



# RANGATIRA

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## CHAIRMAN'S ADDRESS

### Performance for Year to 31 March 2006

The year to 31 March 2006 was a good one for Rangatira, with our Operating Earnings increasing by 50% and our portfolio of investments providing a total return on Opening Equity of 20.5%. Those results have enabled us to increase our dividend payout to 34 cents a share, and record an improvement in our assessed asset backing from \$6.27 per share to \$7.24.

We have now been measuring our total return to shareholders – that is, dividends plus change in assessed asset backing - for four years. Our average return after tax over that period has been 9.6%, just under 3% ahead of the comparable figure for balanced New Zealand investment funds. For the year just completed we were 4.1% ahead, and our aim is to increase that margin further.

Rangatira's investment mix has two major components - listed equities, with each one selected for long term income growth; and significant stakes in a portfolio of small to medium unlisted companies.

This mix provides us with a healthy income flow and above-average growth prospects, coupled with the security of broad diversification. We are a little unusual as an investment manager in being able to support a high and reliable dividend payout as well as achieve growth, and the mix has considerable benefits for both our charity and individual shareholders.

While our listed share portfolio has performed particularly well, we have also seen solid growth this year in the aggregate profitability of our unlisted portfolio. We expect that growth to continue. From time to time, however, at least one of our investee companies is likely to be facing significant challenges, and in these situations the experience of Rangatira's management and Directors can provide valuable strategic and management input. Some quite dramatic performance improvements have been achieved from time to time, and Ian Frame will talk a little more about our experience this year with Tecpak, our 79.4%-owned plastic container manufacturer.

### Regulatory and Tax Issues

It was heartening to have government recognise during the year that companies such as Rangatira benefit from having an independent platform on which bid and offer prices for their shares can be quoted.

We were delighted to see government's initial views reversed and the market known as Unlisted left in place. While trading in Rangatira's shares on Unlisted is relatively infrequent (we are a solid performer, but prefer to keep a low profile), there is nevertheless sufficient interest to maintain genuine buy and sell bids in the market.

Less happily, most shareholders will have followed with concern the Government's proposals for changing the tax regime on share investments. Recent amendments have removed Australian listed equities from the proposed capital gains tax net, but virtually all other investments outside New Zealand will be caught.

We remain strongly opposed to the basic thrust of these proposals. We believe they will inevitably lead to a tax-driven concentration of investment by New Zealanders in the New Zealand and Australian share markets. These two markets have traditionally been the main focus of Rangatira's investment strategy, and both have provided good returns over recent years. But in the years ahead, we believe continuing globalisation will require a broader range of investments for satisfactory diversification than NZ and Australia can provide on their own.

The Government's concern appears to be that tax is being avoided by the current regime. If that is the case, we believe in the country's long-term interests that a different and non-distortionary solution should be found.

### **New Investment Activity**

With very high prices being paid – particularly by Australian funds - for unlisted investments, we are finding it increasingly difficult to identify satisfactory new opportunities.

Fortunately that is less of a problem than it would have been several years ago when we were still placing the proceeds from our sale of the James Cook hotel. We are now relatively fully invested, and our unlisted portfolio is well diversified and consists of solid companies with good prospects.

Most of our unlisted companies are identifying growth opportunities within their existing businesses that offer very satisfactory potential returns. These projects are generally relatively low risk, and we have a much greater degree of confidence investing in businesses we already know well.

Our only major new investment last year was an increase in our shareholding in Vita NZ Ltd from 50% to 80%. Vita markets and manufactures foam and furniture products, and has had a challenging time in recent years as it has struggled against currency-advantaged imported competition. The company has however continued to perform steadily with a strong focus on design innovation and manufacturing efficiency. Vita has recently begun to enjoy growing export sales into Australia, and the fall in the NZ dollar is likely to also bring benefits in the domestic market.

## **Life Pharmacy**

Shareholders may have noticed in the newspaper recently that we have been unhappy with our investment in a company called Life Pharmacy. This is a newly floated company in which our share-trading subsidiary, Watt Land, took up an opportunity to be a foundation shareholder with an investment of \$1 million. It hasn't worked out satisfactorily, at least at this point, and the share price has fallen from \$1.30 to less than 90 cents. Rangatira's loss in value at balance date was just under \$300,000 and that was taken up in our reported earnings for last year. There has been a small recovery in the share price since then, and we are pushing hard for the Life Pharmacy Board to improve performance.

## **Outlook for the Coming Year**

Recent and ongoing events in the Middle East are a reminder of how unpredictable the world political scene remains. Oil prices – driven by such tensions - are capable of pushing inflation to uncomfortable levels. The consequent economic medicine can be very unpleasant.

There is a risk of interest rate increases tipping some Western economies into recession. The impact of that on New Zealand and Australia is now offset to quite a degree by growth in Asia, but neither country is exempt from some degree of pain if world growth stalls.

We feel that it is a time to be well aware of the possibility of a world economic slowdown, although on balance we still expect satisfactory trading conditions in the coming year for the companies in our listed and unlisted portfolios. We are currently forecasting an improvement in our Operating Earnings for the full year of between 10 and 20%.

Rangatira's performance is the result of dedicated effort by our management team, supported by the Board. I would like on behalf of all shareholders to thank Ian Frame, Chris Bradshaw, and Vivienne Lawrence for managing Rangatira's activities to produce such a solid result, and to express appreciation to my fellow-directors for their commitment and advice during the year.

I will ask Ian Frame now to comment on the past year – Ian's third as Chief Executive – and then I will open the meeting for questions before seeking a resolution to receive the Directors' Report and the Financial Statements.

R M Gough  
31 July 2006