

# **LION SELECTION GROUP LIMITED**

## **Annual General Meeting**

### **Chairman's Address 2010**

Before I start the Chairman's address, the Lion Directors on behalf of all of us at Lion would like to express our deepest heartfelt sympathy for the families for the 29 miners lost in the Pike River Coal Mine disaster.

This AGM brings to a close another year of intensive corporate activity and heralds the dawn of another period of increasing investment action as the world gradually stumbles through the recovery from the Global Financial Crisis of 2008.

The demerger of Lion's gold assets by way of issue of Catalpa shares to our shareholders was successfully completed almost exactly one year ago. It was the culmination of the plans to unlock discounted value in Lion's assets. Lion shareholders who received Catalpa shares would have been rewarded by seeing their new investment grow by 25% during the course of the year, with Catalpa continuing to increase production as the Edna May mine develops.

As part of the demerger plan, the Company was listed on the NSX on 16 December 2009, in order to provide shareholders with a market to sell, if a long term investment policy did not match their situation.

We have emphasized that our cyclical investment strategy is most suited for long term investors, who support our policy to buy early stage investments towards the bottom of the resources cycle, and then be rewarded through distributions as maturing projects favour divestment, at the top of the cycle wherever possible.

For investors who were not suited to this patient and selective investment policy, we provided two exits at the beginning of the demerger through a Matching Sale Facility and during the year, for the smaller shareholder, via a Shareholder Sale Facility.

The NSX listing and subsequent sale facilities have also had the benefit of substantially reducing our annual administration and running costs. We now believe that the Company's investment strategy is aligned with, and understood by, the vast majority of our shareholders, who can look forward with confidence to long term rewards for their patient investment, as has been delivered in the past.

The investment portfolio increased materially during the year, contributing to a healthy profit of over \$22 million. Importantly, the successful divestment during 2010 of the remainder of our Indophil holding and our exit from Exco has helped establish a cash pool, setting us up for investment in the current cycle.

The Zijin takeover offer for Indophil, gave us the opportunity to sell on market, locking in a good margin of profit, before the takeover was withdrawn and the Indophil price subsequently declined. These funds

were added to our cash holdings to cover the majority of US dollar future commitments to African Lion and Asian Lion, thereby underwriting our future investment activities in these highly prospective regions.

Importantly when LSG was demerged, it did so with limited cash reserves – in fact they were initially insufficient to meet commitments to Asian and African Lion. Effectively, some legacy investments were earmarked to ensure that Lion has sufficient cash available for this cycle, so no dividend has been declared even though these assets were sold for a profit. We believe that now is the time to be investing and we are seeing many opportunities in Australia and elsewhere, and we are in full investment mode.

The Lion Manager continues to work hard on our account by managing the African and Asian Lion Funds, and will make presentations on some of their new investments at the conclusion of today's meeting. The Company has taken advantage of our co-investment rights and since listing on the National Stock Exchange we have made our own investments in Sihayo Gold, Kentor Gold and Mindoro.

This coinvestment policy is evidence of our stated objective to continue to back the Lion Manager. This was further strengthened in November, when we announced that we would recommence active investment in Australia and engaged the Lion Manager to provide investment recommendations and management services in this area, with the Company investing in YTC Resources under these arrangements.

The arrangements with Lion Manager are on an agreed cost recovery basis, initially being \$160,000 (+ GST) per annum. Our Company's expenses will be rearranged in order to ensure they are maintained at current levels. There is no termination fee or incentive applicable to these arrangements.

You will have observed with the exit of one of our larger shareholders recently, that the Lion Manager has increased its shareholding in Lion Selection Group to just under 20%. This shareholding underlines the Lion Manager's belief in the investment process and long term strategy, and is incentive enough in its own right to ensure very focused motivation!!

With the emergence of the resources sector from the ravages of the GFC, the Lion Manager has become increasingly active during the year, to build on comprehensive analysis that occurred during the intervening period of uncertainty. As a result of this identification of outstanding investment opportunities, your board has agreed that our funds are best deployed towards a sustained period of rapid investment, which should result in multiple returns, rather than in the return of capital or dividends at this stage.

As our business is about patient investment in commodities, and because gold is a commodity as well as a financial asset, I want to say something about the purchasing power of gold and gold backed currency. In my view, the Australian dollar is a gold backed currency,

even though we foolishly sold down our gold reserves in the 1990's. We receive credit being a commodity rich nation for the gold still in the ground.

In 1792 the United States Congress effectively fixed the price of gold at US\$19.393 per fine ounce. By 1933 it had risen to US\$20.67. In 1933 Theodore Jesse Hoover, son of the one-time President of the United States, a Mining Engineer and Professor of Mining and Metallurgy at Stanford University, wrote in his textbook "Economics of Mining":-

"It seems probable that the world production of gold will shortly start on a steady decline, yet the monetary needs of the world are steadily increasing: this brings an expectancy that the purchasing-power of gold will rise indefinitely, unless there is some readjustment of the amount of credit which may be based on a given stock of gold"

One has to wonder whether today, the amount of credit demanded by the US to support its paper dollar, is near the limit.

Hoover goes on to say:-

"Such inflation of the gold unit by legislative action is possible, but it is limited by the degree of confidence held by the public in the legitimate uses to which that credit is put"

The final disappearance of the “Gold Standard” for currencies, was in wartime 1941. The Allies towards the end of the war in 1944 established the Bretton Woods Agreement, which effectively set the price of gold at US\$35 per ounce. This arrangement ran through until by December 1971 the US trade deficit was proving difficult to finance. The Smithsonian Agreement of that year produced a great realignment of exchange rates, the effect of which was to result in the doubling of the price of gold to US\$70. Since then, various attempts to stabilise currencies, with a portion of their national reserves maintained in gold, have done nothing, in Hoovers’ terms, to bring about the “legitimate uses” of that credit. In fact, it seems that the credit has been used illegitimately and his forecast that with insufficient gold, the price of gold will rise indefinitely, has come to pass.

He concludes:-

“Any legislative measures attempting to adjust the flow of gold and the size of reserves, must be aimed at the greatest possible stabilisation of the purchasing power of currency”

We now live in a world where the notion of a stable purchasing power for currency has been abandoned. Today inflation is a fact of life. Buying a 10 year US Treasury Bond with a current interest rate of 2.82%, and inflation tracking 1.6%, there is a real rate of return of 1.2%. As such they cannot be seen as a Government Guaranteed store of value in which to invest ones savings.

In Hoover's day, a "sound bond", a government bond, would yield about 4% in a world where the value of currency was seemingly understood. Governments then, would not be able to persuade people to save, far less to lend money to them, for such a derisory rate of return as happens today. Safe money is no longer available.

We all know that gold is not a perfect standard, and has been abandoned in many quarters. However, it is perhaps significant that in the second quarter of 2009, Central Banks which for years had been net sellers of gold, suddenly reversed their tactics, and became net buyers. We look at the present confusion with regards to sovereign debt, the Euro and where is it going? Today the world lacks a sound currency – perhaps it is time for the US to refix its dollar to gold, at \$3,000 per ounce, a doubling of value, similar to that produced by the Smithsonian Agreement!!

Finally, I want to thank my colleagues on the Board for another year of action, repositioning the Company in its new scaled down form, and now expanding. Thanks also to Robin Widdup and his Lion Manager team for their support during the year, and their confidence demonstrated by becoming our largest shareholder.

In conclusion, I must say thank you to all our shareholders for your support during the year.

Thank you.