June 2010	7,572,962
▪ plus 49.996% of profit	1,097,342
▪ less dividend received during year	(900,199)
Equals Balance at 30 June 2011	\$7,770,106
CCQ's Share of Profit from Associate	
▪ 49.996% Share of CGPL Profit	1,097,342
▪ less 49.996% share of management fees paid by CCQ to CAML (49.996% x 382,724)	(191,347)
Equals CCQ's FY11 Share of Profit from Associate	\$905,996

6. External Valuation of CGPL

- During May 2011, the CCQ Directors engaged Ernst & Young to conduct an independent valuation of the CGPL investment owned by CCQ. The valuation was provided in order to satisfy the Directors that the equity accounted value at 30 June 2011 was reasonable and to help them to determine if any impairment charge should be considered for FY11.
- Ernst & Young determined that the CCQ investment in CGPL was valued between \$6.8m and \$8.2m. As the equity accounted value was close to the mid-point of the valuation range, no impairment was considered necessary.

7. CCQ's Investment Strategy

- The Directors have been disappointed that prices of investment opportunities have not decreased to adjust to changed realities following the GFC. As late as June 2011, potential sellers of businesses continued to seek prices that were little different from those being sought in 2007.
- We expect the current bout of market weakness will lead to a reassessment of vendor expectations and the availability of investments that will add to CAML's product range, increase the diversification of CAML's income stream and enhance returns for CCQ's investors.

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