

CHAIRMAN'S REPORT TO SHAREHOLDERS YEAR ENDED 30 JUNE 2016

Dear Shareholder

The Company's Appendix 4E and the Financial Report for the year ended 30 June 2016 were lodged with the Australian Securities Exchange (ASX) on 24 August 2016 and are available to be downloaded from the company's website or the ASX website.

I have pleasure in presenting the Group's consolidated results for the year ended 30 June 2016.

Group's operations and results

Profit for the year ended 30 June 2016 was \$41,812,000 compared to \$37,418,000 for 2015, an increase of 11.7%.

Total revenue for the year was \$43,279,000 compared to \$38,978,000 during the prior year. Dividends and distributions received increased by \$4,527,000 or 11.8% from \$38,258,000 to \$42,785,000. Included in these dividends and distributions were special dividends totalling \$2,465,000. Almost all of the special dividends received were from Event Hospitality and Entertainment Limited (formerly known as Amalgamated Holdings Limited). Special dividends received in the prior year totalled \$640,000. Dividends and distributions received, before special dividends, increased by \$2,702,000 or 7.2%. Interest income was \$491,000 compared to \$720,000 in the prior year. The fall in interest income resulted from lower interest rates, with the weighted average interest rate on term deposits decreasing from 3.46% in the prior year to 2.96%, and a reduction in average funds on deposit during the year of \$5.1 million.

Administration expenses amounted to \$733,000, compared to \$758,000 in the previous year. The management expense ratio (MER) reduced from 0.09% in the prior year to 0.08% for the year to 30 June 2016.

Earnings per ordinary share

Basic and diluted earnings were \$1.579 per ordinary share for the year to 30 June 2016 compared to \$1.413 per share for 2015.

Dividends

On 24 August 2016 the directors declared a final fully franked dividend of 68 cents per ordinary share plus a special fully franked dividend of 7 cents per ordinary share, payable on 26 September 2016. Directors have declared a special dividend in recognition of the high level of special dividends received during the year. Total dividends paid or payable in respect of ordinary shares for the financial year ended 30 June 2016 amount to \$1.14 per share, before the special dividend, an increase of 5.6% on that paid for the prior year. After taking into account the special dividend, the percentage increase in dividends to ordinary shareholders is 12.0%.

The interim dividend paid in March 2016 was increased by 7.0% (from 43 to 46 cents) as Directors' continue to progressively increase the level of the interim dividend as a percentage of total annual dividends.

A final preference dividend of 7 cents per share fully franked is also payable on 26 September 2016.

Dividends (cont.)

The record date for both the ordinary and preference final dividends is 1 September 2016.

The Dividend Reinvestment Plan remains suspended.

Net tangible asset backing

The net tangible asset backing for each issued ordinary share at 30 June 2016, prior to the payment of the final dividend noted above and before provision for estimated capital gains tax in respect of unrealised investment portfolio gains, was \$35.52 (2015: \$34.51). Although the Board has no present intention of disposing of any of the Group's equity investments, the net tangible asset backing per share after provision for tax on unrealised capital gains was \$29.33 (2015: \$28.66). The relevant figures as at 31 July 2016 were \$36.79 and \$30.28 respectively.

Investments

The market value of the equity investment portfolio as at 30 June 2016 was \$919,363,000 compared to \$893,583,000 at the prior year end. Short term cash deposits at 30 June 2016 amounted to \$14,100,000 (2015: \$13,950,000).

The Board's policy is to acquire additional investments in equities that meet the criteria of providing high levels of income through predominantly fully franked dividends and have the potential for long term capital growth. The cost of equity investments purchased during the year to 30 June 2016 totalled \$11,611,000 (2015: \$23,380,000). Acquisitions above \$500,000 during the year were:

AMP	\$992,000
Challenger	\$500,000
Commonwealth Bank	\$1,708,000
Macquarie Bank	\$995,000
Medibank Private	\$502,000
Origin Energy	\$1,657,000
Santos	\$1,514,000
Transurban	\$519,000
Westpac Banking Corp.	\$1,893,000
Woolworths	\$993,000

The Group also received shares in CYBG PLC during the year, which had a market value at 30 June 2016 of \$2,290,000, when the National Australia Bank demerged its UK banking operations.

Consideration received on disposal of equity investments and capital returns during the financial year totalled \$130,000 (2015: \$2,299,000). Consideration from disposals in the prior year included proceeds from the redemption of bank hybrid securities and capital returns totalling \$2,254,000.

After adjusting for the above total investment acquisitions and disposals, the market value of the investment portfolio increased by \$14,301,000 or 1.6% during the year to 30 June 2016. This compares favourably to an decrease of 4.1% in the S&P/ASX 200 Index over the same period. On a total portfolio return basis (measured by the movement in NTA per share assuming dividends are reinvested), the return for the twelve months was 6.3% compared with an increase in the S&P/ASX 200 Accumulation Index over the same period



Investments (cont.)

of 0.6%. Decreases in the market value of the Group's holdings in banking and mining stocks during the year to 30 June 2016 were more than offset by an increase in portfolio market value of the Group's holding in Event Hospitality and Entertainment Limited.

The Group continues to hold its equity investments for the long term and does not act as a share trader nor does it invest in speculative stocks.

Annual Report and Annual General Meeting

Copies of the Annual Report and Notice for the Annual General Meeting, which will be held at 10.00am at The Reel Room, State Theatre Building, 49 Market Street Sydney, on Tuesday 18th October 2016, are expected to be distributed to shareholders by 15 September 2016.

A G RYDGE
Chairman

24 August 2016