

CENTURY AUSTRALIA

INVESTMENTS LIMITED



CHAIRMAN'S ADDRESS

Annual General Meeting of Shareholders

Tuesday 25th October 2011

The past 12 months have seen significant changes for Century and proved to be a difficult year for investment markets.

Financial Performance

Operating profit before income tax expense and realised capital gains was \$3.6m (2010: \$5.8m). The lower operating profit was primarily due to reduced scale of the company following the implementation of the buyback approved at the 2010 Annual General Meeting.

The net profit result after realised gains and impairment charges was \$2.2m compared to the 2010 result of \$13m which included \$14m of realized gains.

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 2011 year, impairment losses of \$800,000 were recorded and gains of \$2.8m were realised. The prior year result was impacted by impairment charges of \$3.9m and realised gains of \$14m.

Management fees represent the major component of expenses. The current investment manager, Perennial Value Management received \$305,237 for the period from 9 September 2011 to 30 June 2011. Prior to 9 September 2010, the manager was 452 Capital who received \$290,714 for the period from 1 July 2010 to the resignation of 452 Capital.

The net assets of the Company decreased to \$71m as at 30 June 2011 from \$162m as at 30 June 2010, largely due to the Buy Back amounting to \$76.0m and payment of a Special Dividend of \$10.6m.

Portfolio Performance

Century generated a portfolio return of 2.31% for the year ended 30 June 2011, compared to the S&P/ASX300 Accumulation Index return of 11.9%. Since their appointment in September 2010 to 30 June 2011 Perennial Value Management (PVM) generated a return of -1.36% compared to the benchmark return of 3.69% for the S&P/ASX300 Accumulation Index for the same period, an underperformance of 5.05%. The performance of the Company's portfolio was adversely impacted while the portfolio was transitioned to PVM's preferred model portfolio. In addition, up to 30% of the portfolio was maintained in cash during the period leading up to the Buy Back and payment of a Special Dividend.

John Murray will be providing a full overview of the share market performance in 2011 financial year along with commentary on the Century investment performance, later in the meeting.

Expenses and Indirect Cost Ratio

Following the buyback, the board carried out an extensive review of all expenses which led to overall savings in excess of \$100,000 per annum. These savings are expected to achieve an Indirect Cost Ratio (formerly known as 'Management Expense Ratio') of under 1.20% for the 2012 financial year which compares with 1.30% in 2011 (1.28% in 2010).

Total directors fees were reduced by 39% to \$120,000 pa.

Perennial Value Management

Perennial Value Management were appointed as Century's interim investment manager from 9 September 2010, by reason of its long standing performance record, and its consistency of value investment style which is similar to that of 452 and Peter Morgan.

Perennial interim management fee structure was more favourable than 452 and following the Buy Back in February 2011, the terms of the engagement of Perennial Value Management were further renegotiated downwards from an investment management fee of 0.55% per annum of the value of the portfolio less cash holdings to a management fee of 0.40%pa with a performance fee payable annually at a rate of 10% of the outperformance in excess of the Fund Benchmark plus a hurdle of 1%pa (subject to the recoupment of any accrued under-performance from prior Performance Fee periods). The varied fee arrangement took effect from 1 June 2011.

Dividends

In February 2011, a Special Dividend of 6.2 cents per share fully franked was declared to distribute the franking credits balance prior to implementation of the buyback. When added to the September 2010 dividend of 5 cents per share, this made a total dividend paid in the 2010/11 financial year of 11.2 cents per share.

As at 30 June 2011, the company had franking credits sufficient to pay a further dividend of 1.5 cents per share fully franked. However, due to legislative changes and the uncertainties this created, no final dividend was declared. The purpose of the changes in Corporations Act which took effect 28 June 2010 were to allow dividends to be declared on a solvency basis despite the unavailability of positive retained earnings. This meant that payment of dividends would not be constrained by having negative retained earnings despite current year profits and effectively would allow for franked dividends to be paid out of capital. Corresponding Taxation Law changes were also made with the intention of allowing such dividend payments to be made as fully franked dividends. Unfortunately, the Australian Taxation Office have recently commented in a draft fact sheet that their application of the changes to the law effectively disallow companies to pay franked dividends out of current year profits if retained earnings are negative. Due to the significant uncertainty this interpretation creates, a final dividend for the 2011 year has not been declared at this time. However the board hopes to declare a dividend as soon as the uncertainty is resolved by Government. The intended outcome of the legislation was to create a level playing field between listed investment companies and unlisted investment trusts, however ATO interpretation is contrary to the clear intent of Treasury. Century along with other listed investment companies is in the process of making a submission to Government to rectify the impasse as soon as possible.

Due to the existing carried forward tax losses, no tax will be paid on the next \$35.5m of realised gains and therefore no franking credits will be generated from such gains. This means that the franking of future dividends will be restricted to the pass through of franking credits received on dividend income until the company is once again in a tax paying position. Based on the current yield of Century's portfolio, the expectation is that franking credits

sufficient to provide for a dividend of around 3.5 to 4 cents per share is achievable for the 2012 financial year, provided expected dividends from investments held are maintained and subject to market conditions.

Capital management

At the 2010 Annual General Meeting, Century shareholders voted in favour of an equal access buy back scheme whereby shareholders were offered the opportunity to exit their investment at close to Net Tangible Asset backing. Acceptances representing approximately 53% of issued capital were received. Following the implementation of this scheme, funds under management declined from \$148.1million as at 31 December 2010 to \$65.8 million as at 18 February 2011. The number of shares on issue decreased by 91,760,917 on 9 February 2011 when the buy back settlement proceeds were paid to participating shareholders.

An on-market share buyback program was in operation during the financial year up to December 2010. This program was primarily targeted at reducing the share price discount to NTA. During the financial year 1,649,812 shares (2010: 16,932,131 shares) at a value of \$1,274,409 (2010: \$13,942,914) had been purchased via the on market buy back program. The on market buyback program provided increased liquidity to shareholders wishing to sell their shares but disappointingly had only a limited impact on reducing the share price discount to NTA. The Board has approved the resumption of an on market buy back program if market circumstances would provide a benefit to the company.

Robert Turner

Chairman