MILTON CORPORATION LIMITED
CHAIRMAN'S ADDRESS

Milton's underlying operating profit for the 2010 financial year was $68.8 million. This result, which excludes "one off" items such as special dividends, impairment expenses and realised gains and losses, was 6.5% less than that of the 2009 financial year.

The "one off" items added a further $4.2 million so that net profit attributable to shareholders amounted to $73.1 million, which was 5.3% higher than the previous year.

The "one off" items were comprised of special income of $2.5 million and realised gains of $2.2 million offset by acquisition costs of $0.4 million.

Reduced dividend revenue, particularly in the first half of the year, was the primary cause of the lower underlying operating profit.

Firming interest rates and larger cash balances in the second half of the year provided a boost to interest income with the full year interest income 7% higher than the previous year.

Administration costs as a percentage of average total assets remained low at 0.17% per annum. A responsible approach to remuneration ensured that there was no increase in directors' fees or staff remuneration for the 2010 year, even after allowing for modest cash bonus payments to staff at the end of the 2010 financial year.

The weighted average earnings per share, based on underlying operating profit for the 2010 year, was 73.7 cents per share, compared with 85 cents per share in the 2009 year.

In considering the weighted average earnings per share for the year it is important to look at the performance of each half.

Underlying operating earnings per share for the first six months of the year to 31 December 2009 were 26.2% lower than the previous corresponding period while earnings per share in the following six months were 4.2% higher than the previous corresponding period. Frank Gooch will discuss this further in his address.

As Milton pays its ordinary fully franked dividends out of the underlying operating profits earned each year, the interim dividend paid in March 2010 was reduced to 35 cents per share.

With underlying operating earnings improving in the second half of the 2010 year, your directors were pleased to increase the final dividend to 36 cents per share, from the 35 cents per share paid a year earlier. The 2010 final dividend included a LIC Capital Gain component of 2 cents per share.

Looking forward it is Milton's objective to pay increasing ordinary dividends as its underlying operating earnings per share increases.

The second leg of Milton's objective is to provide capital growth in the value of the shareholders' investment. I am pleased to be report that the net asset backing, before providing for tax on unrealised capital gains, per share increased by 9.8% over the year to 30 June 2010 to $16.51.

At 30 September 2010, it had increased to $ 17.39. This is an increase of 7.5% after adjusting for the final dividend of 36 cents per share paid on 1 September.

An analysis of the assets that support the net asset backing reveals a strong balance sheet with total assets of $1.6 billion. At 30 June 2010, Milton was holding $116 million in cash and other liquid assets as well as equity investments that were valued at $1.45 billion.

In December 2001, Milton acquired Cambooya Investments Limited, a listed investment company. Since then Milton has acquired a number of private unlisted investment companies. These acquisitions have assisted with the growth in assets and an increase in the number of Milton shareholders.

As the acquisitions have little impact on Milton's operating cost base they have contributed to a lowering of the management expense ratio.

Since December 2001, Milton has increased its investor base to more than 16,200 shareholders from 7,200 shareholders. Of course, many of the new shareholders have been long term investors and so the effect on liquidity is not easily determined.

In August 2010, Milton acquired an unlisted investment company with total assets of approximately $42 million. The assets comprised cash and listed equities which complement Milton's existing portfolio.

Also in August 2010, Milton commenced discussions with Choiseul to merge the two companies and on 7 September 2010 it was announced that merger terms had been agreed.

Milton has managed Choiseul since 1992 and currently owns 11.9% of the company. Your directors consider this merger is an excellent opportunity to grow Milton's asset base by a further $472 million to approximately $2 billion and at the same time, increase the investor base to more than 19,000 shareholders.

Under the terms of the merger Milton will issue new Milton shares to the Choiseul shareholders based on the relative net asset backing per share of each company, after providing for payments of the interim and special dividends.

Choiseul will pay a fully franked interim dividend of up to 10.5 cents per share and, provided a favourable tax ruling is received, it will also pay a fully franked special dividend which is anticipated to be 16 cents per share. The dividends paid by Choiseul will reduce Choiseul's net asset backing and lower the number of new Milton shares to be issued to the Choiseul shareholders.

The merger terms also allow Milton to declare an interim dividend of up to 37 cents per share with the record date prior to the issue of the new Milton shares.

It is anticipated that Milton and Choiseul will declare their dividends in the middle of November 2010.

Frank Gooch will provide further details of the merger in his address shortly.

Approximately 85% of the companies in the investment portfolio had reported profit results in the three months to 30 September 2010. It is pleasing to report that more than half of these companies increased their dividend which will be paid in the first half of the 2011 financial year and only 13% reduced their dividend.

Consequently, Milton's underlying operating earnings per share, for the three months to 30 September 2010, are ahead of the underlying operating earnings per share for the quarter ended September 2009.

The profit for the six months to 31 December 2010 is still uncertain as five of Milton's Top 20 investments are yet to announce their dividend. Westpac, NAB, ANZ, Bank of Queensland and Campbell Brothers will report their results and their dividends by early November 2010.

In the medium term we are optimistic that the Australian economy, supported by a strong resource sector, will continue to perform well and companies will resume paying increasing dividends.

MANAGING DIRECTOR'S ADDRESS

Milton's underlying operating profit for the 2010 financial year of $68.8 million was adversely affected by lower dividend receipts, particularly in the first half and lower interest rates again particularly in the first half.

The result was positively affected by increased returns from the investments in the Perth based property joint ventures, higher trading profits in the first half of the year and increased capital.

The weighted average underlying operating earnings per share were 73.7 cents compared with 85 cents in the previous financial year.

The lower dividend income was most pronounced in the first half of the 2010 financial year. The dividend income in the first half of the previous financial year amounted to $40 million and was largely comprised of the final dividends paid out of profits earned in the year to 30 June 2008, which were generally unaffected by the GFC. The dividends received in the first half of the 2010 financial year totalled $30 million and were paid out of profits which had felt the full effects of the GFC.

On a positive note, dividend income in the six months to 30 June 2010 did show signs of stabilisation and in some cases improvement. Investment income for this period increased to $34 million.

Also in the six months to 31 December 2009, cash investors received little reward, with official interest rates at just 3% for three of the months. Interest income earned was $2.4 million, approximately 30% lower than the previous corresponding half.

Official interest rates were marginally higher in the second half of the financial year and, with larger cash balances on hand, interest income earned in the six months to 30 June 2010 increased to $3.2 million.

The weighted average underlying earnings per share for the six months to June 2010 were higher than for the previous corresponding period to 30 June 2009 as well as for the six months to 31 December 2009.

This lift in underlying operating earnings per share enabled the directors to increase the fully franked final dividend to 36 cents per share.

It is our intention to return to our policy of paying increasing ordinary dividends as quickly as possible and we anticipate that this will occur as underlying operating earnings per share increase.

Milton's increasing capital did provide a boost to the underlying operating profit for the year.

Over the two years to June 2010, Milton has increased its capital base by approximately $200 million. This has been achieved through the issue of shares at a discount to existing shareholders under the Share Purchase Plan, which contributed $79 million and through the issue of shares, at a slight premium to net asset backing, as consideration for the acquisition of unlisted investment companies and this has raised $121 million.

This increasing capital has ensured that Milton has sufficient cash to continue investing as opportunities present themselves.

Importantly, Milton's operating cost base is relatively fixed and the additional funds can be managed with little increase to the cost base. The additional costs relate to listing and share registry fees.

Milton's investments in companies listed on the ASX were valued at $1.45 billion at 30 June 2010 compared with $1.22 billion at the beginning of the year. The $237 million increase in value was due to portfolio acquisitions of $69 million, direct purchases of $55 million, net revaluations of $129 million and disposals of $16 million.

The Top 10 investments made during the year are listed on the screen. Eight of these are household names that are in the S&P/ASX 20 stocks. The two that are not are Coal and Allied and Campbell Brothers.

A new addition to the portfolio this year, Coal and Allied is a partially owned subsidiary of Rio Tinto. It is principally involved in coal mining and marketing and it has provided sound dividend income.

Campbell Brothers, which has been in Milton's portfolio for many years, has developed a first class global laboratory testing business. During the year it raised additional capital for further expansion and Milton was pleased to take up its entitlement.

The recent acquisition completed in August 2010 added a further $39 million of investments with the major holdings being: ANZ, BHP, CBA, Westpac, Wesfarmers and Woolworths.

Milton's investment portfolio at 31 August 2010, which included the acquisition, was comprised of the following sectors as shown on the screen:

	% of Total Investments	Major investments
Banks	34.8%	WBC, CBA, NAB ANZ Regionals
Materials	12.7%	BHP, BKW, RIO
Diversified Financials	12.2%	SOL, CHO, PPT, MQG, ASX
Consumer Staples	11.5%	WES, WOW
Commercial Services	4.1%	CPB
Insurance	4.0%	SUN, QBE
Energy	3.9%	WPL, STO
Capital Goods	3.7%	LEI, UGL
Real Estate	2.5%	CFX
Healthcare	2.5%	CSL
Other	8.1%	TLS, AGK

Milton's investments in the banking sector include the four major banks as well as the two regional banks. The largest holding is Westpac followed by Commonwealth Bank. These investments have provided good dividends and capital growth over the long term.

The major investments in the Materials sector are BHP Billiton, Brickworks and Rio Tinto.

Holdings in the diversified financials sector include Washington H Soul Pattinson, Choiseul Investments, Perpetual Limited, Macquarie Group and ASX.

Wesfarmers and Woolworths are the larger holdings in the Consumer Staples sector. Campbell Brothers is the largest component in the Commercial Services sector and Suncorp and QBE are the larger holdings in the Insurance sector.

It is clear, from a review of the sectors, that Milton is not an “index” investor. The ASX indices are weighted by reference to market capitalisation and do not necessarily represent those companies that are most likely to pay increasing dividends or produce the greatest capital return.

Even though Milton is not an index investor its Total Returns are frequently compared with the All Ordinaries Accumulation Index. However, these measures of performance are not directly comparable as neither take into account the franking component of the dividends paid or the LIC Capital Gain distributions made. Also the Total returns of Milton are after all administration costs whereas the All Ordinaries Accumulation Index is unaffected by these costs.

As Milton is a long term investor we believe it is best to consider long term performance. Over the ten year period to 30 June 2010, Milton’s Total Shareholder Return, which is based on share price movement and dividends paid, was 10.7% per annum compounded. Over the same period, its Total Portfolio Return, which is based on the movement in net asset backing per share together with dividends paid, was 10.2% per annum compounded.

The latter Return provides a guide to the performance of the underlying assets of the company whilst the former considers the performance of the Milton shares. The difference is therefore related to the extent to which the shares have either traded above or below net asset backing per share.

Both of Milton's Total Returns exceeded the return of the All Ordinaries Accumulation Index for the comparable period, which was 7.1% per annum compounded.

I would now like to review the proposed merger with Choiseul Investments.

Choiseul was incorporated in 1911 and owned, Burns Philp managed, copra plantations, which were located on Bougainville Island. Over time the plantations were sold and the funds invested in equities. In 1992 Milton agreed to manage Choiseul subject to the direction of the Choiseul directors.

Milton currently owns 11.9% of Choiseul with its initial investments pre dating the 1992 management agreement.

At 30 June 2010, Choiseul had total assets of $472 million, which included an investment portfolio valued at $421 million and cash and term deposits of $46 million. The investment portfolio included shares in Milton valued at $27 million.

The company has over 4,300 shareholders of which about a quarter are also Milton shareholders. The proposed merger of the two companies will create a single LIC with total assets of approximately $2 billion and more than 19,000 shareholders. This will position Milton close to, if not in, the top 100 ASX listed companies by market capitalisation and should appeal to a greater number of investors.

It is anticipated that the merger will further enhance the liquidity of Milton shares and as a result potentially lower the discount at which the Milton shares trade relative to its net asset backing.

The merger will provide Milton with additional cash for further investment as well as an excellent equity portfolio valued at approximately $421 million at 30 June 2010 and Milton will not pay any brokerage on that portfolio. However some of the brokerage savings benefit will be offset by the costs of the transaction.

Choiseul's classification of investments at 30 June 2010 is shown on the screen:

	% of Total Investments	Major investments
Banks	28.2	CBA, NAB, WBC, BEN, BOQ
Diversified Financials	24.0	SOL, MLT
Materials	12.3	BHP, BKW
Insurance	9.5	QBE
Consumer Staples	8.0	WES, WOW
Commercial Services	3.3	CPB
Energy	2.5	WPL, STO
Telecommunication	2.7	TLS, TPG
Capital Goods	2.2	LEI
Real Estate	1.8	SGP
Utilities	1.7	AGK
Other	3.8	IVC

When compared with Milton's portfolio, Choiseul has a lower investment in banks and Westpac specifically, a higher investment in diversified financials mainly due to its investment in Milton, a similar level of exposure to the materials sector and a larger holding in the insurance sector through its investment in QBE.

The merger is to take place through a scheme of arrangement between Choiseul and its shareholders. This will require Choiseul shareholders to vote at a scheme meeting which is anticipated will be held towards the end of November 2010. If it is approved by shareholders we could expect the merger to be completed by mid December 2010.

Further information will be available when the Choiseul Scheme Booklet is sent to shareholders towards the end of October 2010.

Finally I would like to acknowledge the efforts of Milton's small but committed team.