



RANGATIRA

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CHAIRMAN'S ADDRESS

25 August 2008

I will talk mostly today about the way in which your Board endeavours to guide Rangatira's activities – but before I do that, I would like to pay a tribute to Sir Roy McKenzie.

It is nearly a year since Roy died, and I think we all still share a sense of loss, an absence of his warm, inquisitive – and always generous – personality. It is a major part of his unique achievement that Rangatira, and the JR McKenzie Trust, continue to move forward with a clear sense of purpose and direction.

Let me try to summarise what your Directors believe is the purpose of Rangatira. We see it as an investment vehicle which exists to provide shareholders with strong and reliable cash dividends, while also achieving total returns better than can be obtained from fixed interest or managed fund alternatives.

I have deliberately couched that in a low-key way. But I think the words capture the real purpose of this company – the upbeat challenge is to *maximise* the degree to which Rangatira outperforms other broadly based investment vehicles, while still maintaining a conservative approach to risk.

And while the words are low-key, the task is not a simple one. A quick reflection on the substantial falls in the past year in share market values, and the failure of so many safe-haven finance companies, shows just how easy it is to lose money.

After so many failures, it has become difficult for many New Zealanders to have confidence in anywhere other than their bank as a place to invest money. Yet history shows that Rangatira's shares have been a safe and rewarding investment for more than 70 years. Unfortunately most investors have no idea how Rangatira operates – and I will return to that point shortly.

Last year our total return was a gain of +4.6% - after tax. That would not normally be satisfactory, but given the turmoil in the world's financial markets we are not unhappy with the result. The average NZ growth fund reported a loss of -6.2%, and the comparable figures for the NZ and Australian share markets were -15.5% and -8.8%.

Figures over a longer period are more important than any single year's result. Rangatira's average return over the last five years has been +11.6% after tax, nearly 3% higher than the average NZ growth fund - and equivalent to a pre-tax return of +16.6%, double what most banks and finance companies have paid as interest.

As you know, our total return includes an assessment of the value of each of our unlisted companies. We approach that assessment each year in a professional and sensibly conservative manner - and even in today's very difficult market, we are confident that each of our unlisted investments would realise at least the figure we have used in our valuations.

Rangatira's performance doesn't happen by accident.

Your Directors come from a variety of senior business backgrounds – and have, collectively, very substantial practical business experience. And we have a small but very experienced and capable executive team.

The Board regularly debates investment strategy – as well as each significant investment decision - with the management team, and the level of experience and judgement which goes into those debates is one of the key reasons for Rangatira's solid performance record.

Critical to our investment strategy, apart from trying to make good decisions, is to maintain a balanced exposure to the wide range of risks and opportunities in the investment markets.

This year we invested \$5 million in a company which is buying New Zealand farms whose productivity can be substantially improved through further investment. Apart from being, we trust, a good investment, this is also a good example of how we spread our risk. Our aim is to maintain a portfolio that is broadly spread so that if some investments, our manufacturing companies over the last year or so for example, are underperforming, then that is offset by the performance of others in unrelated industries - such as our listed mining companies, or Contract Resources and Hellers, which operate in totally different markets.

Now, I'm sure some of you will be wondering why I have talked at length about matters on which you are already well informed. Contrary to what you may suspect, this isn't the preamble to considering the Directors Fee increase! The reason for my comments is to begin a process of achieving wider awareness of what Rangatira offers as an investment vehicle.

We are a somewhat unusual company with 60% or so of our shares held by charities – but anyone can buy Rangatira shares, and they are quoted and traded on the Unlisted market. A reliable dividend and a sound investment are vital for the functioning of the charities – but they are also extremely important to our many individual shareholders

I said at this meeting last year, in response to a question about the gap between Rangatira's share price and its net asset value, that Directors believe the interaction of buyers and sellers is the best way for the price of Rangatira's shares to be set. Since then the discount in our share price has increased further, and Directors have given this issue further thought.

We are starting to appreciate that from an investor point of view, outside the existing shareholder base, Rangatira is neither well known nor well understood. That means the company does not have a pool of informed and aware buyers for its shares - and that is a real concern if for any reason an existing shareholder wants to sell a significant number of shares.

The problem is that the lack of understanding and awareness of Rangatira means there is no depth of buying interest. And that problem is compounded, in terms of the balance between buyers and sellers, when we consider the relatively mature age of most of Rangatira's shareholders, and the likelihood of them or their estates wanting at some stage to sell.

To put some numbers around what I am talking about, a year ago Rangatira's shares were trading at a little over \$6.00, a 22% discount to their then asset backing. Over the last few months they have traded at around \$5.40, a 32% discount to the latest asset backing - which has already taken account of the substantial falls in the New Zealand and Australian share markets over the last year.

It is not unusual for shares in a diversified investment company to trade at a discount to underlying value, but given Rangatira's performance record and conservative borrowing profile, the present discount is difficult to reconcile except in terms of lack of investor awareness.

Your Directors have considered this issue, and at this point have an open mind as to what - if anything - should be done.

We intend to take some steps, including my comments in this address, to try to increase the awareness and understanding of Rangatira by potential investors. That will include talking in some depth about the company and its performance with one or two Wellington share brokers.

And as indicated in the Annual Report, we are also considering the pros and cons of a share buyback in which Rangatira would seek shareholder approval to enable it to buy its own shares in the market.

If shareholders approved, Rangatira would then be in a position to invest in its own shares if Directors considered that the discount to asset backing made them a good investment for the company. We suspect that in practice very few shares may be able to be purchased - our records indicate that in the last twelve months only around 250,000 shares were traded. The existence of the company as a potential purchaser, buying from time to time, could well act as a significant support to the share price.

Directors would be interested to hear shareholders views on the share buyback issue - either during the course of this meeting or afterwards.

Investment Activity

We continue to hold virtually all of our investments in just two countries - New Zealand and Australia - and have no immediate plans to change that position. Rangatira can only be a passive and remote investor beyond these two countries, and there is a major benefit in being close enough to directly monitor a company's performance and activity, as well as have a feel for the economic pressures in the country where it is based.

The driver for us to go elsewhere would be an expectation of economic or regulatory factors starting to disadvantage the New Zealand or Australian economies, but at this point that seems unlikely.

I have commented previously on our exposure to three major mining companies BHP, Rio Tinto, and Woodside. That position has continued to work well for us, and we now have around \$24m – 16% of our total investments – in these companies. Our current view is to retain that position, given the outlook for further growth and higher dividend income, but we will continue to monitor their prospects closely.

Directors and management undertake a regular review in which we look for potential underperformers in our listed share portfolio, and consider replacing them with better quality companies. During the past year we have sold our remaining shares in Tourism Holdings, and since balance date we have also sold our GPG shares.

We have also looked at a number of new unlisted investment opportunities over the last twelve months. Only one, Greenfield Rural Opportunities, has met our criteria, and Ian Frame will talk a little more about that, and our other investments, shortly.

While we have not been attracted to many new investments, our existing portfolio of unlisted companies has continued to provide good opportunities for additional investment. Vita, our foam and furniture manufacturing investment, recently acquired Pacific Brands' New Zealand bedding and foam operations. And with our wine investment, Te Kairanga Wines, we have supported a major restructuring by investing a further \$1.9m last December.

Rangatira's borrowing remains at the very low level of 8% of our total assets. That puts us in a strong position to handle the current economic downturn, and gives us the ability to make new investments once the economic outlook starts to stabilise, and suitable opportunities come along.

Outlook

Some commentators believe that the current weakness and instability in world markets may be as serious as the Great Depression. The positive factors this time around, though, are the vast numbers of people in expanding Asian economies where growth seems likely to continue – and the much greater understanding of the actions governments need to take to avoid a major economic collapse.

For those of us who lived through the late-1980's in New Zealand, however, there are many uncomfortable reminders of those times.

Against that uncertain background, it is difficult to give a meaningful comment on Rangatira's outlook for the current year. I can say that at this point, despite further falls in both the New Zealand and Australian share markets, our listed equities are up by just over 2% on their 31 March 2008 values. And our year-to-date Operating Earnings are tracking ahead of the same period last year.

So far so good – but it is extremely difficult to try and project how the remainder of the year will turn out.

Investments such as Contract Resources and Hellers are continuing to see good levels of demand - in fact very good in the case of Contract Resources, which services oil refineries and mining companies. On the other hand some of our companies more dependent on consumer demand, such as Vita and Tecpak, are having a more difficult time.

We have efficiency initiatives, as well as growth plans, in place for each of our companies – Vita in particular is nearly doubling its sales with its recent acquisition – and these give us confidence that improvements can be achieved. And the NZ dollar's fall seems likely to be sustained, and probably go further, and that will also materially assist. But the global outlook is far from reassuring.

I think I can best summarise Rangatira's outlook by saying that we expect our investment strategy will be tested this year more than at any time in the last twenty - in an overall world economic sense there is more than enough to be seriously worried about. But at this point we expect to produce an acceptable result for the current year, and it is quite possible that we will do better than that.

RM Gough
Chairman
25/8/08