Leyland Lines

December 2007

MARKET UPDATE

Leyland Lines is our monthly newsletter providing investors with our insights on the overall market, individual companies and other relevant issues. All the information contained in this newsletter is for general reading only and should not be taken as a personal recommendation. We encourage you to call Leyland Private Asset Management for specific advice in relation to your portfolio.

Welcome to the December 2007 edition of Leyland Lines

We leave 2007 with a new government, credit crunch and recession fears in the USA, talk of a stronger for longer commodity cycle and inflationary signals emanating from the USA and Australia.

Uncertainty provides opportunities in the market and as stock pickers we remain watchful for outstanding opportunities.

In this edition of Leyland Lines we take a fresh look at the banking sector in light of the sub-prime concerns and provide a note on Essa. We also describe the various business divisions of the TOL spin-off, Asciano, following their recent investor briefing and look at KLM diversified fund management.

Leyland Private Asset Management has been appointed corporate adviser to orthopaedic product specialist Austofix and we invite readers to read the prospectus at http://www.austofix.com.au/austofix_prospectus.pdf

Contents

Leyland Private Asset Management

Leyland Private Asset Management ABN 75 081 890 799 AFS License 223419
Level 9, 71 Walker St North Sydney NSW 2060 Ph: +612 8920 0777 Fax: +612 8920 0722
Suite 7, 493 Toorak Road Toorak VIC 3142 Ph: +613 9826 2929 Fax: +613 9826 2337 www.leyland.com.au

MARKET UPDATE

Austofix Group Limited Share Offer

Leyland Private Asset Management has been appointed corporate adviser for the float of Austofix Group Limited. As such, we can not make a recommendation on the float, but can send you a prospectus for your consideration.

Austofix designs, develops and manufactures medical devices into fully commercialised products for distribution and use within the musculo-skeletal trauma market (essentially orthopaedic products excluding major joints) around the world. The global musculo-skeletal market is estimated at US$8 billion, growing at a compound rate of around 15% per annum. The global market for orthopaedic devices is estimated at US$29 billion. The size and growth of the market for trauma products is largely attributable to two factors:

- The demographic ageing of the population in the western world; and
- The increasing propensity to actively treat medical conditions.

An ageing population and the health factors associated with this changing demographic will continue to expand the size and opportunities of the market, locally and internationally.

In 2008 and beyond, the company will focus on commercialising a range of proprietary devices owned by Austofix. By mid 2009 Austofix aims to have designed and be selling four new proprietary orthopaedic products to complement its existing product range.

Funds raised through this Offer will fund:

- The commercialisation of four new proprietary orthopaedic products;
- Design and development work on a range of proprietary spinal products; and
- Development of intellectual property in the area of surface-coatings and bioactive materials (to improve patient outcomes and increase the marketability of Austofix implants).

Summary of the Offer:
Issue Price $1.50 per share
Minimum Investment $2,025
Minimum Subscription $3.0 million
Maximum Subscription $6.37 million

Key Dates
Opening Date Monday, December 10, 2007.
Closing Date Thursday, January 31, 2008.
Dispatch of Holding Statements Friday, February 15, 2008.
Expected Shares Commence Trading on the ASX Wednesday ,February 20, 2008.

(These dates are indicative only and Austofix reserves the right to change them without prior notice).

Leyland
Private Asset Management

Leyland Private Asset Management ABN 75 081 890 799 AFS License 223419
Level 9, 71 Walker St North Sydney NSW 2060 Ph: +612 8920 0777 Fax: +612 8920 0722
Suite 7, 493 Toorak Road Toorak VIC 3142 Ph: +613 9826 2929 Fax: +613 9826 2337 www.leyland.com.au

Banking Sector

The last 12 months has seen the development of a widening gap between the performance of our local banking industry and that of its international counterparts.

'Sub-prime', 'Bailouts', 'Takeovers', and 'Devaluation' are just a few of the headlines that have caught our attention over the last 6 to12 months. Still the question remains, how much exposure does our local banking sector have to the US fallout? And, more importantly, how will this all affect the performance of our local banks over the medium to long term.

It's no secret that the financial sector has become more aggressive in regards to lending practices. To improve loan ratios amid increasing competition, banks worldwide have begun offering loans to customers they would have previously shunned. The birth of the sub-prime mortgage (locally known as LoDoc loans) has seen the level of questionable loans rise to 20% of all loans in the US.

Locally the story is quite different. While non bank financial groups have been aggressively winning market share through higher risk loans, the big four have continued business as usual with LoDoc loans representing less than 1% of overall domestic loans. The cost of this practice for the big banks has been a steady decline in market share over the last 10 years.

That said, Australian banks are the only ones in the developed world still reporting double digit earnings growth and dividend growth.

How can that be? Well firstly, as the price of funding (remember the liquidity squeeze) increases in line with the international liquidity crisis, the non-bank lenders are finding their balance sheets under increasing pressure. Companies like Rams Home Loans took a permanently damaging blow when they found that they were unable to fund their long term loans with short term debt (their ongoing funding practice). This kind of situation has precipitated a significant pull back from the non-bank lenders and has left a gap which the stronger banks have been more than happy to fill.

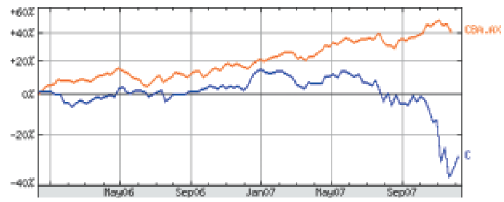
In fact, recent APRA data suggests that big bank market share has increased this year, for the first time in seven years.

Secondly, there are significant differences between the Australian and American financial cultures. Australians will pay their mortgages no matter what. It's part of who we are as a nation and what we have been taught since we were kids (a man's home is his castle). Americans on the other hand, are more willing to declare bankruptcy and start again. This obviously has a significant impact on the number of sub prime mortgages that are likely to become delinquent.

Lastly, as market share has increased and interest rates begin to rise once again, banks are in the position (for the first time since the 90's) to actually increase net interest margins. Some reports suggesting that an increase of 15 to 25 basis points (over any increases in cash rates) for a standard loan over the next quarter is a very real possibility. In real terms, this would translate to a 10 to 20 point rise (after increased costs) to the banking sector's bottom line.

It's not surprising then that the Australian banks have outperformed their peers in the US, in some instances by as much as 70%.

Comparing CBA and Citigroup (USA)



At present there are some significant opportunities as a result of the recent and unnecessary sell down of our banking sector. NAB which has been at the mercy of the markets for their recent US acquisition (which accounts for less than 1% of their business), remains a fundamentally strong company, and, at prices that we haven't seen in 12 months, may present an excellent opportunity for the short to medium term rebound.

Leyland
Private Asset Management

Leyland Private Asset Management ABN 75 081 890 799 AFS License 223419
Level 9, 71 Walker St North Sydney NSW 2060 Ph: +612 8920 0777 Fax: +612 8920 0722
Suite 7, 493 Toorak Road Toorak VIC 3142 Ph: +613 9826 2929 Fax: +613 9826 2337 www.leyland.com.au

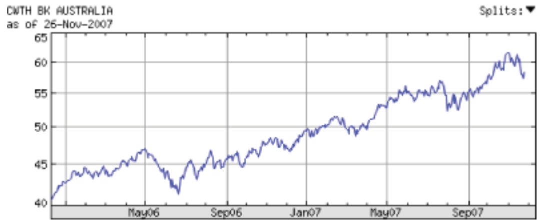
Banking Sector cont'd

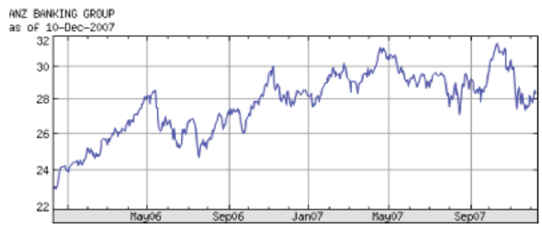
The last 2 years has seen exceptional growth for CBA. While some would argue that the PE premium (15.8x) would suggest that it is over priced, it is important to remember that the internal improvement through cultural change, lead by Ralph Norris, is still in its infancy. Coupled with the recent market share gains, its cost control capabilities and the upcoming opportunity to increase interest margins, there is very good reason to suspect that it will continue to deliver earnings and dividend growth.

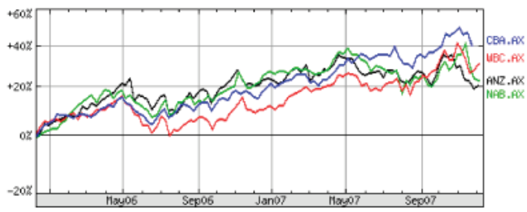
Over at Westpac, a change in management has seen the company actively refocus their strategy to become a more customer friendly organisation. In doing so they have succeeded in breaking down a number of barriers that have held management back from achieving their potential. With their exposure to interest margin increases and their access to capital and liquidity – in an environment that is starved for it – Westpac's conservative historical approach to lending now sees it exceptionally well placed to take advantage of the current market environment. The recent acquisition of Rams sees Westpac increasing their access to customers, while continuing to improve their company image.

While there can be no guarantee that the Australian banking sector is not directly exposed to any significant sub prime fall out, given the most recent information available it would seem that the Australian banking sector offers an excellent opportunity to buy quality companies that have been unjustifiably sold down.

	Share price	Forecast EPS (08)	PE	Forecast Growth (08)
CBA	$60.00	$3.85	15.8	13.4%
WBC	$29.50	$2.06	14.3	11.3%
NAB	$38.50	$3.07	12.8	13.1%
ANZ	$28.00	$2.26	12.5	10.7%







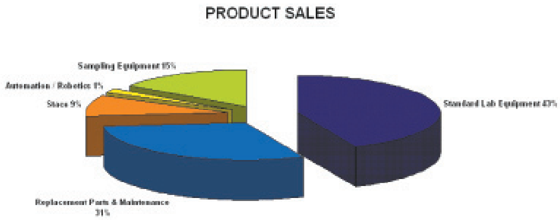
Leyland Private Asset Management
Leyland Private Asset Management ABN 75 081 890 799 AFS License 223419
Level 9, 71 Walker St North Sydney NSW 2060 Ph: +612 8920 0777 Fax: +612 8920 0722
Suite 7, 493 Toorak Road Toorak VIC 3142 Ph: +613 9826 2929 Fax: +613 9826 2337 www.leyland.com.au

Essa Australia (ESS)

Price $1.32 Market Cap $67m

Essa designs and manufactures mineral sampling, sample preparation and metallurgical testing equipment for commercial laboratories and mining companies. The company is a world leader and is renowned for product innovation, quality and reliability. Essa is enjoying unprecedented levels of demand for its machines amidst the current commodities boom.

Most of Essa's revenues are derived from the sale and servicing of standard lab and sampling equipment. Although up-front margins are slim, the company is able to earn fat margins from the supply of parts for ongoing maintenance of machines. This supply of parts results in a recurring revenue stream which grows as the user base expands. Overall net profit margins for the company are a healthy 11% of sales.



An exciting growth avenue for Essa is the development of automated laboratory systems. Management believes automated systems will be the future of mineral testing. Automation overcomes a number of problems, namely skilled labour shortages, occupational health and safety hazards and inconsistent results which arise from human error.

The company recently finalised its first major order to supply a world leading laboratory group, SGS, with two automated systems worth $3.5 million each. Pre-contract acceptance has been completed and the machines are due for delivery in 2008. To put this order into perspective, the entire company generated sales of $28 million in FY2007. It is likely that Essa will secure further major sales of automated systems in coming years.

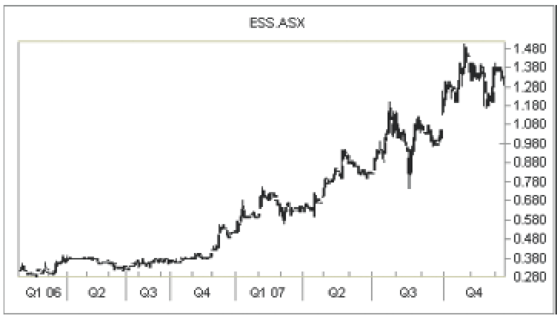
The longer term growth outlook for Essa is exceptional. Multiple sales of automated laboratory systems could change the company's growth profile dramatically. Furthermore, organic growth from traditional lab and sampling equipment should remain strong as mining activity and exploration spending levels stay at record highs.

Organic growth should be helped by geographic expansion, with the establishment of a sales presence in Russia and a new sales office and manufacturing facility in Brazil. Essa will also benefit from a growing contribution by Stace, a recently acquired business which supplies specialist engineering services to the marine industry but has started to move into the mining sector.

Essa's management recently provided guidance for a strong increase in sales and an overall increase in net profit for FY2008. Profit growth in the first half of FY2008 is expected to be flat as the company incurs establishment costs for the Brazilian operations and a new warehouse in Western Australia. The company is currently paving the way for longer term growth and represents an exciting small-cap investment opportunity for coming years.

	FY2006A	FY2007A	FY2008E
Sales ($million)	18.1	28.4	35.2
Net Profit ($million)	1.8	3.2	4.4
EPS (c)	4.1	7.4	8.5
DPS	2.5	4.5	5.5
P/E Ratio		17.4x	15.1x
Dividend Yield		3.5%	4.3%

Source: Consensus Estimates



Leyland Private Asset Management

Leyland Private Asset Management ABN 75 081 890 799 AFS License 223419
Level 9, 71 Walker St North Sydney NSW 2060 Ph: +612 8920 0777 Fax: +612 8920 0722
Suite 7, 493 Toorak Road Toorak VIC 3142 Ph: +613 9826 2929 Fax: +613 9826 2337 www.leyland.com.au

MARKET UPDATE

KLM Diversified Infrastructure (KIL)

Price $1.05 Market Cap. $211m

KFM's Diversified Infrastructure and Logistics Fund was established to invest in logistics and Stevedoring businesses in Australia. The driver of the fund is Chris Corrigan the former chief executive of Patrick corporation who is a member of the investment committee. The fund was listed on the stock exchange in January of this year.

The unlisted current investments are detailed below

Business	Activities	KIL Investment ($m)[1]	% of Business Owned by KIL
P&O AGS	Stevedoring of vehicles, bulk and break bulk	30.3	20.3%
POTA	Port related land logistics	18.8	25.0%
POWM (AAT)	AAT is the owner and manager of infrastructure used by general stevedores	9.4	13.3% (6.6%)
NSS	Stevedoring (predominantly minerals) in North Queensland	7.7	19.2%
Freight Links	Asian based and focussed logistics company	9.5	4.7%[2]
TOTAL		75.7	

The investments have been put into the trust and are currently valued at the original purchase price. Most of the assets were purchased in 2004. The company is capitilised at $211mil with net Assets of $200mil.

The major unlisted investment is P&O Automotive and General Stevedoring which is one of two general stevedores operating nationally. They have permanent operations in 24 multi purpose ports around Australia.

There are three key business activities

- Stevedoring of motor vehicles
- Stevedoring of bulk (e.g. minerals, cement, grains)
- Stevedoring of break bulk (timber, steel, machinery etc)

The managing director of P&O AGS is Don Smithwick, formerly the MD of Patrick's equivalent business.

The business has no external debt and generates strong cash flows. The business should improve with the growth of the imported car market, the global demand for commodities and the continued strength in infrastructure and mining investment. Non containerized cargo volume is expected to increase by 5 - 6 % per annum over the medium term.

POTA is the next largest unlisted investment and it provides port focused land logistics services. Again the managing director was the general Manager of the equivalent business at Patrick. Many of the operational management are also formerly Patrick's employees.

The business consists of container transport, storage customs/quarantine, rail terminals and International freight forwarding. Growth will continue particularly in a strong GDP environment. The high Australian dollar will continue to lead to an increase in imported volumes.

POWM /AAT

AAT holds leases over national facilities. The main business is in automotive and non container stevedoring which operates in all major ports except Fremantle. AAT is currently undertaking a major capital expenditure program in Port Kembla.

The other smaller businesses include NSS which operates stevedoring in North Queensland. The products that are stevedored are mainly mining related.

FREIGHT LINKS

This is a growth business with assets in China, Singapore, Malaysia and Thailand. There are many synergies with the Australian businesses. The investment value is largely underpinned by strategic real estate.

LISTED INVESTMENTS

KLM also has many of the well known infrastructure companies that are listed on the ASX such as Babcock and Brown Infrastructure, Duet, Powers Trust and Spark Infrastructure to name a few. The total value of the listed vehicles is around $70 million

In summary, the trust consortium has packaged together a number of key stevedoring and port related assets with quality management, many of whom ran the equivalent businesses at Patrick. The other shareholders in the businesses add expertise and experience with such names as Wilhelmsen Kawasaki and Kaplan Private equity. Chris Corrigan, the former head of Patrick is on the investment committee. The list of listed infrastructure assets gives them some diversification and liquidity, should that be required in the future for other unlisted entities.

As an interesting comparison we cover Asciano in our next article.

Leyland Private Asset Management

Leyland Private Asset Management ABN 75 081 890 799 AFS License 223419
Level 9, 71 Walker St North Sydney NSW 2060 Ph: +612 8920 0777 Fax: +612 8920 0722
Suite 7, 493 Toorak Road Toorak VIC 3142 Ph: +613 9826 2929 Fax: +613 9826 2337 www.leyland.com.au

MARKET UPDATE

Asciano Limited (AIO)

Price $7.68 Market Cap. $5bn

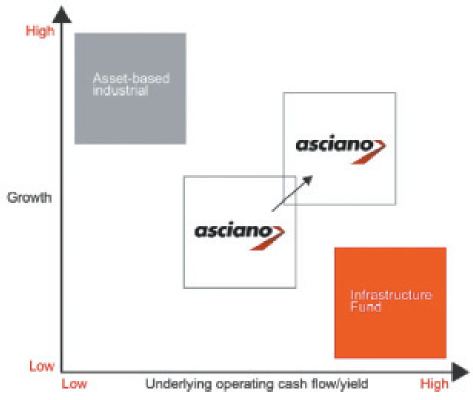
Background

When TOL purchased Patrick they were required to demerge some of their infrastructure businesses from their logistics assets; this resulted in the creation of Asciano operations which first listed in June 2007.

Since listing, the share price has fallen from a high of $11.64 to a recent low of $7.06, which provides investors with an opportunity to purchase shares at close to net asset backing; however we do advise caution as the discount is due to a lack of strategic clarity.

The market appears to be confused as to whether Asciano is an infrastructure company which is valued on a dcf basis according to future cash flows, or an operating business which is valued according to earnings. Asciano also operates in an industry with high barriers to entry.

At the recent investor briefing Asciano stated that it intends to move up the growth curve, but they have not clearly outlined their strategy, except to say they intend to move from being an infrastructure company to an industrial company and that they are looking for acquisitions over a large geographic area:



Source: Market Briefing

Asciano's operation are best explained by separating them into two main categories; rail (Pacific National) and ports (Patrick); these two businesses own and operate four container terminals, bulk export facilities, stevedoring equipment and associated services, and extensive rail operations.

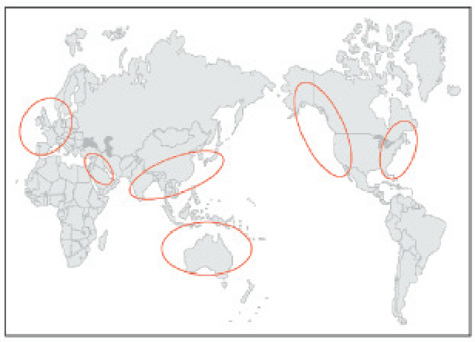
RAIL

Asciano's rail business - Pacific National - is Australia's leading provider of bulk haulage services for coal, grain and bulk industrial products. Pacific National also provides interstate rail freight services to freight forwarders and steel manufacturers.

Pacific National has annual revenue of approximately $1.5bn and has a fleet of over 600 locomotives and 14,000 wagons.

In their Bulk Services division, Pacific National has historically carried Coal and Grain and has also supplied services to the mining sector. With the recent drought and the booming resource sector, Pacific National is concentrating on increasing its presence in the mining haulage business and minimizing their exposure to grain, which can be a volatile business.

Pacific National also operates Intermodal Services which services steel manufacturers and the freight industry with 234 locomotives and 4,800 wagons.



Leyland Private Asset Management

Leyland Private Asset Management ABN 75 081 890 799 AFS License 223419
Level 9, 71 Walker St North Sydney NSW 2060 Ph: +612 8920 0777 Fax: +612 8920 0722
Suite 7, 493 Toorak Road Toorak VIC 3142 Ph: +613 9826 2929 Fax: +613 9826 2337 www.leyland.com.au

MARKET UPDATE

Asciano Limited (AIO) cont'd

PORTS

Through Patrick's ports and stevedoring business, Asciano operates container terminals with operations in Australia's four largest container ports and provides a network of ports-related freight services and logistics to importers and exporters. Asciano is Australia's leading operator of private ports and bulk cargo terminals, and the country's largest provider of bulk and general stevedoring services.

Patrick achieved revenues in 2007 of $900m.

Patrick own and operate terminals in Melbourne, Sydney, Brisbane and Fremantle. They also provide logistics and other port services which allows for a seamless service between the rail and ports business.

Management

Asciano is led by former TOL heavyweight Mark Rowsthorn. Mark spent nearly 20 years as the right hand man to Paul Little at TOL and is regarded by many as being instrumental in the success of TOL. The success or otherwise of Asciano's growth strategy will be largely dependent upon Rowsthorn's execution.

Outlook

Asciano is led by a good quality CEO and holds some good quality assets in its stable. Their aborted Brambles takeover, lack of firm direction in relation to strategy, short independent operating history and potential ACCC issues lead us to be cautious in the short term until these issues are resolved.

OTHER

Asciano also invests in a number of strategic joint ventures, including Patrick Autocare (processing, storage and distribution of motor vehicles) and AAT (logistics and freight forwarding).

Pacific National	Patrick	Toll
Rural & Bulk • Grain • Industrial • General Freight • Fast Track **Coal** **Intermodal** **Pacific National Queensland** **Pacific National Tasmania** **Operations Services** **Network & Access**	**Terminals** **Port Services** **Autocare** **General Stevedoring** **Port Link**	**Toll Ports** • Ports • General Stevedoring

Leyland Private Asset Management

Leyland Private Asset Management ABN 75 081 890 799 AFS License 223419
Level 9, 71 Walker St North Sydney NSW 2060 Ph: +612 8920 0777 Fax: +612 8920 0722
Suite 7, 493 Toorak Road Toorak VIC 3142 Ph: +613 9826 2929 Fax: +613 9826 2337 www.leyland.com.au