Pyne Gould Corporation

# Managing Director's Address to Annual Meeting of Shareholders 27 October 2006

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Thank you Chairman. Good afternoon ladies and gentlemen. As the Chairman has indicated, I will be reviewing the performance of the businesses within Pyne Gould Corporation during the past year and, as far as I am able, providing you with an insight into current trading conditions and prospects for the current year. I will also provide you with a little more information on the recent announcements we have made to the market.

Let me start with MARAC.

MARAC has performed strongly again this year. Highlights which I wish to cover in more detail were in profit of $24.2m, Finance Assets, up another 13% to almost $1.2bn, and the achievement of an Investment Grade rating from Standard and Poor's.

Profit, was up 5% this year to $24.2m. More importantly however, was that it was delivered on the back of a similar percentage increase in revenue, some target sector growth in our Commercial business and a continuing low Impaired Asset Expense.

The revenue reported of $59.4m, includes a continued focus on fee revenues which now account for approximately 20% of total revenue.

Efficiency in this business requires prudent management of costs but at the same time the undertaking of key investments for the future.

In the past year MARAC has made investments in two new businesses. The first of these is MARAC Invoice Financing which is the financing of debtors for business customers. Similar to Factoring but a more sophisticated product, Invoice Financing has been the fastest growing working capital product in Australia in recent years. As is our normal approach we have been conservative and prudent in the development and marketing of this new product. MARAC Insurance is the second significant investment this year where we have developed products to provide Insurance to Motor Vehicle purchases. In addition, the business has fully absorbed the costs associated with a full 12 months of the Commercial regional expansion undertaken last year.

A further improvement in the cost to income ratio to 36.2% is a reflection of sound cost management whilst undertaking this expansion of our business.

Total Finance Receivables expanded again in the year with the most significant growth continuing to occur in our Commercial business as seen in the graph on the right. This is very much in line with our strategic intention of the past few years. In 2002 Commercial was approximately half the size of our Motor Vehicle financing business, whereas today, Commercial is the single largest division. We expect this trend to continue in the year ahead.

Impaired Asset Expense is the outcome of bad debt provisioning, bad debts written off and bad debt recoveries. This year the result is again a very low $1.5m.

The continuing focus on writing quality business and then having excellent processes and people to monitor these loans through to final repayment, are the key ingredients to this result.

Whilst most finance companies do not disclose their arrears position, MARAC does, and what is more, we define it as “any account which fails to meet its due payment within 5 days of the scheduled date”. This is a more conservative approach than many of our competitors.

We commenced the year with arrears being 0.43% of total receivables and ended at 0.46%. I can confirm that the trend, since 30th June, continues at similar levels.

In April this year MARAC sought and received a credit rating from the international rating agency, Standard and Poor’s. For sometime, your board had been considering the issue of independent verification of the quality of the MARAC business and the transparency that would come from seeking a rating. The decision to pursue a rating was not taken lightly but against a background of increasingly less objective analysis of our business against market competitors. MARAC is the first non bank owned finance company to receive a BBB- Investment Grade rating from Standard and Poor's.

Market and Investor reaction has been positive with MARAC receiving unprecedented reinvestment rates from investors and new investor groups are being attracted to the company. This rating has clearly differentiated MARAC from other finance companies and places us in a sound position going forward.

Let me now spend just a minute or two on each major area of MARAC.

<u>Commercial</u>

We see Commercial, the financing of Plant and Equipment and business as the largest division of MARAC going forward with further diversification as to customers, industries and geography planned. At 24%, this segment was our biggest growth area. Through new relationships and wider product offerings we see further growth continuing.

The three months since year end have shown further growth, and today our pipeline of future activity remains solid.

<u>Motor</u>

Last year I commented on the significant changes occurring in the motor vehicle market in New Zealand with the expansion of Motor Vehicle auctions, use of internet, car fairs and the resulting changes to the more traditional Motor Vehicle dealer yards. In the past year these changes have accelerated further.

MARAC's response to these changes over recent years has been to focus on higher quality and newer vehicle finance. We expect this trend to continue and we also expect to be at the forefront of initiatives to provide innovative solutions in this changing market.

In a moment I will comment further on our recently announced initiatives in this sector.

Our property business, which is largely Property development, enjoyed further significant growth although this really all occurred during the first half of the year. MARAC continues to focus on repeat business from quality developers, with a real focus on excellence in our credit process for this business. We continue to control our maximum exposure to this sector through internally imposed limits. Accordingly we do not expect to see a repeat of these growth levels this year.

Marine and Leisure is the financing of Boats, both moored and trailer, Caravans and Campervans. Whilst some growth was achieved during the year the market remains quiet with consumers more reluctant to commit to such expenditure in the current economic environment. The arrival of spring has certainly increased activity but any real growth in this business this year is expected to be modest.

I would now like to make some comment on two announcements we have made since the end of the financial year. The first of them involves our partnership with Kiwibank.

Under its own name, Kiwibank are offering vehicle finance to their customers using MARAC to provide all expertise in assessment, management and control. Kiwibank are only just commencing the promotion of this product so it is too early to be able to provide any meaningful comment on expected business volumes.

In addition, for their Commercial customers Kiwibank will be referring customers with Plant and Equipment requirements directly to MARAC for expert assessment and consideration.

Also announced early last month is our marketing partnership with ACP Media's Autotrader.

This initiative has MARAC providing online finance and insurance to the more than 123,000 unique buyers who view this website monthly. Unlike some other Motor Vehicle websites, Autotrader supports the listings of Motor Vehicle Dealers not individuals.

We have developed both online brands i-finance and i-insurance and significant technology to provide internet capable assessment and response to users.
It is again very early days with the web site only becoming active on 3rd October.

Following the completion of the first quarter of the current year, I am pleased to report that financial performance is ahead of the equivalent quarter last year. Market conditions do remain challenging however, but our budgets have been set for a further profitability lift from MARAC for the full year.

Let me now turn to Perpetual Trust

Perpetual Trust has continued on from last years record result to record another 32% lift in Net Profit to $3.0m mainly on the back of a 16% lift in revenue to $19.8m. In addition 2 new funds have been launched for the funds management business.

The Personal Wealth Management and advice business in Perpetual Trust is the provision of trust and administration services and financial advisory. One of the key deliverables of the recent refocusing of this business has been the provision of quality service and the resultant increase in referral business.
A 6% growth in funds under advice to $737m as seen on this graph is a more visible sign of this improvement.

In Managed funds, the focus has been on positioning the business in anticipation of the planned tax changes.

Our funds have been rationalised with 7 funds closed and two new ones launched, the Aria Fund targeted at charitable trusts and a NZ/Australian Share fund.

Looking ahead, Perpetuals Funds Management business is all about broadening distribution of its funds to wider customer groups.

Perpetuals Corporate Trust business continued to grow revenues, up 14% this year. Funds under supervision now exceed $18 billion and this business is well placed to continue its growth in the year ahead.

Over the past 3 years, Perpetual Trust has been transformed back into a top performer for the group.

It has been focussed on high quality service, revenue growth, cost management and diversification but within its core competencies. A significant portion of this refocussing was undertaken by Perpetual's then Head of Customer Care, Louise Edwards, who was appointed Chief Executive on the 1st of July. Louise is very focussed on the further development of the core businesses going forward, especially the development of the Managed Funds business.

A further reflection of the focus on core business was our recent announcement of the sale of our 60% interest in Mortgage Express. When purchased, the intention was to utilise the distribution capabilities of Mortgage Express for the wider benefit of other Perpetual Trust products and services. For many reasons this proved to be unrealistic and in reality the investment consumed a considerable amount of Managements time, for little gain. The opportunity to sell our shareholding to our 40% partner was undertaken at book value within Pyne Gould Corporation.

The current year has started well for Perpetual. The first quarter has recorded a result slightly above the equivalent quarter last year and our expectations are for this trend to flow through to year end.

I would now like to make a few comments on our investment in PGG Wrightson.

PGG Wrightson announced its annual result of a net profit after tax of $27.0m, which flowed on to a contribution to Pyne Gould Corporation of $6.7m, down on last year. This result was achieved on the back of completion of the merger, one of the largest seen in rural New Zealand, and deteriorating trading conditions, especially during latter months of the year.

In undertaking this merger two key objectives were established based on previous experience with rural industry mergers – implement quickly and maintain business as usual. The essential element being to have, wherever possible, the same staff interacting with farmer customers day in day out. As the Chairman of PGG Wrightson stated when announcing the annual result, “we consider both of these objectives delivered”. The merger activity was no small undertaking and the synergy benefits expected were significant. On an annualised basis, $25m of benefits have been identified, $5m more than expected at merger time. The full effect of these will flow into the current year.

Unfortunately, coupled with this merger were tougher trading conditions with farm incomes down and correspondingly reduced demand for farm inputs. However, the finance business did achieve growth on the back of offering finance solutions to farmers nationally, and seeds and grain had a mixed result with domestic targets achieved but export sales reduced, predominately as a result of the continuing Australian drought.

The outlook for the current year is seen as a little more positive although the unfavourable rural economy still prevails with exchange rates remaining high and Farmers confidence suppressed.

The full effect of the synergy gains from the merger should be realised this year and business initiatives are in place to further grow business, especially in finance, real estate and insurance.

It is too early to predict an outcome for the Corporation from PGG Wrightson this year, but we remain firmly of the view that the opportunities from the merger with result in improved returns in future years.

In summary, it has been another solid performance for our businesses.

MARAC has achieved added growth and invested further in new business initiatives. Perpetual Trust has again reported a record result and has traction to continue to perform strongly, and PGG Wrightson has the merger behind it and is focussed to the future and delivering on the promises of the merger.

The continuing growth, development and performance of all of our businesses could not occur without the enormous efforts of our dedicated managers and staff. Let me take this opportunity to say a personal thank you to all of them for their continuing commitment and professionalism in their various roles.

We expect Pyne Gould Corporation to again deliver a good result this year, with a solid first quarter performance behind us.

As mentioned last year we will continue to look at possible acquisitions in the wider finance sector which meet our strategic intentions. However we do have sound organic growth strategies in our businesses which we are continuing to pursue.

This year has been my first as your Managing Director and I am excited about the progress we have made both financially and in positioning the business for the future. I would like to thank my fellow Directors for their guidance and support through the year.

I have pleasure in seconding the motion that the annual report for the year ended 30 June 2006 be received.