

CHAIRMAN'S REPORT TO SHAREHOLDERS YEAR ENDED 30 JUNE 2020

Dear Shareholder

The Company's Appendix 4E and the Financial Report for the year ended 30 June 2020 were lodged with the Australian Securities Exchange (ASX) on 21 August 2020 and are available to be downloaded from the company's website or the ASX website.

I present to you the Group's consolidated results for the year ended 30 June 2020.

Group's operations and results

Profit for the year ended 30 June 2020 was \$38,115,000 compared to \$45,526,000 for the 2019 financial year, a decrease of \$7,411,000 or 16.3%.

The prior year result benefited from a significant increase in special dividends received, which totalled \$3,567,000. Special dividends in the year to 30 June 2020 totalled \$1,138,000, a decrease of 68%. Dividends and distributions received, before special dividends, decreased by \$4,590,000 (10.6%) from \$43,251,000 to \$38,661,000. This fall in dividends received largely occurred in the last quarter of the financial year when the COVID-19 outbreak caused several companies to conserve funds and either significantly reduce or defer dividend payments. The major impact on the Group's profit from this reduction or deferral of dividends came from the Group's bank investments. The prior year second six months results included dividends received or receivable from banks totalling \$6.4 million, as against \$2.2 million received or receivable in the six months to 30 June 2020.

With lower interest rates, interest income decreased from \$465,000 in the prior to \$360,000. The weighted average interest rate on term deposits decreased from 2.53% in the prior year to 1.88% and there was a small increase in average funds on deposit during the year of \$0.4 million.

Administration expenses were \$916,000, compared to \$870,000 in the previous year. The management expense ratio (MER) for the year ended 30 June 2020 was 0.10%.

Earnings per ordinary share

Basic and diluted earnings were \$1.440 per ordinary share for the year to 30 June 2020 compared to \$1.720 per share for 2019.

Dividends

On 21 August 2020 the directors declared a final fully franked dividend of 56 cents per ordinary share, payable on 21 September 2020. Total dividends paid and payable in respect of ordinary shares for the financial year ended 30 June 2020 amount to \$1.11 per share, a decrease of 14 cents per share, not taking into account the special dividend of 8 cents per ordinary share paid in respect of the prior year.

An interim dividend of 55 cents per ordinary share was paid in March 2020 and was consistent with the prior year interim dividend.

A final preference share dividend of 7 cents per share fully franked is also payable on 21 September 2020.

The record date for both the ordinary and preference final dividends is 2 September 2020.

The Dividend Reinvestment Plan remains suspended.

Net tangible asset backing

The net tangible asset backing for each issued ordinary share at 30 June 2020, 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 \$28.50 (2019: \$36.68). 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 \$24.65 (2019: \$30.66). The relevant figures as at 31 July 2020 were \$27.42 and \$23.88 respectively.



Investments

The market value of the equity investment portfolio as at 30 June 2020 was \$731,517,000 compared to \$945,446,000 at the prior year end. Short term cash holdings and term deposits totalled \$23,581,000 at 30 June 2020 (2019: \$23,211,000).

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 2020 totalled \$10,554,000 (2019: \$8,314,000). Acquisitions above \$500,000 during the year were:

BHP Group	\$1,005,000	Rio Tinto	\$1,492,000
Fortescue Metals Group	\$1,485,000	Santos	\$2,009,000
Iluka Resources	\$999,000	Tabcorp	\$503,000
Link Administration	\$1,009,000	Woodside Petroleum	\$1,002,000
Pendal Group	\$500,000		

During the period the Groups holding in Dulux was subject to a takeover offer and was disposed of for consideration of \$5,076,000. There was one other disposal resulting from a takeover, bringing the total consideration received from disposals to \$5,106,000. Capital returns received during the period totalled \$301,000 (2019 \$113,000).

The second six months of the 30 June 2020 financial year has seen market values for most of the Group's investments fall with the outbreak of the COVID-19 pandemic impacting on the global and Australian investment markets. Over the second six months we have seen the market value of the group's investments fall by 25.2%. Restrictions to suppress the spread of COVID-19 have had a significant impact on the businesses of the Group's largest investment, Event Hospitality & Entertainment. The market values of the Group's investments in banks have also seen large falls due the general economic impact of the pandemic. The market value of the Group's investment portfolio, after adjusting for investment acquisitions and capital returns, decreased during the year by \$219 million or 23%. The S&P/ASX 200 Index decreased by 10.9% over the financial year. 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 negative 19.4% compared with an decrease in the S&P ASX 200 Accumulation Index over period of 7.7%.

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.

Outlook

With a high level of uncertainty regarding the degree to which the economic impact of COVID-19 will persist, it is difficult to accurately predict future earnings. For the 2021 financial year it is anticipated that dividend income will be well down on that received during the 2020 financial year, as businesses take a conservative approach to the payment of dividends. Event Hospitality & Entertainment has announced that they do not currently intend to pay a final dividend for the year ended 30 June 2020 or an interim dividend for the half year ending 31 December 2020 and the dividend prospects from investments in a number of other industry sectors are in question.

We also consider that there will be continuing high market volatility that will require a patient approach in identifying new long term investment opportunities. We believe that given the quality of the businesses in the investment portfolio, they will persist through the current economic impacts of the COVID-19 pandemic.

Annual General Meeting and Annual Report

The Annual General Meeting will be conducted as a virtual meeting on Tuesday 20 October at 10 am. Copies of the Annual Report and Notice for the Annual General Meeting, with instructions regarding the Annual General Meeting, are expected to be distributed to shareholders by 16 September 2020.

A G RYDGE
Chairman

21 August 2020