

9 December 2009

Dear Shareholder

I refer to my letter of 20 November 2009 by which I advised that the audit of the company's financial statements for the year ending 30 June 2009 was ongoing and that the Board had decided to call the Annual General Meeting without the financial statements.

The audit has now been completed and your copy of the company's audited financial statements for the year ended 30 June 2009 is enclosed.

## **THE YEAR IN REVIEW**

Firstly let me apologise for the lateness of our audited financial statements. As you will appreciate the last twelve months has been an extraordinary time and in the interest of getting "it" right the Board felt it was appropriate to delay the finalization of the annual report in favour of ensuring that it met the required accounting standards and public company disclosures.

The results this year reflect a combination of very poor trading conditions brought on by the Global Financial Crisis ('GFC') and its impact on world economies giving rise to a need to be conservative with carrying values of various assets.

Additionally, accounting standards require us to impair the carrying value of all of our international assets as they are not trading profitably at the present time. The international operations have experienced the same pressures from the GFC as we have in Australia.

Highlights for the 08/09 year include:

- Maintenance of Professional Investment Services' position as the No 1 risk insurance writer of new business in Australia with a record year in new premium, in excess of \$30m;
- Notwithstanding reduced inflows for the 2009 year compared with the 2008 year, the group experienced strong investment inflows in comparison with other sections of the industry;
- Agreement and finalisation of the ASIC action in respect to Westpoint.

However in this turbulent year there were many lowlights.

A small number of rogue advisers have necessitated a significant provision for client claims.

During the year the Board, after receipt of an offer, decided to exit the Canadian business. The Board considered a variety of issues when deciding to exit including the economic climate, the regulatory environment and the payback for the use of resources both human and financial. We do wish our Canadian staff and advisers all the best for the future as part of the Global Group.

## **FINANCIAL STATEMENTS AND AUDIT REPORT**

The results for the financial year after provisions and impairments reflect an after tax loss of \$21,060,705. Obviously this is not pleasing however it is important to recognise that the group did achieve an operating profit before provisions, impairments and taxation of \$1,046,156. We can identify the direct affect of the global financial crisis as a reduction in net revenue of 30% and a reduction in both client asset values and new business written.

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It is pleasing to see that even with this reduction in revenue the group still made an operating profit.

In their unqualified audit report, the auditors have referred to material uncertainty in relation to the payment of amounts to financiers and other liabilities. There are a number of matters that require further commentary in relation to the broad statements made in the audit report.

I draw your attention to Note 2(e) in the financial statements where comment is made in respect to the going concern of the group.

It is important to understand that, at the date of this report, no group company has any obligation to discharge any finance facility in full within the next 12 months.

The group has recognized and provided for claims, both current and non-current, and after consideration of these and other liabilities which are included in the group's detailed cash flow forecasts, the directors are of the opinion that the company will maintain itself as a going concern.

As with any operation, there are foreseeable and unforeseeable issues that arise from time to time. We have considered the position of the group in respect to potential issues that may occur and at the date of the report, we are of the opinion that there are no other matters that may affect the going concern assumption.

Some further general commentary is provided below.

### **Parramatta Riverbank Property**

Whilst we have taken a conservative view and impaired this asset down to \$32m, significant progress has been made with the property:

- Lowering of the overheads and costs in managing the centre
- New tenants including discussions with a number of high profile tenants
- Improved and enhanced car parking management relationship
- A new breakeven basis for the site

The Board continues to look for options in respect to the site to maximise the return to shareholders. It must be recognised that given the size of the site and its intrinsic value to the proposed precinct, the Board does not expect that there will be any redevelopment or sale in the short term.

### **Expense Reduction**

During the year significant expense reduction measures were taken to assist in managing cash flow. The Board resisted making wholesale reductions in order to ensure the business could maintain the momentum to emerge from the GFC and propel itself back into growth mode.

Staff and executives were asked to take pay cuts - many staff have accepted 9 day fortnights and executives have taken a direct and significant reduction in earnings. Please note that any bonuses shown in the enclosed accounts relate to the 07/08 year but were paid at the beginning of 08/09. No bonuses were accrued or paid for in relation to the 08/09 fiscal year in accordance with the Board's direction.

### **International Operations**

There has been much comment and conjecture about the international operations and our continued support of them. I know that many of you would recall the fact that Singapore and New Zealand were in profit prior to the GFC and Malaysia was close to breaking even.

As mentioned previously Canada has been sold. In addition we worked back China to effectively 2 advisers and we have kept Hong Kong to a minimum until we move through the GFC.

Essentially Singapore, New Zealand and Malaysia have significant positions in their value. The Board has decided to continue to support them with a view to maximising that value for shareholders as the markets improve.

We do constantly monitor these situations. The company has invested into these businesses and we believe selling out at the bottom of the GFC is not in shareholders' best interests.

## **Regulatory Involvement**

During the year ASIC discontinued their 2006 review and commenced a new one including a review of many Great Southern and Timbercorp files.

The Board has taken advice from management and believes that as a result of the Building a Better Business project we are significantly better positioned now than in 2006 in relation to compliance and risk management.

Whilst we cannot guarantee no further ASIC action, we can say we will be vigorously defending our current position, the improvements we have made and of course the integrity, skill and expertise of our advisers.

## **Cash Flow Management**

Cash balances were reduced over the past 12 months as we paid down the borrowings on the Parramatta property, compensated the clients in the Brand Smart Riverbank Property Syndicate, settled the ASIC Westpoint related legal action, and endured reduced inflows.

We expect cash flow to improve early in 2010 as we see a combination of increased business and improved funds under advice.

## **Future Strategy**

We recognise that shareholders are hurting through lack of dividends and uncertainty around the value of their shareholding.

Please be assured the Board is doing everything in its power to restore value to PIH.

The three key themes in the business for 2010 are:

- Grow the revenue base
- Manage the relationships
- Protect our licences

The Board has all aspects of the business under review at the moment and will continue to do so as we climb back out of the difficult times.

Please be aware financials are looking in the rear-vision mirror and have a lag effect. Our new investment flows are significantly increased compared with last year. Our new insurance premiums are tracking to exceed our record set last year and of course our lending is breaking all records at the moment.

PIH is on the way back up. I look forward to reporting on a much better set of financials for the 2009/10 year.

It has been an extremely difficult year and with many shareholders being advisers and accountants, the Board thanks you for your continued hard work - along with that of our staff.

Much of the work done by all stakeholders this year was quite often unpaid. Please take this as an investment in your and your clients' future relationship.

Have a merry Christmas. Please take time to relax, turn off the phone and rejuvenate. 2010 will be a much better year. Make sure you are ready to maximise the benefits to be gained from it.

## **CONTINUOUS DISCLOSURE OBLIGATIONS**

ASIC has recently amended its policy in relation to continuous disclosure by unlisted disclosing entities. Prior to the release of the *Regulatory Guide RG 198 – Unlisted Disclosing entities: continuous disclosure*, unlisted disclosing entities (PIH is a disclosing entity) were required to disclose material information by lodging it with ASIC. ASIC will now allow unlisted disclosing entities to disclose the material information by posting it on their website, provided certain requirements are met.

One of the requirements to be met is the notification of all investors as to the company's intended means for discharging its continuous disclosure obligations.

PIH has decided that it will comply with its continuous disclosure obligations by posting material information on the Professional Investment Services website ([www.profinvest.com.au](http://www.profinvest.com.au)) under the 'shareholders' and 'continuous disclosure' links.

This means that PIH will no longer lodge continuous disclosure notices with ASIC.

## **ANNUAL GENERAL MEETING**

The Annual General Meeting will be held at 10 am on 14 December 2009 in accordance with the Notice of Annual General Meeting dated 20 November 2009.

Please contact Lisa Sawyer at first instance (07 5574 0244 or [LisaS@profinvest.com.au](mailto:LisaS@profinvest.com.au)) if you have any questions about the AGM.

I look forward to seeing you on 14 December.

Yours Sincerely,

A handwritten signature in black ink, appearing to read 'S. Murphy', with a flourish at the end.

**Stephen Murphy**  
**Chairman**