

# CENTURY AUSTRALIA

INVESTMENTS LIMITED



## CHAIRMAN'S ADDRESS

Annual General Meeting of Shareholders

Wednesday 24<sup>th</sup> November 2010

### Financial Performance

The 2010 Financial Year was a better year for equity markets than the previous year. This is reflected in the improvement in Century's net profit after realised gains and tax of \$13m compared to a \$26.7m loss in the previous year.

The net profit reflects the earnings i.e. dividend and interest income received on our portfolio, plus realised gains, less management expenses, impairment losses and tax.

In the 2010 year, impairment losses of only \$3.9m were recorded and gains of \$14m were realised. The prior year result was impacted by impairment charges of \$20.3m and realised losses of \$26m.

The net assets of the Company decreased to \$162.1m as at 30 June 2010 from \$167m as at 30 June 2009. The 30 June 2010 net assets include a deferred tax asset of \$13.1m of which \$10.8m results from carry forward tax losses. The overall decrease in net assets was after payment of dividends of \$6.5m and funding of the on market share buy backs of \$13.9m.

The investment manager, 452 Capital, generated a gross portfolio return of 13.28% compared to a return of 13.05% for the S&P/ASX300 Accumulation Index, during the financial year ended 30 June 2010, an outperformance of 0.23%.

### Impairment

The accounting standards currently adopted by Century require the impairment of investments where there has been a significant or prolonged decline in market value compared to cost, with the unrealised losses recorded in the profit and loss statement as an impairment charge. The impairment charges have no impact on net asset backing as Century constantly revalues its assets to market value. I note that when an impaired stock recovers in value, the impairment adjustment is not reversed through the profit and loss but must be revalued through the balance sheet. Impaired assets often remain appropriate long term assets and continue to be held in the portfolio.

Some other LIC's have chosen to adopt accounting standard changes introduced from December 2009, being the earliest adoption date, which do not require assessment of impaired assets. This was considered by the Board yet after consultation with our auditors was not adopted. This was on the



basis that further changes to this new standard are expected and there was no benefit to be gained by adopting the changes early. I repeat that Net Tangible Asset figures reported reflect the market value of shares held and thus impairment is not an issue.

### **Dividends**

Total fully franked dividends declared in respect of the 2010 financial year were 8.5 cents per share, a decrease of 0.5 cents per share on the prior year.

It is pleasing to report that in coming years, Century will no longer be restrained by available profits when declaring dividends, due to the introduction of Corporations Law changes effective June 2010, which are intended to allow dividend payment based on the satisfaction of solvency and fairness measures. However, there is currently some legal debate on the matter and we expect clarification in the near future.

### **Capital management**

The board has been actively monitoring the share price discount to Net Tangible Assets since the 2009 AGM. In an effort to provide liquidity and acquire shares at a time when the share price discount to Net Tangible Assets was excessive, the Board became increasingly active in the on market buy back program. Over the period December 2009 to August 2010 a total of 18,312,318 shares were bought back for a total value of \$14.97 million, representing almost 10% of the companies issued capital.

In time it became evident that more significant measures were required to allow shareholders wishing to exit the opportunity to do so at a reasonable price. As a result of this, the board was making plans to present a buy back proposal to this meeting at the time the board became aware of the uncertain future of 452.

As a result a share buy back proposal will be put to shareholders later in the meeting. The buy back will allow those shareholders who wish to sell their shares the opportunity to do so at a price close to Net Tangible Assets. Interestingly, proxies voting in favour of the buyback were received from 556 shareholders, that is 11% and representing approximately 40% of issued shares. Subject to the formal vote on the buyback resolution later in the meeting, and the actual take up of the buyback (assuming it proceeds), the board has determined that should the Net Tangible Assets of the company fall below \$40m, the Directors will provide shareholders an opportunity to approve a resolution to wind up the company. Should this occur, the costs of wind up will be allocated to all shareholders. I will discuss the buyback later in the meeting.

Robert Turner

Chairman

