
CENTURY
AUSTRALIA
INVESTMENTS LIMITED



Annual General Meeting
Tuesday 18th November 2008
2.00pm

Delivering **regular income** and **long-term growth** to investors through a **focused**
and disciplined investment strategy

Agenda

- **Introduction & Chairman's Address**

- **Ordinary business**
 - Financial Report, Director's Report, Auditor's Report
 - Re-election of director – Stephen Menzies

- **Special business**
 - Adoption of the Remuneration Report

- **Presentation from Peter Morgan – Investment Director, 452 Capital**

The Year in Review

- Volatile share market
- 2007/08 Investment Manager 452 Capital – concerned volatility was a repricing of risk
- Investment Manager realised significant portfolio gains before broad market decline

Investment Performance

- Portfolio investment return
 - 12 months to 30 June 08: -19.6% p.a (S&P/ASX 300 accumulation -13.7 %)

- Investment Manager - 452 Capital
 - following a cautious and disciplined approach to investment
 - underperformance due to conservative investment view and underweight resources position

- In past 4 months underweight resources position and specific stock selections achieved 13.19% outperformance over S&P/ASX 300 accumulation index

Financial Performance

- Operating profit \$9.93 million (2007: \$7.95 million)
- Profit after tax including realised gains on investments \$23.9m (2007: \$28.3m)
- Realised gains \$27.6m (2007:\$29.8m)
- Impairment loss \$8.3m (2007: nil)
- Total portfolio 30 June 2008 - \$202.0 million (\$274.7 million June 2007)
- Future realised gains minimal; realised losses will impact earnings

Dividends

- Dividends:
 - Final: 5 cents per share
 - Interim: 5 cents per share
 - Total: 10 cents per share – up 11 %

- 2008/09
 - Currently large Retained Earnings and significant Franking Credits
 - Realised losses and impairment provisions will impact earnings
 - Dividend paying capacity cannot be reliably forecast, but relatively confident of declaring December half year dividend

Share Price

- Share price discount to NTA after tax of approx. 15%
- Buy-back plan: 10% of the issued capital over next 12 months

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Re – election of Director

Resolution

“To re-elect Stephen Menzies as a Director of the Company, who retires in accordance with the Company’s constitution and being eligible, offers himself for re-election.”

Director Re-election: Mr Stephen Menzies - Proxies

	Holders	Votes
For	439	9,148,150
Against	9	140,871
Chair's Discretion	132	2,833,179
Other Discretion	18	324,559
Abstained	10	172,030

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Adoption of Remuneration Report

Resolution

“In accordance with Section 250R of the Corporations Act, the Company adopts the Remuneration Report for the year ended 30 June 2008 in the form set out in the Directors Report.”

Remuneration Report - Proxies

	Holders	Votes
For	350	7,291,727
Against	75	1,604,319
Chair's Discretion	137	2,870,841
Other Discretion	19	330,489
Abstained	27	521,413

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Annual General Meeting Century Australia Investments Limited

Peter Morgan, Investment Director, 452 Capital

18 November 2008

Disclaimer

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Agenda

- Origins of a mess
- 452 investment process
- Performance drivers
- Looking forward

Origins of a mess

“Bull markets are born on pessimism, grow on scepticism, mature on optimism and die on euphoria”.

The late Sir John Templeton
Australian Financial Review
2 July 2008

Origins of a mess

“In a move that could help increase home ownership rates among minorities and low-income consumers, the Fannie Mae Corporation is easing the credit requirements on loans that it will purchase from banks and other lenders”.

Steven A. Holmes
The New York Times
30 September 1999

Origins of a mess

“A particularly important protective factor in the current environment is the strength of our financial system. Our banking system remains healthy and well-regulated and firm and household balance sheets are for the most part in good shape”.

Governor Ben S. Bernanke
addressing the National Economists Club
21 November 2002

Origins of a mess

“Up until 2003, all investment banks (in the USA) were allowed only 12 to 1 leverage. Then in 2004, the SEC gave five banks the ability to lever up 30 or even 40 to 1...guess the five banks. Bear, Lehman, Merrill, Morgan and Goldman.”

John Mauldin
The Frontline Weekly Newsletter
19 September 2008

Origins of a mess

“It’s a low, low, low, low-rate world. Money is cheap. Some experts say it could stay that way for years”.

Cover story
Business Week
19 February 2007

Origins of a mess

“When the music stops, in terms of liquidity, things will be complicated. But as long as the music is playing, you’ve got to get up and dance”.

Chuck Prince, Citigroup CEO and Chairman
Financial Times
10 July 2007

Origins of a mess

“As expected, CEO Chuck Prince stepped down at Citigroup’s extra special board meeting Sunday”.

Justin Fox
The Curious Capitalist
4 November 2007

Summary – origins of a mess

- Cheap money
- Increases in debt levels
- Very low pricing of risk
- Poor regulation
- Sophistication (splitting/dicing/packaging)
- Speculation
- Greed

452 investment process

Sound balance sheets

- So far so good but some good companies may fail because of the worst credit crisis since the Great Depression
- We did **not** hold any of the blow-ups:
 - MFS
 - RAMS
 - Babcock & Brown
 - Allco
 - ABC
 - Centro

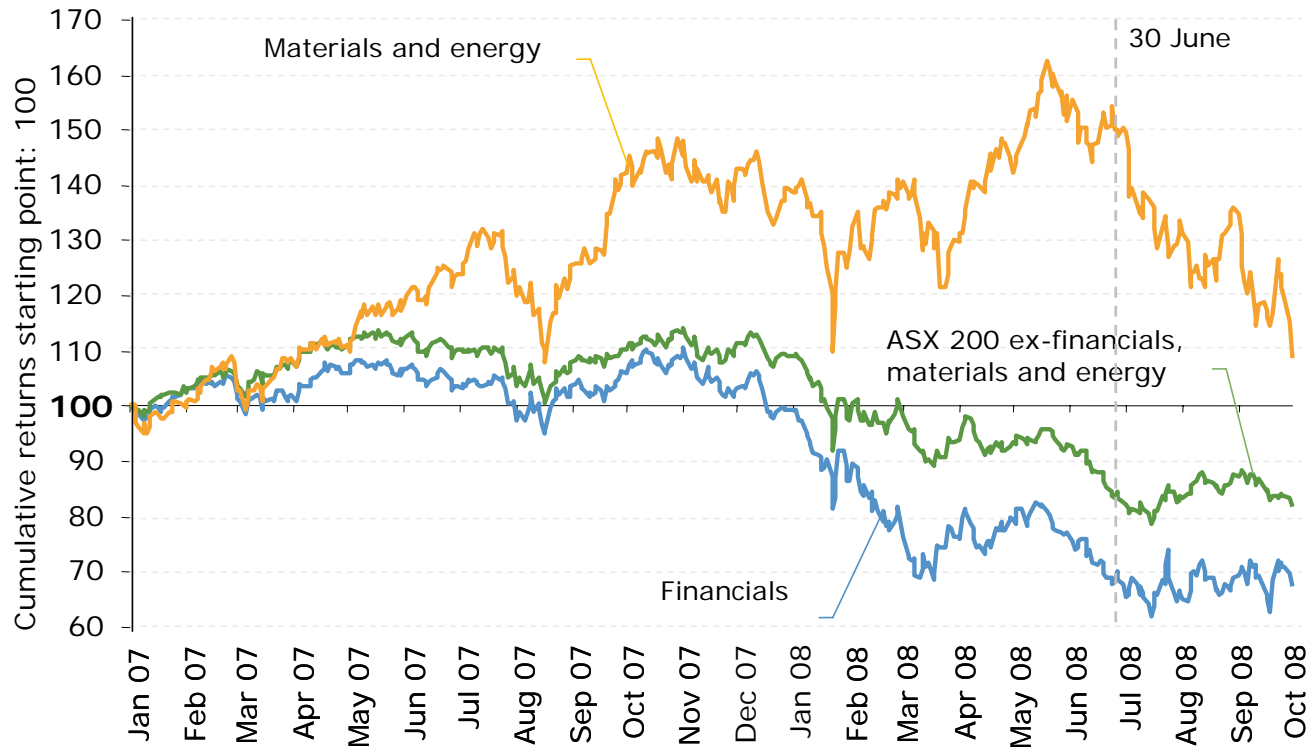
452 investment process

Through-the-cycle valuations (subject to change due to market volatility)

- Underweight resources as commodity cycle peaks
- Underweight banks when bad debts are low
- Overweight Media

Divergence between industrials and resources

Cumulative ASX 200 sector returns 1 Jan 2007 – 30 Sep 2008



Source: Morgan Stanley

Looking forward

“Lately the mood has been downbeat. Interest rates have risen into the double digits, causing people to fear we will soon be as bad off as Brazil, while others are satisfied that we’ll soon be as bad off as the 1930’s. Sensible bureaucrats are wondering if they should learn to fish, hunt and gather berries. The Dow Jones average is in the 700’s, a decade earlier it had been in the 900’s. Most people think that things will get worse”.

Peter Lynch
reminiscing about 1982 in his book “One
up on Wall St”

Looking forward

- The global financial crisis will not clear the system quickly
- Massive deleveraging taking place
- Deflation is a disaster if you have debt
- Asset prices are falling; not helped by cash hoarding and credit tightening
- Unemployment will rise
- Any company with too much debt will be severely handicapped
- More capital and bond raisings
- There are opportunities to make money on a 2-3 year view

Looking forward

Never forget the two biggest sectors in the Australian share market are related to:

- Commodities
- Finance

Looking forward

China

- Can't decouple from the USA
- Excess capacity
- Rising cost pressures
- Poor lending disciplines
- Deteriorating property market
- Where are the foreign reserves?

Commodities

- The world is slowing
- A large speculative element over the past two years

Commodity prices

Currency/ Commodity	Price as 14 November 2008	Change on previous quarter	Change on 1 year	Market forecasts for 2010	Market long term	Last 10 year average
AUD/USD	66.4	-28%	-18%	82	75	67.3
Oil (USDBarrel)	59	-48%	-6%	104	94	41
Gold (USD/oz)	736	-19%	+12%	930	733	414
Copper (US¢/lb)	165	-55%	-46%	324	186	146
Nickel (USD/lb)	5.13	-59%	-75%	8.30	7.40	6.30
Zinc (US¢/lb)	54	-47%	-66%	87	85	69
Coal - Coking	340	13%	+250%	258	110	67
Thermal	90	-27%	+62%	133	70	39
Iron ore	62	-28%	+16%	146	80	43

Source: Market forecasts represent the consensus of 10 broker's estimates as of late October 2008. Market long term is the 10-year historical average. Note: Iron Ore based on US\$/t Chinese Fines Index (delivered basis into China). Coking Coal based on contract prices, Thermal Coal is spot Newcastle FOB.

Looking forward

Australian banks

- Heavily reliant on overseas funding
- \$120 billion to be raised in debt markets next year
- World needs capital
- Bad debts still at historically low levels
- Unemployment cannot go much lower
- Large property loans - commercial

Looking forward

Australian banks

- Highly leveraged
CBA - assets: \$450 billion; capital: \$20 billion
- Large property exposures, not just mortgages
ANZ – \$30 billion construction and commercial exposure
- How good are their lending practices?
Centro, ABC Learning, Babcock and Brown, MFS, Raptis
- Stress testing – are they serious?

Looking forward

Australian banks: “stress testing”

Westpac (July 2008 Presentation)

- Interest rates up 4%
- Housing prices down 20%
- Unemployment rate up 4%
- Wages down 2%
- Net profit down \$200million?

CBA (August 2008 Presentation)

- Unemployment at 10%
- Interest rates at 14%
- Security values down 30%
- Net profit down \$350million?

Values are moving quickly

- FKP rejection of LLC \$5.00 offer – 20 June 2008
- FKP capital raising occurred 15 October 2008
 - 5% placement to Stockland at \$2.00
 - Rights issue at \$1.50
- Current price around \$1.15

Source: 452 Capital

Note: 452 Capital does not own FKP Property Group

452 positioning

(subject to change due to market volatility)

Underweight

- Commodities
- Commodity related companies
- Banks
- Hold **no** property trusts
- Hold **no** infrastructure

Overweight

- Telecommunications
- Brambles
- Fairfax
- Amcor
- Newscorp
- Reasonable positions in Austereo, Premier Investments, Soul Pattinsons

Top 10 largest stocks in the portfolio

Security Name	% of Portfolio
Telstra Corporation Limited	8.7
BHP Billiton Limited	7.2
Brambles Limited	6.3
Westpac Banking Corporation	5.1
National Australia Bank Limited	4.8
News Corporation	4.8
AMP Limited	3.9
Fairfax Media Limited	3.8
Amcor Limited	3.7
Foster's Group Limited	3.6

Data as at 31 October 2008
The portfolio held 3.98% in cash

Looking forward

“Then almost overnight almost everything changed. People who had reserved their campsites in the woods rushed back to buy every stock they could get their hands on. They were stumbling all over each other to jump on the bull”.

Peter Lynch
reminiscing about 1982 again

Century Specific Issues

- As a listed investment company, Century will always have a significant exposure to the Australian Sharemarket
- Because Century's performance is benchmarked against the ASX300 Accumulation Index, relative valuations are an important input into the construction of Century's portfolio
- Last year, because of our investment process, significant capital gains were realised
- With the sharemarket falling significantly over the last 12-18 months, many of Century's holdings today are trading below cost
- We do not expect significant capital gains to be realised for many years
- It is likely that capital losses will be realised this year
- In addition to any realised capital losses during a period, the Board of Century determines whether an investment is impaired at each reporting date

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Questions?

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