

GARRATT'S LIMITED

ACN 000 003 725

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Australian Stock Exchange
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Sydney NSW 2000

6 December 2001

Via Facsimile To: 1300 300 021

ANNOUNCEMENT

LETTER TO SHAREHOLDERS & NOTEHOLDERS

Following is a copy of a letter sent to shareholders and noteholders on 3 December 2001.

Petah Fitzsimmons
Company Secretary

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*Neville Cleary
Chairman*

3 December 2001

Dear Shareholders & Noteholders

2001 Annual General Meeting

Each one of the three resolutions that was put to the Annual General Meeting held on 9 November 2001 was passed either unanimously or by an overwhelming majority. The financial statements and reports for the year ended 30 June 2001 were approved, Mr. Chiang Meng Heng was re-elected, and I was elected to the Board.

I attach a copy of my address to the meeting. This will update you on your Company's operations since the Annual Report.

I am pleased to say that group management accounts (unaudited), after provision for interest on convertible notes and intangibles but before income tax, show that group profits for the first quarter of this year are pleasingly higher than they were for the same period last year.

At the Annual General Meeting, questions from the floor indicated that the contents of "Note 9: Segment Report" on page 21 of the Annual report required further explanation. Therefore I have attached for your information written confirmation in regard to certain points in Note 9.

With best wishes for Christmas and the New Year,

Yours sincerely

Neville Cleary

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93rd ANNUAL GENERAL MEETING

9 November 2001

Address By The Chairman, Mr. Neville Cleary

As has already been explained in the Annual Report, the year in review was difficult and demanding.

There are a few points that should be noted about the drop in profits in 2001.

The first is that about 83% of the previous year's profit of \$1.6 million comprised profit from the sale of Electrodata Pty Limited. Secondly, the contribution from our fastening business in 2001 was about half a million dollars less than what it was in 2000. Nevertheless, notwithstanding the difficulties that had to be faced, the Group still turned in a profit.

This afternoon I would like to refer to developments since the Annual Report.

I am pleased to advise shareholders that the group management accounts (unaudited), after provision for interest on convertible notes and intangibles but before income tax, show that group profits for the first quarter of 2002 are significantly higher than they were for the same period last year.

It is particularly pleasing that for the four months to October the sales of our fastening business are much better than that for the corresponding period last year.

We recently announced to the ASX our intention to consider buying back convertible notes from the market. This is an exercise in capital (and debt) management as the notes have traded below their face value (albeit in very small numbers) and the cost of servicing the notes is above market rates.

We have been most disappointed that, notwithstanding his contractual obligations, Mr. Thanga Thangathurai failed to pay us for taking over our interest in the Agent 13 point-of-purchase interactive media technology. The matter is now in the Supreme Court of New South Wales. Our solicitors are confident of success and we have been encouraged by a comment made recently by the Judge hearing the case. He said that "There are ...significant difficulties in the defendant's case". As the matter is still in Court, it would be inappropriate, and imprudent, to make any other comments. The matter next goes before the Judge on 16 November at which time it is hoped that the date for hearing will be set.

The next issue I would like to address relates to our share price. The last trade was at about half the net tangible asset backing at 30 June 2001. The market price has trickled down over the past year on very low volume.

GARRATT'S LIMITED

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From November 2000 to October this year our share price dropped from 80 cents to 21.5 cents on turnover averaging less than 16,000 shares a week – at the last done price, turnover value of about \$3,400 a week. Very, very low indeed.

But for one exception, none of the top 20 shareholders reduced their holdings. The one exception accounted for about 18% of the turnover during the period. Generally, the sales were from the shareholders with smaller holdings. The number of shareholders has decreased by 60 to 510.

Unfortunately, Garratt's suffers the same problem as most other small and medium sized listed companies – namely, the lack of institutional support. Circumstances like this question whether the Company should continue to be listed.

Your Board's view is that the Company must grow, and we must continue to try to improve the depth, liquidity and spread of our shares. The present lack of liquidity of our shares, though in itself not desirable, does mean that any significant interest in our shares will cause the price to rise much faster. We saw that happen in March last year.

I also note that there are currently substantially more buyers than sellers and that the buy price is above what was last done.

During the current year we will endeavour to improve the performance and returns from our existing business base. We will also develop strategies to expand the scope of the Company within the constraints of our capital base and share price.

Our investment in education, though modest in comparison to that in fasteners, has contributed well. The fall out from the events of 11 September in the USA should encourage more students to come to Australia rather than the USA or the UK. We will certainly continue to assess potential acquisitions or merger targets, in addition to growing the business organically.

I thank you for your attention and support.

**CONFIRMATION OF CERTAIN POINTS RAISED AT 2001 AGM
ABOUT FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001**

1. Note 9: Segment Report

At the AGM some questions were raised about this Segment Report.

- a. It is confirmed that the format of this report is in line with the required accounting standards and that the information presented in the Note is correct.
- b. The 'Investment Banking' segment is operated by Garratt's Limited, the Group parent entity. The segment operating loss for 'Investment Banking' of \$690,197 is derived as follows:

\$808,348	-	Profit from ordinary activities before income tax expense (Page 9)
(\$774,300)	-	Services revenue – controlled entities (Note 2a, Page 16)
(\$1,416,858)	-	Interest revenue – controlled entities (Note 2c, Page 16)
<u>\$692,613</u>	-	Convertible Notes borrowing cost (Page 9 & Unallocated expenses, Page 21)
<u>(\$690,197)</u>		

- c. Investment Banking Expenses:

i) A shareholder stated that 'Investment Banking' expenses totalled \$1,784,516 (a figure arrived at by adding the Investment Banking total revenue figure of \$1,094,319 to the investment banking segment operating loss of \$690,197). It is confirmed that that is not correct. The total revenue figure of \$1,094,319 includes inter-segment revenue of \$774,300 – which was not taken into the segment operating figure.

ii) The segment operating loss of \$690,197 was arrived at after expenses of \$253,169.

\$200,000	-	Provision for investment in subsidiary (Note 14, Page 22)
<u>\$53,169</u>	-	Provision for loan to subsidiary (Note 3a, Page 16)
\$253,169		
<u>(\$15,207)</u>	-	Other consolidation adjustments
<u>\$237,962</u>	-	Consolidation eliminations (Note 9, Page 21)

iii) A shareholder stated that 'Investment Banking' costs are the cost of operating the Garratt's Limited head office. It is confirmed that that is not correct.

- Each of the three head office management staff has substantial responsibilities within Group companies. However, the \$690,197 segment operating loss has not incorporated charges to Group companies for these services.

- The segment operating loss also includes Group corporate expenses not allocated to Group companies (eg. auditing and financial services, insurance, ASX listing).

2. Premier Fasteners Pty Limited ('Premier') – Trade Debtors

- a. A shareholder at the AGM stated that Premier's day debtors figure was in excess of 100 days at 30 June 2001. It is confirmed that that is not correct. That error may have arisen as the result of calculating from the trade debtors figure at Note 11 (Page 22). That trade debtors figure was for all trade debtors for the Group; not just Premier.
 - b. The correct day debtors figure for Premier is substantially less than 100 days.
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