CLIME CAPITAL LIMITED
ABN 99 106 282 777

Chairman's address
Annual General Meeting

The accounts and financial report for the year 2015/16 have been distributed to shareholders before this meeting. In this Chairman's address I plan to briefly comment on these results and update you on the performance of the company for the first four months of the current financial year.

In summary the FY15/16 was a disappointing one for the company with a small loss resulting from "mark to market" price affects occurring in the month of June. Up until June the Company had reported a small profit for the initial eleven months of FY15/16. The UK's unexpected vote to leave the EU jolted Australian equity prices and drove the $A higher. Both of which adversely impacted our June results.

Despite the small loss the company paid cash dividends to all shareholders of $5.2 million and this was at the same level as FY 14/15. Of this amount some $1.4 million was paid to preference shareholders and this level was consistent with the prior year.

During the year your Directors maintained the level of quarterly dividends paid to ordinary shareholders. The current payment level of 1.2 cents per quarter suggests an annual dividend rate of 4.8 cents per annum fully franked. The current yield on the company's shares is approximately 6% franked or 8.5% on gross yield basis.

Shareholders will note that despite the small loss the company continued to pay tax. The company is taxed on trading account. Tax paid on realized investment gains is directly credited to the franking account. Actual tax paid in FY15/16 was $0.7 million compared to $1.45 million in the previous year.

Shareholders will note from the Annual Report that the company had $1.17 million of franking credits available for distribution at the end of the financial year. This franking account is supplemented by franked dividends received and tax on net realised gains.

Finally, on reviewing the 30 June 2016 balance sheet and portfolio it is important to note the following:

1. Cash weightings of around $13 million representing 17% of the portfolio included both $A and $US balances;
2. International equity holdings (ex $US cash) were $13 million representing 18% of the invested portfolio. This level was well below the previous year and the manager has reduced this level further over the last 4 months; and
3. The balance of $55 million was in Australian listed and unlisted securities.

Year to date performance

I trust that shareholders continue to monitor the company's performance through our monthly interim gross asset announcements and our monthly NTA announcements.

As at the close of business last Friday (11 November) the gross assets of the company were valued at $79.1 million. This compares to the $79.5 million reported as at 30 June 2016.

The small decline in gross assets (at market prices) is essentially due to buy backs of $400k since 30 June. The buybacks have been undertaken at a minimum of 10% discount to underlying NTA. The other factors to note are that the cash dividends paid by the company in July and October approximate the earnings over the 4 months ($2.3 million).

Converting preference shares (CPS)

I'm pleased to report that the converting preference shares issued by the company in 2007 are in their last 6 months of existence. Pursuant to their terms of issuance I make the following points:

A. The CPS shares are to be mandatorily converted to ordinary shares on the 30th April 2017;
B. The conversion factor accrues for the 6 bonus issues that have been declared and so each preference share will convert into 1.38 ordinary shares; and
C. Fully franked quarterly CPS dividends of 4.5 cents per preference share will be paid for the December 2016 quarter, 4.5 cents for the March 2017 quarter and 1.5 cents for the month of April so long as the company has retained earnings or current year profits.

I reiterate my comments made in the recent Annual Report that the dividend rate, or the cost of capital, for the CPS has been excessive in the current era of low interest rates. The 8% fully franked yield on the issue price had an effective pretax cost to the company of 10.5% per annum.

It is important for shareholders to understand that the payment of high preference share dividends has been a burden on the company and detracted from total portfolio returns. It has been particularly so over the last few years as the RBA reduced cash rates to historic lows in Australia. In 2015/16 the preference shareholders received $1.38 million in franked dividends. Since inception in mid-2007 the preference shares have received over $10 million in franked cash dividends with no DRP operating on these dividends.

Looking out to April 2017 and based on the conversion terms outlined in the offering document, the 7.151 million preference shares on issue will mandatorily convert into approximately 9.918 million ordinary shares. From this point the dividends paid to the preference shareholders would become available for the expanded ordinary shareholder base assuming the company maintains profitability and its reserves.

The conversion of the CPS will provide the opportunity for Directors to review the current rate of dividend paid to ordinary shareholders.

Buyback of shares

The Company's on-market buyback remains active. Historically, the buyback operates at a minimum 10% discount to underlying NTA and the intention is to at least buy back the shares issued under the DRP. By undertaking the buyback, we believe that the company should be able to steadily and prudently grow franked dividends for shareholders.

Since 30 June the company has bought back 379,668 ordinary shares and 94,159 preference shares.

Class action against UGL

Shareholders may have read recently in the press that Clime Capital Limited has announced it intends to commence proceedings against UGL Limited. The claim will be brought by way of a class action and Clime Capital will be the representative applicant on behalf of class members.

The class action will be funded by IMF Bentham Limited, subject to the claim receiving sufficient support from potential group members. Slater and Gordon will conduct the case on behalf of Clime Capital and class members. Executives of Clime Investment Management Limited will be involved on behalf of class members in pursuing the claim.

The action relates to events that occurred between August 2014 and November 2014.

It is alleged by Clime Capital that UGL failed to keep the market informed about serious problems relating to a major joint venture construction contract that UGL was undertaking. This contract turned into a major loss for UGL, and our allegation is that this was apparent to UGL in or around August 2014. When UGL subsequently announced a major provision against the contract in November 2014, the UGL share price declined by about 30%.

Clime Capital claims that it would not have bought shares in UGL between August and November 2014 if that information had been made known.

Outlook

Following this meeting the Head of Investments at Clime Asset Management, Anthony Golowenko, and myself will present a detailed portfolio review. This review will cover the structure of the portfolio that now encapsulates four purposeful sub portfolios across large, developing and international portfolios.

In Conclusion

I wish to thank you for your ongoing support of Clime Capital. I also wish to thank the staff at Clime for their hard work and acknowledge the support of your Directors.

Looking forward, I see the company as being well placed to purposefully deploy your capital as opportunities present while maintaining a sound level of dividend distributions to all shareholders.

John Abernethy
Chairman