



HYPERION FLAGSHIP INVESTMENTS LIMITED

ANNUAL GENERAL MEETING

Friday 11 November 2011

CHAIRMAN'S ADDRESS

Ladies and Gentleman, I and my fellow Board members welcome you to the 14th Annual General Meeting of Hyperion Flagship Investments Limited.

Overview:

Last year at this time, I was somewhat hopeful and cautiously optimistic that a recovery in the world economic situation was underway and that we would be here this year with that recovery, or at least a solid framework for a lasting recovery, firmly in place. Unfortunately that is not the reality of the situation. We seem to be mired in a continuing state of flux leading to volatility in markets, uncertainty about the future and increasing fears of a broad double dip recession.

There are some positive signs but they need to be balanced against legitimate concerns about the capacity and commitment of relevant Governments to decisively and conclusively resolve the European debt crisis which has dogged world financial markets post GFC. The need for severe budget adjustments by a number of countries that inevitably must be an integral part of the solution, challenges the political will of the Governments concerned and leaves financial markets exposed and fragile.

One has to be cautiously optimistic that ultimately our leaders will reach agreement about lasting solutions and hence ease recessionary fears.

While relatively speaking the Australian economy is performing well, our growth outlook remains underpinned by continuing growth in Asia and China and will be so for the foreseeable future. While there are signs of some easing in the China growth story, the outlook remains quite positive.

Nevertheless Australia remains a two speed economy with the resource states of Western Australia and Queensland showing commendable GDP growth and the rest of the country travelling less well.

The share market therefore remains a story played out by the continuing growth and expansion of the resources sector with companies involved in or servicing the resources sector in favour and the rest of the market finding life difficult whether or not they are struggling in the current economic and business environment.

**Portfolio Performance:**

In the 2010/11 year, the portfolio returned 4.6% compared with an increase of 7.7% in the All Ordinaries Index in the same period. It was not the performance that we or our Fund Manager aspires to and not the outperformance that we have come to expect from our Manager. However while disappointing, it is nevertheless not a huge surprise to us given the circumstances.

Our Fund Manager's investment style has been well-documented and communicated on many occasions in the past. A market that in many ways is driven by a boom in resource stocks, many of which have never recorded a sale or paid a dividend but whose value is underpinned by heightened expectations, speculation and hope, is always going to be a challenge for our portfolio in terms of relative performance given the style of our Manager.

Our view remains that high quality, well managed and growth-oriented businesses that are the core of our portfolio will ultimately be rewarded by appropriate recognition in the market place. Hence our portfolio is well-positioned to take advantage of this recognition.

Dividend Policy:

The Board has given much attention to the current dividend policy which over the years has been underpinned by a desire to provide shareholders with a reasonable and consistent income stream.

The dividend payment in respect of the 2010/11 financial year was 8.5 cents per share consistent with the level of dividend paid in recent years.

While our dividend revenue flow increased by 6.1% to \$1.48 million, an ensuing net profit of only \$717,000 does not cover the dividend commitment even allowing for a reasonable take up of the dividend reinvestment option.

Also for the first time, the final dividend 4.25 cents per share was not fully franked even though there were more than sufficient franking credits available. Unfortunately the Tax Office requires that the franking credits only be available to the extent that the dividend is paid from accumulated profits. Payment of the final dividend would have exceeded the accumulated profits, hence the final dividend of 4.25 cents was only franked to 3.75 cents.

The capacity of the company to continue to pay franked dividends at the level it has in the past will depend on our capacity to generate additional profits from the portfolio.



The Investment Manager:

Our Investment Manager remains one of our best assets. The consistency and professionalism of the Manager in the face of some difficult times is second to none and we support the team for their decision to hold firm to their beliefs and to resist the temptation to alter style to chase short term performance. Any radical change to style involves significant risks with no guarantee of reward.

My thanks and also the thanks of my colleagues on the Board go to Dr Manny Pohl and his team for a job well done under difficult circumstances. They are the true professionals and their commitment to us as a client is outstanding.

Recent Developments:

On 27 October 2011, the Wilson HTM Investment Group announced that it had appointed Grant Samuel to assist in identification of a strategic investment partner in Pinnacle Investment Management. Pinnacle is 80% owned by the Wilson HTM Investment Group and is of course a major shareholder in our Fund Manager, Hyperion Asset Management.

It is a situation that we are closely monitoring with our Fund Manager.

It is still early days and there is no indication of any likely significant impact on our Fund Manager or any change in the way our Fund Manager operates. Obviously this situation could change with any change in the ownership structure.

A significant change in ownership would be an event that would cause us to formally review our relationship with Hyperion Asset Management – although I hasten to add that there is no reason to believe that the relationship will not continue.

We will continue to keep the situation under close review.

The Board:

I want to thank my fellow Board members for their continued support, encouragement, commitment and friendship. They make my task so much easier. They are wonderful individuals with an enormous amount of skill, expertise and experience and a great team to work with.

I look forward to continuing to work with them for the benefit of our Shareholders.



Concluding Remarks:

By any measure, 2010/11 was a tough year and the outlook while generally positive, remains “cloudy and misty around the edges”.

While we are optimistic about the long term future of the Company, it is not going to be without challenges. However I remain convinced that we are well placed to deal with them.

Finally I would like to place on record my sincere thanks to our loyal Shareholders who have stuck with us when the going has been a bit tough and who have maintained their belief in our Fund Manager and the professionalism and expertise of the staff.