

# DIVERSIFIED UNITED INVESTMENT LIMITED

ABN 33 006 713 177

## CHAIRMAN'S ADDRESS

DELIVERED BY MR CHARLES GOODE AT THE TWENTIETH ANNUAL GENERAL MEETING OF THE COMPANY HELD AT 147 COLLINS STREET, MELBOURNE ON THURSDAY 13 OCTOBER 2011 AT 9.00 AM

Ladies and Gentlemen,

Welcome to the twentieth Annual General Meeting of Diversified United Investment Limited.

The latest financial year saw modest gains in net asset value per share and our dividend income continued to recover. The Company's operating profit (before special dividends received) rose 18.6%. The net asset backing per share plus dividends paid rose 9.2%, which was behind the rise in the ASX 300 Accumulation Index of 11.9%.

The operating profit after income tax was \$21 million in the period to 30 June 2011, an increase of 21%. Leaving aside special dividends, the year's result reflects a 20% increase in income from dividends and trust income; lower interest received; and higher options premium and sub-underwriting income. Interest expense increased 7%.

In October 2010 \$6.6 million of new equity was raised through the Company's Share Purchase Plan by the issue of 2,351,680 new shares at \$2.81 per share.

The weighted average number of ordinary shares on issue for the year was 164 million as against 155 million in the previous year, an increase of 6%.

The operating earnings per share was 12.8 cents, compared to 11.2 cents for the previous year. This year special dividends of \$527,000 were received from Orica, Healthscope and Washington H Soul Pattinson. Last year a special dividend totalling \$150,000 was received from Washington H Soul Pattinson. Excluding special dividends, earnings per share were 12.5 cents, compared to 11.1 cents for the previous year.

The total profit for the year of \$21 million excludes net realised gains and losses which are transferred directly to the Asset Revaluation Reserve under revised accounting standards. Last year the total profit of \$16.3 million included \$1.1 million net realised losses after tax up to the date of the adoption of the new standards on 7 December 2009.

Bank borrowings were \$65 million at the end of the financial year, unchanged from last year, amounting to around 11% of the investment portfolio at market values. At this level of borrowings our annual interest expense was covered 6 times by investment revenue. Cash on hand at the end of the financial year was \$5M.

Operating expenses represented 0.17% of the average market value of the portfolio compared to 0.20% last year.

A final fully franked dividend of 7 cents per share has been paid which with the fully franked interim dividend of 6 cents brought the total dividend for the year to 13 cents per share fully franked, which was steady on last year. This is the third year the dividend has been held steady.

This year the final dividend did not include any Listed Investment Company capital gain dividend.

The net tangible asset backing per share after provision for the final dividend and based on investments at market values and after provision for tax on realised gains, but not net unrealised gains and losses, rose from \$2.87 at 30 June 2010 to \$3.01 at 30 June, 2011, a increase of 5%.

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This increase was in a year in which the Australian S&P/ASX 200 Price Index rose by 7%, while in the USA the Dow Jones Index rose 27% and the Standard and Poors 500 rose 28%, the UK Financial Times 100 Index rose 21%, and the Japan Nikkei – 225 Index rose 5%.

The performance of an investment in DUI based on the Net Asset Backing per share, assuming all dividends were reinvested, compared to the S&P/ASX 300 Accumulation Index over the one, three, five and ten year periods is as follows:

To 30 June 2011	DUI Net Asset Backing Accumulation % p.a.	DUI Share Price Accumulation % p.a.	S&P ASX 300 Accumulation Index % p.a.
1 Year	9.2	(1.8)	11.9
3 Years	(0.4)	(2.5)	0.3
5 Years	2.3	0.2	2.4
10 Years	7.7	7.9	7.2

The Annual Report provides details of the investments of the Company at 30 June 2011 and 30 June 2010, and the proportion of the market value of the investment portfolio held in each company.

At 30 June 2011 we were 99% invested in 41 Australian listed companies or trusts and 1% in cash and short term receivables.

The largest 25 equity investments comprised 92% of the portfolio and the details are set out on page four of the Annual Report.

The largest industry sectors were Resources 30%; Banking 28%; Retailing 6%; and Diversified Financials 6%.

The board has been concerned about the under performance of the portfolio over the last year and has been examining the portfolio weightings carefully.

Since the end of the financial year, we have sold our holdings in Leighton and Westfield Retail Trust and we have reduced our holdings in Sonic Healthcare and Woodside Petroleum. We have added to our holdings in Computershare, BT Investment Management, Australand, Stockland Group and Brickworks and added holdings in Iress, AMP and Ramsay Health Care.

At 30 September 2011 our borrowings were \$65M while cash and short term investments were \$6M. The portfolio was invested in the Banking sector as to 29%, Resources 27%, Diversified Financials 7%, Retailing 6%, Infrastructure 6%, Insurance 6% and Healthcare 5%.

Our net asset backing per share based on investments at market values and after provision for tax on realised gains, but not net unrealised gains and losses, and after provision for the final dividend was \$3.01 at 30 June 2011 and \$2.58 at 30 September, 2011.

DUI is a long term investor and does not intend disposing of its total portfolio. However, under current accounting standards, the Company is required to provide for estimated tax that would arise on a theoretical disposal of the entire portfolio. After deducting this provision the net asset backing per share was \$2.69 at 30 June 2011 and at 30 September 2011 was \$2.40.

Outlook:

There are many concerns on the international scene. In the US we have 9.2% unemployment and a budget deficit of around 10% of GDP. In Europe we have unemployment around 9%, budget deficits, sovereign risk due to the high level of government debt, and little growth. In Japan there is also little growth and the continuing impact of natural disasters. The Middle East has uprisings within countries and disputes between countries.

In this scene Asia is an oasis led by significant growth in China and India.

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In Australia our economic figures are to be envied with unemployment 5.2%, a modest deficit of 2-3% of GDP and heading for a surplus, little government net debt, and growth of 2-3%.

Yet when we look at the performance of the sharemarket since 1 January 2011 to 7 October 2011 we find the Dow Jones in the USA is down 4%, the FTSE 100 in London is down 10% and in Australia the ASX 200 is down 12%.

One wonders how this can be. We think it must be related to a lack of confidence within Australia and surprisingly that lack of confidence must be greater than in other countries.

We consider this reflects:

- (i) Concerns on the international situation.
- (ii) Lack of confidence in our government to be able to address issues that may arise in the future and the current handling of the carbon tax, resources rent tax, industrial relations; and inefficiencies in implementing government expenditure programmes.
- (iii) A move by individuals to be cautionary on consumption expenditure, to save more, and reduce their borrowings.
- (iv) Concern over the impact on the tradeable goods section of the economy, rather than resources, of the higher Australian dollar, and the structural change needed to adapt to the strength of the Australian dollar.

The situation we find ourselves in today arose out of the Global Financial Crisis of 2008 when the US found that its society was over-borrowed, there had been a housing boom, credit was readily available, the markets were not pricing for credit risk, and credit standards fell.

This caused a liquidity crisis that spread around the world and in many cases morphed into a solvency crisis. We were rescued by the action of governments to support the banking systems.

We now find these governments have high budget deficits and substantial borrowings and are not in a strong position should another possible world recessionary crisis arise. The governments across the developed world are lacking strong leadership and in many cases are coalition governments. Consumers are cautionary and reducing their debt. Investors are finding housing prices, commercial property and share markets are moving lower.

It seems to us that economic recovery will be slow and it will take years for confidence to be restored.

In Europe we need the negotiated write down of institutionally held Greek debt, with Greece retained within the Euro-Zone; the ring-fencing of other countries, especially Portugal, Ireland, Spain and Italy; the re-capitalising of many European banks probably by governments; and longer-term, the development of rules and supervision to avoid a similar Greek situation arising in the future. The policy in Europe to date has been one of deferring the problem to the future in the hope that by allowing time for bank recapitalisation's to take place the fall-outs can be better managed by the financial system.

In the USA we need agreement within the political process to address the budget deficit through, over time, a reduction in government expenditure and an increase in taxation. We also need time, such as 2 to 4 years, for the over-supply of housing to be absorbed.

Much of this negative news is in our sharemarket and, while we consider volatility will continue to be high, the balance of probability is for a modest increase in our net asset backing per share and our dividend income. We expect to pay a steady dividend in the year ahead.

Charles Goode  
Chairman