CHOISEUL INVESTMENTS LIMITED

CHAIRMAN'S ADDRESS

I am pleased to report that your company, Choiseul Investments Limited, is in a very sound financial position.

The company continues to be debt free and the net assets, before providing for tax on unrealised capital gains, at 30 June 2009 were valued at $421 million. These net assets included cash and term deposits totalling $45 million.

The strong debt free balance sheet and the closed end capital structure enabled Choiseul to continue to operate, throughout the year, without any pressure to sell investments to repay debt or meet redemptions. In fact Choiseul was able to continue to invest in opportunities as they arose. Frank will provide more detail of these investments in his address.

With investments representing nearly 90% of its total assets, Choiseul's net asset backing is highly correlated with the value of the stock market. Whilst we are never happy with a fall in the value of the investments, we were pleased that the 18% reduction in net asset backing was a better performance than the 26% fall in the All Ordinaries Index over the financial year.

The underlying operating profit of $21.7 million was similar to the previous year's result, however it was assisted by having an additional $56 million in cash from a share placement in August 2008.

Investment revenue was lower as many companies sought to retain cash and alter their equity and debt structures. Earnings on the liquid assets were also impacted as the RBA lowered official cash rates by 4.25% to 3% over the year.

The weighted average earnings per share based on underlying operating profit were 23.8 cents per share down from 26.6 cps in the previous year. This was the first time in 15 years that the underlying earnings per share were less than the previous year.

The underlying operating profit excludes special dividend income, net realised gains and impairment losses. When these items are taken into account the net profit after tax for the 2009 year was $19.8 million.

Special dividends of $0.4 million were received during the year compared with $1.4 million in the previous year. Special dividends in the financial year to date currently total $1.6 million. Special dividends by their nature will vary from year to year and therefore Choiseul excludes them from the underlying operating profit.

Net realised gains are also excluded on the basis that they vary significantly each year with the major factor normally being the level of mergers and acquisitions that take place in a year. In the 2009 year Choiseul recognised a gain arising from the Westpac merger with St George Bank but this gain was offset by losses arising from the sale of companies that no longer met our investment criteria. The net after tax gain for the 2009 year was $2.5 million.

To comply with accounting standards an after tax impairment loss of $4.8 million was transferred to the income statement from the asset revaluation reserve.

During the year, Choiseul was able to maintain its ordinary fully franked interim dividend at 11.5 cents per share. However, underlying operating profits in the second half were lower than the previous corresponding half and with the prospect of further cuts to investment income in the 2010 year the ordinary fully franked final dividend was lowered to 10.5 cents per share.

Choiseul has a track record of increasing its ordinary dividends as underlying operating profit increases. Whilst the company pays out a high proportion of profits as dividends each year, it prefers not to pay out more than its earnings as this is unsustainable and not in the best long term interests of the company.

Over the ten years since 1999, the full year ordinary dividend has increased by 2.3 times from 9.4 cents per share to 22 cents per share. Over the last five years the dividend payout ratio has increased from 86.5% to 94.3%.

In August 2008 Choiseul raised a net $56 million at $5.10 per share, through a share placement to professional and sophisticated investors. As well as providing the company with additional funds for investment the placement attracted 1,200 new shareholders to the register. Choiseul now has more than 4,100 shareholders and there has been a definite improvement in the liquidity of its shares.

The economy has performed better than most feared it would and there are signs that it is beginning to improve. The share market has now lifted well off its lows in anticipation of improving company results.

Choiseul's net asset backing, before provision for tax on unrealised capital gains, at 30 September 2009, was $5.41 per share. This is 19% higher than at 30 June 2009.

We do not expect company profits, and their dividends, to lift significantly in the short term, at least.

Sixty per cent of the companies and trusts in the Choiseul portfolio have reported their results and announced their dividends that will contribute to Choiseul's first half underlying operating profit.

The majority of these have declared dividends lower than the previous corresponding half. Consequently the unaudited results for the first quarter to September 2009 indicate that underlying operating profit is lower than the previous corresponding quarter.

The major companies in Choiseul's portfolio that are yet to report include the three major banks, with a September year end. The consensus view is that these banks are likely to lower their final dividend.

Consequently, your directors expect that the underlying operating profit, for the half year to December 2009, will be less than that of the previous corresponding half.

However, in the absence of unforseen circumstances, Choiseul's interim dividend is expected to be in line with the 2009 final dividend of 10.5 cents per share.

Choiseul is positioned well to continue to invest in sound companies that are expected to pay increasing dividends. The recently completed Share Purchase Plan has provided an additional $18 million to invest and we will continue to look for the right opportunities to do so. However at present the market does appear to be pricing in, improving profit outlooks, which may not immediately manifest itself in increased dividends.

MANAGER'S ADDRESS

This morning I would like to open with a discussion about the composition of the investment portfolio and the major movements that occurred during the 2009 financial year.

Choiseul invests in Australian listed equities on a long term basis with the objective of deriving a growing annuity stream of investment income for distribution to shareholders as fully franked dividends.

The portfolio, which consists of a total of 68 companies and trusts, was valued at $369 million at 30 June 2009. The classification table shows the movement in each sector over the financial year.

The largest sector was the banking sector, which made up 28% of the total portfolio at 30 June 2009. During the year Choiseul's major purchases in this sector were CBA, including participation in the issue at $26 per share and Westpac which also included participation in the $16 per share placement.

From a share price perspective the banking portfolio performed relatively well with a net devaluation of 11.6% compared with the fall in the All Ordinaries Index of 26%.

The next largest sector in the portfolio, diversified financials, also performed relatively well. The major holdings in this sector are Washington H Soul Pattinson, which was valued at $45.7 million and Milton Corporation Limited, which was valued at $24.6 million. There were no additional funds invested in these companies during the year. The major purchase in this sector during the year was in ASX Limited.
The sector with the greatest value of purchases, which totalled $4.5 million during the year, was Consumer Staples, with $1.7 million invested in Coca Cola Amatil, and $1.4 million invested in Woolworths.

The Materials sector represented 13.7% of the portfolio at year end. The larger holdings in this sector are BHP Billiton Limited, Brickworks Limited and Sims Group. During the year additional funds were invested in BHP Billiton, Incitec Pivot and One Steel. The companies in this sector which were sold during the year were Gunns Limited and Wattyl Limited.

Companies that are new to the portfolio this year are: Coca Cola Amatil, Incitec Pivot, Invocare, Sonic Healthcare, Transfield Services and Worley Parsons.

Three companies dropped out of the Top 20 holdings in the year to 30 June 2009. St George Bank, which was valued at $18 million in 2008, merged with Westpac through a scheme of arrangement whereby St George shareholders received 1.31 Westpac shares for each St George share. Consequently Westpac is now Choiseul's fourth largest holding.

Leighton Holdings and Suncorp-Metway dropped out of the Top 20 due to a fall in their share price.

New to the Top 20 this year are Telstra, Metcash and AGL. Metcash's inclusion was due to strong positive share price movement as well as additional investment. The inclusion of Telstra and AGL was due to increased investment and better relative share price performance.

Choiseul is a long term investor in companies and trusts and does not sell simply because of a movement in share price, rather the focus is on the long term outlook for dividends. Consequently, even though Choiseul has a diversified portfolio, a fall in the share market will impact on Choiseul's net asset backing.

The net asset backing finished the year 17.9% lower at $4.53 compared with $5.52 per share at 30 June 2008. The Total Portfolio Return for the year, which takes into account the movement in the net asset backing and the dividends paid during the year, was minus 13.5%. The Accumulation Return of the All Ordinaries Index for the year was minus 22.1%.

We believe that the ten year returns are a better indicator of Choiseul's long term performance. Over the ten year period to 30 June 2009 the Total Portfolio Return for Choiseul was 9.9% per annum compounded compared with the Accumulation Return of the All Ordinaries Index of 7.3%.

It should be noted that Choiseul's Total Portfolio Return is determined after taking into account corporate taxation and administration costs whereas the Accumulation Return of the All Ordinaries Index does not account for either.

The Total Shareholder Return, which is based on the movement in share price together with dividends paid, was 10.2% per annum compounded over ten years.

Choiseul's net investment revenue for the 2009 year of $23.5 million, which included income on the additional funds available to the company from the share placement in August 2008, was marginally higher than the prior year.

The investment revenue was affected by a reduction in dividend and trust distributions, particularly in the second half of the year, when 38 companies in the portfolio reduced their dividends compared with the previous corresponding period, whilst only 14 increased their dividends.

Collectively the diversified financials sector was the worst performer in the second half. Macquarie Group cut its final dividend from $2 to $0.40 per share and Perpetual reduced its dividend from $1.89 to $0.40 per share.

The banks with a September year end cut their dividends. NAB cut its interim dividend by 25% and Westpac cut its dividend by 20%.

The fall in trust distributions was significant especially given the property trusts represented less than 4% of the portfolio at the beginning of the year.

In the insurance sector, the major falls in revenue in the second half came from IAG Group and Suncorp-Metway.

In terms of dividend paid, BHP was the best performing company in the Choiseul portfolio. It increased both dividends paid during the year with its interim dividend more than double that of the previous corresponding half.

In addition to lower ordinary dividends being declared interest rates continued to fall throughout the year, with the official cash rate reaching a low of just 3% in April 2009. It remained at 3% for the rest of the financial year and has only recently been increased with a 25 basis points lift announced on 6 October 2009.

One of the features of the 2009 financial year was the number of companies that were forced to raise equity at significant discounts to ensure that their balance sheets were properly funded and to enable debt facilities to be repaid or extended.

Choiseul took advantage of these opportunities and, in some instances, realised a trading profit. Total trading profits for the year amounted to $0.3 million.

Whilst the underlying operating profit for the year of $21.7 million was consistent with the previous year, the net profit after tax of $19.8 million was lower.

As expected, special dividends received in the year were well down on the previous year.

Mergers and acquisition activity was significantly lower than the previous year and consequently net realised gains on disposal of investments reduced.

Choiseul was required to take an impairment charge of $4.8 million to comply with the accounting standards. Although Choiseul revalues its investments continuously and its net asset backing reflects the market value of these investments, it was required to test investments that were trading below cost, for impairment on the last day of the reporting period. If an investment was considered to be impaired then the loss was transferred from the revaluation reserve to the income statement. The amount of the loss was determined by reference to the spot price at the end of the period which may not be indicative of its long term fair value. Any subsequent increase in value can not be reflected in the income statement until the asset is sold.

The accounting standard in question is under review and there is an expectation that it will be amended shortly.

The economy has performed better than previously expected and does appear to be improving. There are many commentators suggesting the recovery will be slow however the equity market, which usually moves ahead of the anticipated lift in profits, has rebounded significantly.

It seems the market is looking well ahead and this makes it difficult to identify the true long term buying opportunities. Choiseul is reasonably fully invested and can afford to be patient.