CLIME CAPITAL LIMITED
ABN 99 106 282 777

Chairman's address
Annual General Meeting

The accounts and financial report for the year 2014/15 have been distributed to shareholders before this meeting and I will briefly comment upon them and update you on the performance of the company for the first four months of this financial year.

In summary the year was a disappointing one for the company.

The key measures of the company's performance when compared to the previous year were as follows:

1. Net profit after tax declined from $5.1 million to a loss $122,000 and this was substantially due to "mark to market" losses as at 30 June;

2. Shareholders Equity fell over the year from $92.5 million to $87.6 million and

3. Cash dividends declared for all shareholders were $5.2 million which represented an increased pay out of 16% over the previous year. 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 increased 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. Assuming that this rate is maintained then dividends in 2015/16 will again rise over the previous year. Dividends have risen each year since 2009.

Shareholders will recall that the company moved into a tax paying position in 2012/13. The company is taxed on income or trading account and tax paid on realised investment gains is directly credited to the franking account. Actual tax paid in 2014/15 was $1.45 million.

Shareholders will note from the Annual Report that the company had more franking credits available for distribution ($1.96 million) at the end of the year than it did at the commencement despite paying increased dividends. This is important as the Board is seeking to steadily grow dividends to ordinary shareholders whilst increasing the company's exposure to offshore investments.

Finally, on reviewing the 30 June 2015 balance sheet and portfolio it is important to note the following:

1. Cash weightings were 15% of the portfolio and this included both $A and $US balances;
2. There was a tax liability of $121,000 and this was paid during the September quarter and added to the franking balance noted above; and
3. International equity holdings (ex $US cash) were $16 million representing 20% of the invested portfolio.

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Year to date performance

I trust and hope that shareholders are monitoring the company's performance through our monthly interim gross asset announcements; our monthly NTA announcements and our detailed quarterly reports. The recent report for the September Quarter covers the portfolio structure and performance in significant detail and I commend it to you.

As at the close of business last Friday (6 November) the gross assets of the company were valued at $87.0 million. This compares to the $88.8 million reported as at 30 June 2015.

The decline in total assets is in spite of profit of in excess of $1.5 million being generated by the company. The total assets have declined due to cash dividend payments (net of DRP) of about $2.3 million, tax paid of $0.5 million and buyback of shares of $0.5 million.

The above shows that gross portfolio returns this year have been approximately 2%. This has occurred in a period where the markets have been extremely volatile and the Australian equity index has actually fallen by over 6%.

To this point I am pleased to advise that the international portfolio of CAM has performed well in the four months to October. Today the value of the portfolio approximates $26 million and is at the targeted 30% level which the Board set when the company raised capital in March 2014. Further it has been the positive results from the international portfolio that substantially accounts for the positive total portfolio return since 30 June.

From this point the question for the manager is whether to increase the international portfolio further based on the outlook for the Australian market and the $A.

Converting preference shares

The board of the company, through the company secretary, receives numerous enquiries regarding the outlook for the converting preference shares. At this point I draw preference shareholders to the following facts:

A. The preference shares are due to be converted to ordinary shares in 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 Preference dividends of 4.5 cents per preference share will be paid until conversion unless the company is in a non-dividend paying position.

Shareholders will recall that the Board reviewed the payment of bonus dividends to preference shareholders earlier this year. We announced that the Board felt that it was no longer fair or desirable pay this higher and discretionary dividend due to the sustained decline in market interest rates. Therefore the Board reduced the dividend on the preference shares back from 19 cents per annum to the original 18 cents per annum fully franked.

It is important for shareholders to understand that the payment of high preference share dividends has been a burden on the total portfolio and the 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 2014/15 the preference shareholders received $1.456 million in franked dividends and this will fall to $1.38 million in 2015/16. Since inception in mid-2007 the preference shares have received almost $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 7.664 million preference shares on issue will mandatorily convert into approximately 10.57 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.

Despite the fact that the conversion terms are clearly set out and the consequences are clear the Board will in the interim investigate alternatives to converting the preference shares. However in doing so every shareholder should be clear that any alternative that is not beneficial to the ordinary shareholders and therefore the company as a whole will not be considered or recommended.

For clarity an alternative that offered a swap of the preference share into another type of security would need to enhance the income streams and value of the ordinary shares. Today we have no such alternative but we are working on it.

Buyback of shares

The continued discount of the shares against NTA has meant that the buyback of shares has been continuously activated over the last six months. Generally the buyback operates at a 10% discount to pretax 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 grow franked dividends for shareholders.

Since 30 June the company has bought back 506,729 ordinary shares.

Outlook

Following this Meeting, we will give a detailed presentation on the portfolio and the reasoning behind its current structure.

The presentation will highlight to you that the manager has been fairly active both in the Australian portfolio and in the International portfolio. Some positions taken in the sharp correction of markets in August have been sold and there has been some reweighting of positions.

The presentation will also bring shareholders up to date on the international part of the equity portfolio. Today about 30% of the gross assets of the company is invested in offshore equities and the decline of the Australian dollar by about 6% since 30 June has been most beneficial.

In Conclusion

I wish to thank our staff at Clime for their hard work and acknowledge the support of your Directors.

The company is well placed to employ your capital when the opportunity presents and in the meantime we will attempt to maintain a healthy level of dividend flows to all shareholders.