



RANGATIRA

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CHAIRMAN'S ADDRESS AND COMMENTS

27 July 2009

Chairman's Address

- *Overview*

I recall saying at this meeting last year that Directors expected Rangatira's investment strategy to be tested more in the year ahead than at any time in the previous twenty years – and that in an overall world economic sense there was more than enough to be seriously worried about.

Unfortunately that concern turned out to be fully justified, and there is today no doubt the developed world is having to cope with the most serious economic downturn since the Great Depression. I don't want to dwell on the negatives of the recession, but it is important in reviewing Rangatira's results and outlook to be fully conscious of just how difficult the business environment actually is.

Our two largest investments, Hellers and Contract Resources, both performed well last year, but some of our other unlisted companies found profits considerably more difficult to achieve. That largely reflected the economic downturn - lower numbers of tourists for example for Polynesian Spa, and the general decline in domestic economic activity for Auckland Packaging.

Te Kairanga in particular had to work extremely hard to make progress as a massive increase in New Zealand's wine production ran headlong into a global decline in purchasing power. The outlook for Te Kairanga is still extremely challenging, although recent weeks' sales have been more encouraging with the Company finally achieving national distribution with major supermarkets and liquor outlets.

Despite a 9.6% fall in Rangatira's underlying operating earnings last year, and a negative total shareholder return of -5.6%, our mix of investments performed well in a relative sense, both for the year, and on a longer term basis.

That is highlighted by the graph in the Annual Report, which - amongst other things - shows that \$1,000 invested in Rangatira on 1 April 2007 had maintained its value at 31 March 2009 (after including dividends) while the New Zealand share market index had declined over that same two year period by 37%.

The picture is much the same with share markets all around the world.

The graph also shows that over a longer period (and long term performance is by far the most important) \$1,000 invested in Rangatira seven years ago had returned more than the share market index, and more than the average managed investment fund, and by quite a considerable margin.

Rangatira's performance is due to a number of factors which we hope will continue to stand us in good stead, including the rigorous approach we take in making each of our investment decisions, and the depth of experience of the Board and management.

Our results also reflect the ongoing benefits of the core elements of our investment strategy.

We maintain a deliberately well-diversified portfolio in terms of the industries in which we invest. We invest mostly in unlisted companies where we fully understand the businesses, and on terms which ensure we are closely involved in all major decisions. Also, we are actively involved with the management team in each of our unlisted companies to help strengthen and build their businesses.

- ***Investment Activity***

Last year was a very quiet time for new investments, with only the two items mentioned in our half year report being completed – a loan of \$1.2m to Te Kairanga, and a further net investment of \$2m in Vita.

With markets tumbling all around the world, we were in fact fully occupied in supporting our existing investee companies at the strategic and management level, and ensuring Rangatira maintained a balance sheet strong enough to support any of them that might have come under pressure.

Our most difficult decision was taken in March this year at the depths of the downturn - or at least at what we fervently hope, but still can't be certain, were the depths.

With share markets in freefall and banks surviving only with massive government funding and guarantees, we saw a clear risk that Rangatira's relatively small amount of debt (\$12m against assets of around \$130m) might nevertheless have left only limited ability to raise additional borrowing should that suddenly become necessary.

We decided to sell quite a significant part of our listed share portfolio and use the proceeds to reduce debt.

Many companies going through the current downturn have delayed a move to improve liquidity for too long, and been forced to either sell assets at distressed prices or recapitalise at a heavily discounted share price.

We felt it best to put ourselves into a fully secure position rather than run the risk that government action to avoid economic collapse may have been too little or too late, and share markets might have continued their downward spiral in a repeat of the 1930's.

Financial markets have since shown a welcome degree of greater stability, and share markets have been stronger, but I have no doubt the decision to strengthen our cash position was the right one in the circumstances the world faced in March.

In aggregate we realised \$8.5m from sales of listed shares last year, and a further \$1.6m since balance date.

Roughly 50% of our listed investment portfolio is now in three large Australian resource companies, BHP, Rio Tinto, and Woodside, reflecting our view that these companies continue to offer very good long term earnings prospects.

We no longer have a balanced portfolio of listed equities, and we will be considering that situation more fully at our next strategic review - but for the moment it is not uncomfortable given the number and diversity of our unlisted company holdings.

Rangatira's borrowing is now at a very conservative level – just \$6.5m at the end of this month. That should enable us to handle any further challenges from the global recession, even if, as we currently expect, the downturn continues for quite some time yet.

And it leaves us well placed with headroom to make new investments when the outlook eventually starts to improve and suitable opportunities come along.

- ***Outlook***

In considering the outlook, it is difficult at the moment to know whether the world is seeing the beginnings of a recovery, or simply the achievement of reasonable stability.

Certainly, governments have made it clear they will do everything possible to avoid a repeat of the financial collapse and massive unemployment of the 1930's, and that gives comfort that a reasonable level of demand will be maintained in economies around the world - even at the risk of higher inflation.

There appears in fact to be something of a split, with a relatively positive outlook in most Asian economies - which never suffered the excessive borrowing and consumer spending of the USA, Europe, and elsewhere – offset by a difficult and protracted adjustment to lower and more sustainable consumption levels in most of the rest of the world.

I suspect the answer to when a full global recovery will begin is linked strongly to the length of time it will take China, with its massive potential for increased spending, to achieve its planned shift to greater consumer demand - and the answer to that at this point is very much an unknown.

For New Zealand, with extremely high borrowing - and our main economic engine, the dairy industry, suffering uncomfortably low product prices - the immediate outlook is not encouraging. We may pick up on the back of Asian growth, but prices for dairy products in particular will be constrained over the next year or two by the reintroduction of export subsidies to dispose of the surpluses in Europe and America.

Taking all factors into account, your Directors expect a continuation of negative or very low economic growth and rising unemployment in most of the developed world in the year ahead - with no measurable recovery likely until well into 2010, if not later.

We are certainly planning against that background, although always with the hope of being pleasantly surprised if those more optimistic than us are eventually proven to be right.

Given our rather negative outlook, we have worked with and encouraged each of our unlisted companies to push hard for sales, but at the same time to adjust their cost structures to cope with an extended period of lower demand.

Most are in fact quite well-positioned to maintain reasonable profitability, despite the economic outlook, and in the case of Vita the benefits from the Pacific Brands acquisition and subsequent restructure should start to show up in improved profits in the second half of the year.

In aggregate, and after considering our results for the first quarter, we currently expect our group operating earnings for the year ahead to be similar to, and possibly a little better than, last year.

Chairman's Comments on Constitution Amendment

Over the past year Rangatira's shares have continued to trade infrequently on the Unlisted market, in very low volumes, and at prices well below our assessed asset backing.

On the one hand that probably indicates that the great majority of our shareholders are happy with their investment and see no reason to sell.

It is also clear, though, that buying interest is limited and not strong enough to push offer prices closer to underlying value.

From time to time parcels of shares in all companies, and Rangatira is no exception, simply have to be sold. The will for an estate, for example, would normally require assets to be turned into cash before distribution.

In a small company like Rangatira, any significant selling pressure could well result in an even greater level of discount in our share price than we have seen over recent years.

Your Directors believe that it is entirely possible there will be periods where an imbalance between supply and demand for Rangatira's shares could result in the share price falling to a level which would represent an attractive investment for the Company itself.

Rangatira's constitution, however, does not currently allow the Board to undertake a share buyback unless it is by means of a pro rata offer to all shareholders.

It is now normal practice for listed companies to have the power through their constitution to buy back their own shares on a non pro-rata basis, and I am sure most of you will have seen share buyback programmes undertaken by such companies from time to time.

We believe it is in the interests of all shareholders for Rangatira to also be able to purchase its own shares on a non pro-rata basis if circumstances make that advantageous, and we are accordingly proposing through the resolution set out in the notice of this meeting that our constitution be amended to introduce that power.

The current discount between the price of our shares and their assessed value is less than it was twelve months ago, and we have no immediate thought of entering into a buyback – but circumstances can change at short notice, and changing our constitution now will allow us to act quickly if and when a suitable opportunity arises.

If the resolution is passed – it is a special resolution and needs a 75% positive vote at this meeting to pass – then the procedure for undertaking a buyback will be as follows –

1. The Board must pass a resolution authorising the share buyback, stating (amongst other matters) that the share buyback is of benefit to the remaining shareholders.
2. The Directors who vote in favour of the resolution must sign a certificate confirming the matters set out in the resolution.
3. The Board must provide all shareholders with a disclosure document setting out (amongst other matters) the nature and terms of the offer to acquire shares, and to whom it will be made.

If the Board wishes a buyback to extend beyond twelve months then the Board's resolution would need to be renewed.

I would welcome any questions or comments on this issue before asking for a mover and seconder.

R M Gough
Chairman
27/07/09