



LION SELECTION GROUP LIMITED
Annual General Meeting – 8th December, 2006

Chairman's Address

Whichever way we look at it, and it is a different way from last year, the profit under the new Australian equivalent of the International Reporting Standards of \$52 million, is a pretty strong result, and shows the merit of the Company's investment policy, and its ability to sell when the offer price is right.

I am pleased to announce that today the board met and resolved to pay a further dividend of 10 cents per share. The dividend will be paid on 23 February, 2007 to shareholders on the register at the close of business on 2 February, 2007. This dividend will be unfranked, and makes a total of approximately 46.5¢ paid within 12 months.

Shareholders would remember that our original fund was \$100 million, and today has net tangible assets of \$193 million, a growth of \$93 million over the 9 years, along with a dividend distribution of \$83 million. With a mean growth rate of approximately 10% per annum, and an effective annual distribution rate of nearly 10%, what started in 1997 as an experiment using the Pooled Development Fund Act, has proved very successful. It shows that being risk takers, and providing early risk capital to an industry that is inherently risky, can be made to work profitably.

However, the PDF Act under which we have operated so successfully was designed to help small Australian companies to grow by taking risks. It was not intended to encourage profligacy, and strict limits were imposed on the vehicles operating under the Act. Your company has been one of the most successful PDF's, and is the largest of the participants and the only mining fund.



In my address to you in December 2004, I explained the restrictions due to our status, and why we listed AuSelect, being one of our subsidiaries. More than 80% of the initial capital subscribed came from Lion shareholders. As the two companies have grown over the past two years, it has become increasingly difficult to find permitted investments for your Company, whilst operating under the restriction of our Act. There is now increasing competition from other funds, not hampered in this way, and what was once our competitive advantage, has been eroded.

With the \$50 million investment limit, the restraint on only investment in Australian Companies, being able only to invest in new shares, and not being able to buy or sell on market, are all factors which restrict active investment. The PDF Act also prohibits borrowing, because such was seen as being inimicable to small and medium enterprises (SME's) which the Pooled Development Fund Act, 1992, introduced by the Labor Government when the economy was in a tailspin, was designed to promote.

There is no evidence that the legislation was ever designed to promote mining investment, and the fact that Lion used the legislation successfully in its formative years, was because the Managers, or Robin Widdup in particular, saw the opportunity to grow, what was initially a small \$100 million fund, into something much bigger, and giving investors back some tax advantage lost, when the relief for investors in mining, under Section 77D, was withdrawn in the early 1970's.

I find myself continually having to make the point that our present mining prosperity in Australia relies on discoveries made in the 1960's or earlier. Iron Ore in the Hammersley's, mid 60's, Coal in the Bowen Basin, mid 60's, Nickel at Kambalda, 1964, Bauxite at Weipa, 1965. With the exception of Olympic Dam, all uranium discoveries were made before 1972, and with the advent of the Whitlam Government in 1970, the uranium business went into limbo. Most of the gold districts were discovered long ago, and indeed many of the gold mines were examined by my father in the 1930's.



As an industry, we have also had to learn to cope with Paul Keating's Native Title Act, and all the flow on effects of the Mabo Judgement in the High Court. Whatever may be the rights and wrongs of such actions, their effect has been to stifle the exploration business in Australia. Whilst as Australians, we all want to see success in mineral discovery in this country, as investors, we have to go where exploration potential and sovereign risk are in balance. Exploration and mining are global businesses, and again, the restriction of the PDF Act has made it increasingly difficult for Lion, as discoveries are made offshore by companies with no Australian affiliation. For Lion to be denied access to such opportunities is inappropriate, both for the Manager whose task is to find investments, and to shareholders denied the opportunity.

Your Directors having weighed all these factors, are increasingly of the view that, whilst the loss of some of the benefits under the Pooled Development Act would be a negative, the positives of not being so restrained, would be very much in the interests of shareholders, as the company seeks to build in the future. Our ability to invest both on-shore and offshore, and avoid all the constraints of our PDF status, would place us in a similar position to the investors of AuSelect, a company spun from our own womb, which has already proved highly profitable.

The directors of Lion Selection Group and AuSelect, are considering a possible recommended merger of the two companies. Shareholders will ask, if this seems such a good idea now, why did we go to the trouble to spin-off AuSelect only two short years ago, and not at that time, drop off our PDF status? There is a long and a short answer to this question. Suffice to say, that in 2004 we did not realise the rapid on set of boom conditions in the industry which would in the future make it increasingly difficult, to find new investments that met both our technical and PDF necessities. As a result, in the two short years since October 2004, we have only made new investments in two companies – De Grey and View. We must be able to expand our horizons and give our Managers the chance to reclaim our competitive advantage in the face of all comers.



Robin will give a more detailed exposition of the whys and wherefores of the potential merger, after the AuSelect meeting, which follows the close of this meeting.

A further benefit for Lion shareholders of the potential merger relates to the “in specie” dividend, declared in November, of all the AuSelect shares Lion received for its Sedimentary Holdings shares. This in specie distribution of AuSelect shares has caused some confusion to shareholders and brokers in giving their advice to clients. The proposed merger will resolve the issue for Lion shareholders because there would then be only one company, and rather than shareholder’s holding shares in both companies, would only hold shares in one company.

Shareholders will have seen the devastation and destruction caused by the typhoon Durian in the Philippines. It of course stopped in its tracks the Lafayette mining operation on Rapu Rapu in the Philippines. I am sure you would want to join with the Board in expressing our sympathy to the families of those killed on the island. It is indeed fortunate that none of the Lafayette people were injured, but there was substantial damage to the site infrastructure. There are some pictures from the sites posted in the lobby outside the auditorium.

Finally, I want to thank my colleagues on the board, Robin Widdup and his management team, and you, our shareholders, for your support during the year. It has been a year not without its excitements. We look forward to another successful year in 2007.

Thank you

E.W.J. Tyler
8th December 2006