



# RANGATIRA

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## CHIEF EXECUTIVE'S ADDRESS TO ANNUAL MEETING ON 25 AUGUST 2008

Thank you Chairman and good afternoon.

The Chairman has given you a good overview of our total performance during the financial year, so I will focus specifically on our unlisted investments.

Essentially, we hold nine investments in the private equity portfolio, and you may wish to follow them from Page 10 of the Annual Report.

### 1. **Auckland Packaging Company**

We have held this investment for 9 years and over that period it has been a steady and profitable performer. It is not a large company, with annual revenue of \$13m, but it has a strong presence in the specialist packaging and display market. Its customers are largely NZ manufacturers of consumer products, and NZ retailers.

While both of these market sectors either have been under pressure due to the strength of the NZ dollar or are coming under pressure from reduced consumer spending, APC is holding onto its sales volumes reasonably well. Hopefully, retailers will decide that in difficult economic times they are best to spend more on product presentation and point of sale promotions, and will consequently spend more with APC. There are signs at present that many customers are doing just that, and we hope it continues. Also, if the NZ dollar continues to fall against the Australian dollar, we will have better opportunity to enter the Australian market.

### 2. **Contract Resources.**

We invested in Contract Resources four years ago and our timing could not have been better. Since then, the oil and gas industry has boomed. Contract Resources specializes in building & maintaining equipment on oil refinery sites, and at other similar chemical process engineering plants. For example, in NZ, CRL was recently called upon to play a significant role in the partial re-commissioning of the Motonui methanol plant in Taranaki, and also secured major contracts with Carter Holt on its Kinleith pulp & paper plant.

But NZ is a small market for such business, Australia is much larger and the USA even larger again. So, of our \$70m turnover, less than 10% currently comes from NZ, over 80% from Australia, and the balance mostly from North and South America.

We are convinced there is good opportunity to expand in the USA and are currently negotiating to acquire a small business over there to help us get started. Over the four years we have been invested in Contract Resources, its turnover and profitability have more than doubled, and I am confident the Company will continue to perform very well for us over the next few years.

### **3. Greenfield Rural Opportunities.**

We acquired our shareholding in this business during the last year. For some time, we had been looking for an opportunity to invest in NZ's rural sector, but it was difficult to find a suitable entry opportunity at an acceptable price.

So, we are pleased to have found Greenfield. In essence, Greenfield acquires and owns land on flat and rolling hill country with the objective of developing the land to produce feed for other parties who own livestock – such as dairy, sheep and beef farmers. Greenfield doesn't own livestock itself, it merely grows and sells feed – this is known in the industry as “feed-trading”.

Longer term there may be even more valuable alternative uses for the land, but that is not Greenfield's purpose for investing – it simply wants to develop a successful feed-trading business from land that can be immediately developed for that purpose.

### **4. Heller Tasty**

When we initially invested in Heller Tasty five years ago, the company had sales of \$60m. It has now doubled both its sales and its profits, and stands as the major supplier to the NZ supermarkets in each of the three categories – bacon, ham and smallgoods. This growth has been achieved on the back of some very innovative product development, including packaging improvements, and well conceived television campaigns.

However, marketing is not the sole reason for the success that has been achieved – the underlying quality of Heller's products has also been excellent. This year, Heller won the NZ Pig Industry Board's inaugural prize for the best bacon produced from NZ grown pigs. It won this in blind tasting from 240 products entered by manufacturers located throughout NZ. The winning product was “Hellers Middle Eye” bacon. I understand you will have the opportunity to taste some of Hellers' fine products at the conclusion of this meeting.

So, Heller Tasty now holds a commanding market position in the NZ bacon, ham and smallgoods market and is looking to grow further through the addition of new products and categories, such as salamis and other continental products. The Company will also look to expand into what is known as the Food Service market – hotels, restaurants, caterers, etc.

## 5. Polynesian Spa

Polynesian Spa has now been in Rangatira's stable of investments for 37 years. During that time it has been developed extensively. Today, Polynesian Spa is a world class mineral and health spa with top quality public and private bathing and professional therapy services.

At times over the last two years, the venue resembled a construction site, which in some respects it was, but that is now over and we are working on a marketing strategy to make Polynesian Spa even more famous than it already is.

The venue with its mystical setting on the shores of Lake Rotorua, and its universal appeal (including all-weather facilities), is surely a "must do" for every New Zealander, and every visitor to NZ, who ventures near Rotorua. If you haven't been there recently, I encourage you to go.

## 6. Precision Dispensing Systems

This is a small investment for Rangatira, and it is essentially "venture capital" – our only venture capital investment. In short, it has taken nine years of Rangatira's investment time and money to reach the point where one of its products may achieve significant commercial success.

That product is currently in final testing for commercial application by a large USA-based multi-national company in the cleaning and sanitation market. If these tests are successful, and we have reasonable confidence they will be, then PDS will move into full production and commence marketing the product world wide.

The potential value to Rangatira of this investment is unknown at this stage, but it could be substantial if the testing concludes successfully over the next three to six months. If not, there will be no write-off in our accounts as we have been expensing our investment on an annual basis.

## 7. Tecpak Industries.

We initially invested in Tecpak in 2001, in support of a management buyout. The Company achieves annual sales of about \$14m.

It makes injection moulded plastic containers, essentially for the food industry, and is well respected throughout NZ and Australia in that industry. Most of its products are used as packaging for fast moving consumer goods.

The business is reasonably capital intensive with a high fixed cost base, so its financial performance is largely dependant on the volume of activity through its factory. Over the last year, factory activity was affected by changing customer requirements for their products and changes in consumer demand. While this can have positive as well as negative effects on financial performance, it can also produce fluctuating results from

year to year. The company's results last year were unfavourably affected by the strength of the NZ dollar against the Australian dollar and large increases in the cost of oil-based plastic resins from which all its products are made.

Overall, despite its sometimes variable performance, Tecpak is a sound business with a good management team that continues to find good quality growth opportunities in both NZ and Australia.

## **8. Te Kairanga Wines**

Rangatira originally invested in Te Kairanga to learn about the wine industry, believing that sooner or later there would be opportunity to participate more fully in this sector. That strategy is now becoming reality, despite the fact that TK itself has been under significant financial stress over the last two years.

For several years TK's sales and costs sat at about \$4m per annum, but over recent years the costs increased to the point where the Company could not operate profitably. In addition it had some major weather and production problems.

Rangatira was instrumental in attracting Peter Hubscher to sort it out. Many of you will know that Peter developed Montana Wines to become the successful business it is today. For the last year Peter has been working as Executive Chairman of Te Kairanga, with the objective of developing it into a business with sales of at least \$12m and in time \$20m.

His strategy is to consistently produce excellent quality wines, sell them at appropriate market prices and develop the Te Kairanga brand by working closely with new distributors and retailers who recognize and appreciate the value of what is being offered.

Already, we can see the benefits flowing from Peter's strategy. TK's processed grape volumes have increased threefold, the wine-making problems have been addressed, and new distribution channels have been established.

It will take time to fully implement Peter's plan, but in an industry where there is likely to be significant financial stress over the next few years, Rangatira is pleased that Te Kairanga is now well managed, and well positioned to be a leader in any industry restructuring.

In saying that, we recognise that Rangatira may need to increase its investment as the company moves through the recovery stage, and grows, and we are willing to do that provided we are satisfied that it will ultimately result in the level of return we expect from this kind of investment.

## **9. Vita New Zealand**

At present, Vita is probably our greatest challenge. The company has struggled to achieve growth during the last few years of cheap imports – it has remained profitable,

but not at a level we are comfortable with.

In June this year, Vita completed the acquisition of Pacific Brands foam, flooring and bedding operations in NZ - you will probably better know of these businesses by their brand names, "Dunlop" and "Sleepmaker". When put together with Vita's existing operations, it has created a business with \$100m annual sales and strong market positions in:

- Foam production - currently it makes over 90% of all NZ manufactured polyurethane foam;
- Foam underlay - currently the largest NZ manufacturer and supplier of re-bonded polyurethane foam underlay;
- Furniture production - clearly NZ's largest manufacturer of soft furniture; and
- Bed production - the Sleepmaker and Simmons brands jointly are second in market share behind Sleepyhead.

While the acquisition provides significant opportunities to increase efficiency and reduce costs, the market in NZ for high-value discretionary home-ware (such as furniture and bedding) is under pressure from reduced consumer spending. That, combined with fluctuations in the NZD exchange rate, competing product imported from Asia, and the rising cost of chemicals required to produce foam, compounds the challenge.

We are now working closely with Vita's management team to achieve the synergy gains expected from the Pacific Brands acquisition and to structure the Company so it can better handle the current economic conditions.

### **Summary**

In summary, I have been more detailed this year in explaining to you the status of our various private equity investments. I have done this because the Rangatira Board and management consider it important for you, and the wider investment market, to better understand the potential and the risks of our investments.

We have some investments such as Contract Resources and Heller Tasty that are quite large by Rangatira's standards, are generating good profitability and have strong growth prospects. Some such as Te Kairanga and Vita have good prospects, but currently require attention to complete their restructuring and secure their value. The others are smaller scale, but all of them have potential and we are working hard to fully develop that potential.

Thank you.

IS Frame  
Chief Executive  
25/08/08