**CHOISEUL INVESTMENTS LIMITED**
**2010 ANNUAL GENERAL MEETING**
**FRIDAY 26 NOVEMBER 2010 AT 11.30 AM**
**AT THE MACQUARIE GRADUATE SCHOOL**
**OF MANAGEMENT, LEVEL 6, 51-57 PITT STREET, SYDNEY**

## CHAIRMAN'S ADDRESS

Choiseul's underlying operating profit for the 2010 financial year was $19.6 million. This was 9.4% less than the prior year.

The fall in profit was due to a reduction in dividend income from the long term investment portfolio and a reduction in interest income.

The investment income in the first half of the 2010 year of $9.1 million was 22% lower than the previous corresponding period as many companies continued to feel the effects of the GFC and paid lower final dividends for their 2009 financial year.

Pleasingly investment income in the second half of $9.7 million was 5.4% higher than the previous corresponding period.

The interest income was affected by generally lower rates over the 2010 year when compared with the 2009 year. For the first three months of the 2010 year, the official interest rate was just 3% per annum. Over the following nine months interest rates increased six times so that the official rate was 4.5% per annum in June 2010. In the 2009 year interest rates fell from 7.25% to 3% per annum.

Underlying earnings also benefitted from the additional $18 million of funds raised through the issue of 3.9 million shares under the Share Purchase Plan in October 2009.

The weighted average earnings per share based on underlying operating profit were 20.5 cents per share. This was 13.9% lower than the 23.8 cents per share earned in the previous year.

During the year Choiseul earned $1.6 million in special investment revenue which is not included in the underlying earnings per share as special dividends are unlikely to be received each year.

Realised gains, which are also not included in underlying operating profit, were recorded in the first half of the year mainly due to the acquisition of Lion Nathan by Kirin Holdings Company.

Choiseul's ordinary fully franked dividend for the year was 21.0 cents per share. The interim dividend of 10.5 cents per share was 8.7% lower than the previous interim dividend and the final dividend was maintained at 10.5 cents per share.

The lower interim dividend was a direct result of the 22% fall in dividend revenue in the first half.

Choiseul's full year ordinary dividend, which amounted to $20.3 million, represented a payout ratio of 103.5% of underlying operating profit.

With a sound level of cash available for investment at 30 June 2010 and with the Choiseul shares trading below net asset backing, the Share Purchase Plan was deferred.

Total shareholder returns are a combination of dividend income and capital growth net of fees and tax.

LICs typically measure the total return of their assets by considering the movement in net asset backing combined with dividends paid. It should be noted that the net asset backing is reduced by tax payments and by the costs of management and administration, including ASX listing fees and share registry costs.

Choiseul's Total Portfolio Return for the ten year period to 30 June 2010 was 10% per annum compounded. This is 3% higher than the compound Accumulation Return of the All Ordinaries Index of 7% per annum for the same period. The Accumulation Return does not take into account any tax or fees.

The Total Shareholder Return, which is based on the movement in Choiseul's share price together with dividends paid, was 10.5% per annum compounded over ten years.

The difference between the Total Portfolio Return and the Total Shareholder Return is due to the premium or discount at which the shares trade relative to the net asset backing. For example in June 2000 Choiseul shares were trading at a discount of 12.3% whereas in June 2010 the discount was 8.6% and so the TSR is greater than the TPR for that ten year period.

Most companies in the portfolio have now announced their dividends to be paid in this half and it was pleasing to see a lift in dividends from many of the companies in the portfolio. Excluding the early recognition of the Milton interim dividend, Choiseul's weighted average underlying earnings per share is likely to be approximately 11% higher than the previous corresponding period.

On 18 November 2010 Choiseul announced that it had declared a fully franked interim dividend of 10.5 cents per share. The dividend, which would normally be declared in early February, was declared after consideration of the forecast of the underlying earnings per share for the six months ended 31 December 2010. The payout ratio is expected to be more in line with Choiseul's historical ratio.

## MANAGER'S ADDRESS

At 30 June 2010 Choiseul had total assets of $471 million of which approximately 89% were investments in Australian listed companies and trusts, 10% was in cash and 1% in other liquid assets.

The investment portfolio, which comprised 67 companies, seven property trusts and two infrastructure trusts, was valued at $421 million.

While Choiseul is not an index investor the classification table on the screen shows Choiseul's portfolio composition by sector.

Choiseul's investments in the banking sector made up 28% of the total portfolio at 30 June 2010. The major holdings in this sector included Commonwealth Bank NAB Westpac and the two regional banks. With the exception of Bank of Queensland each of these banks did provide a lift in dividends in the half year to 31 December 2010.

The Diversified Financials represented 24% of the portfolio, with the larger holdings being W H Soul Pattinson followed by Milton Corporation Limited. The W H Soul Pattinson holding has performed very well for Choiseul over the last couple of years. While many companies cut their dividend in this period it has been able to increase its ordinary dividend and pay special dividends.

Stocks in the Materials sector made up 12.3% of the portfolio. The larger holdings here are BHP Billiton and Brickworks Limited. The dividend from BHP while growing in USD terms has been impacted by the strengthening Australian dollar relative to the US dollar. Brickworks has performed exceptionally well compared with many other stocks in the construction materials sector. Brickworks maintained its dividend through the worst of the GFC and managed to increase it in the 2010 year.

Now looking at the Top 10 investments and the stocks not already discussed, QBE represents 6.5% of the portfolio. Our view is that it is a well run company with a diversified insurance portfolio and a strong risk management culture.

Wesfarmers is a $32 billion conglomerate and whilst it did cut its dividend in 2009 it was pleasing to see it lift both the interim and final dividend in 2010.

Campbell Brothers is the 10$^{th}$ largest holding in the portfolio. This has been a long term investment for Choiseul with its original investment dating back to the times it was a soap manufacturer based in Brisbane. Today it is predominantly a global laboratory testing business with a strong growth outlook.

Over the year the value of the investment portfolio increased by $52 million. Choiseul continued to invest cautiously over the year with a net $19 million invested in equities. Increases in the market value of the investments added a further $33 million to the value of the portfolio.

This revaluation increase lifted the net assets per share before provision for tax on unrealised capital gains by 8% to $4.87 at 30 June 2010.

The following slide shows the sectors in which Choiseul invested over the twelve months to June 2010 and the revaluation increments of each sector.

The investment in the banks comprised $1.5 million in ANZ and $0.7 million in the Bank of Queensland issue.

The investment in the Consumer Staples consisted of Coca Cola, Fosters Group, Metcash and Woolworths. The disposal was Lion Nathan which was acquired by scheme of arrangement by Kirin.

The investment in telecommunications was largely Telstra. The company continues to suffer from uncertainty but it does appear that the additional investment in improving its customer service and product offering is starting to gain some traction.

This next slide shows the Top 10 additions for the year. Most of these companies would be well known by Choiseul investors. Perhaps Invocare may be the odd one out in this regard. This company provides funeral services around Australia under a number of brands including White Lady and Simplicity Funerals. It is a well managed business that has performed well throughout the GFC and has even managed to continue to grow its dividend.

The events of the past couple of weeks have shown that there are still many risks to the global recovery. The improvement in the Australian economy is being led by the resources sector however the recovery across all sectors is not consistent. Our investment strategy in these times is to remain cautious but continue to take advantage of the long term opportunities that will inevitably arise.