"The Scrip"
MANY INVESTORS; ONE VOICE
New Zealand Shareholders Association Inc. NZSA

ISSN 1179-4275 OCTOBER 2010

RAIDERS OF THE LOST ARK – Sir Ron finds out who owns GPG

The 22nd of September is a rather low-key day in world history. One strange coincidence is that Shoichi Yokoi died on this date in 1997. He was a WW2 Japanese soldier who, ignoring all reality, did not surrender until 1972, some 27 years after everyone else had given up and gone home.

Why do I choose this event – because 13 years later to the day, the old raider himself, Sir Ron Brierley finally had to capitulate and surrender the "old mates" style of corporate governance which had been his trademark for nearly 40 years.

Many of you will remember the heyday of IEL and Brierley Investments. Fortunes were made by some, and towards the end, lost by others. This was the virtually unregulated NZ Wild West investment years, full of backroom deals, insider trading and breathtakingly stupid investment decisions. Plain Ron as he was then (the Sir came after an entirely coincidental, but substantial donation to a political party) thrived in this environment. But eventually it all started to crumble away and he left to set up GPG.

This, he said, would be different. A pure investment company where no single purchase would dominate, where nothing would be bought that required day to day operational input and where shareholder value would be created and realised over a finite time frame. And in fairness, the concept worked for a while. Roughly 30,000 mostly NZ investors put money in. Another $420 million was raised in capital notes. Profits flowed and as is usual in such circumstances, shareholders were happy enough to ignore the inherent faults in the governance structure of the company. Big mistake!

Over time the cracks began to show. Individual directors, all of whom were executives, developed their own agendas and bought sets of toys (companies) to play with. There were no true independents to look after shareholders interests. Had the company primary listing been on the NZX, it would not have complied with their rules.

A complex web of multiple jurisdictions, triple listing and tax domiciles created great complexity. Strong personalities bulldozed the company into acquiring some pretty ordinary assets. One was Capral, a real dog that after several years of effort is barely achieving break even.

But the biggie was thread maker Coats. 40% of GPG's assets were sunk into this one company in a blunder of stupendous proportions. The restructuring of this business has taken years and cost a fortune. The whole operation was shifted to China. Competition remains intense and to top it off there is a substantial pension fund liability remaining from when the company was UK based, to say nothing of an outstanding E110 million fine.

Following the global financial crisis, the opportunities for an investment company structured in this way have seriously diminished. Sir Ron himself has described the model as broken.

For three years he has promised a return for shareholders, while in reality their investment has headed south. The discount to NTA approached 40% at one stage. As all dictators eventually do, Ron fiddled while GPG burned.
Finally on 16 June this year the great master plan was unveiled. Split the company! Create an Australian entity holding most of the income producing assets which Gary Weiss would run as CEO with a board he would hand select. Leave the rest including NZ assets and Coats in the old shell. Gary came to NZ to sell the idea. We went to see him. We were unimpressed. So were the institutions. This idea was even slated by GPG board member Tony Gibbs who was promptly fired. Virtually no-one outside GPG could see any merit in the concept.

Enough was enough. For the first time ever, pretty much every NZ institutional shareholder plus your Association got together to effect change. After much discussion and debate, we were able to agree on a course of action. This was not an easy task and the process had to remain confidential to allow a free interchange of views. Legal advice was required both here and in the UK to ensure we did not run into issues with rules of association that might force us to make a takeover bid - I am not joking! Work was done to prepare for an EGM should our representations to GPG be ignored.

We requested that representatives of the GPG board meet with us to discuss the governance of GPG, and the seeming lack of consideration for all shareholders to the financial benefit of executives. GPG drew out the process as long as they could while furiously, but unsuccessfully lobbying in the background.

Finally on August 17 in Auckland, the meeting was held. Sir Ron Brierley attended. He came alone. Sir Ron reiterated the problems that the directors faced in finding a way forward. He claimed considerable work had been done, and the proposal to split the company was the option the board had decided to put to shareholders. He said the subsequent strong opposition to this proposal meant it was clearly “dead in the water”.
The meeting told Sir Ron that regardless of the difficulties he had spoken about, and which were all widely known, the current situation was unsatisfactory with GPG having no true independent directors, the board clearly dysfunctional and the incumbent executive directors pursuing individual agendas to the detriment of other shareholders.
Sir Ron stated that the company had already announced it was looking for three proper independent directors. We pointed out that this achieved nothing as a minority of independents would be powerless if all existing executive directors remained.

Finally, three proposals were put to Sir Ron. Two involved board restructuring resulting in a majority of independents approved by shareholders, and the third was a clear message that the shareholder group was prepared to call an EGM and force the issue. This was no idle threat. There is no doubt that we had the numbers. And there is no doubt that Sir Ron knew we did.

It was agreed there would be no limits on the scope or time of the new board’s deliberations. This was not a quick “papering over the cracks” solution. It was the shareholders wish that every option be thoroughly canvassed to ensure the best possible outcome for all shareholders.

Sir Ron undertook to put our proposals to the GPG board and respond within ten days. He asked us to identify suitable independents to the GPG advisors and the meeting concluded. It was generally agreed among the shareholders present that we should avoid media statements in order that GPG could properly consider our three proposals and make a considered decision without media pressure.

Once again GPG pushed the envelope and an EGM began to seem inevitable. A round of emails discussing this clearly found their way onto Sir Ron's desk because two days later on 22 September GPG announced a complete change to the board structure. This involves:

- 4 new independents, all nominated and approved by shareholders would be appointed. These are Gavin Walker, Rob Campbell, Mike Allen and Mark Johnson. Good capable people who we have interviewed and who will do the right thing for shareholders.
- Existing GPG director Ron Langley would step down.
- A Strategic Review committee comprising ONLY the independents will now look at all options going forward.

This means a clear majority of independents can now influence the way forward. Obstructive tactics by the remaining directors need not be tolerated. Gary Weiss in particular will be very aware that he is up for re-election at the next AGM. And finally, we will have formal board committees including a remuneration committee that does not consist of executives.

The NZSA has been criticised both in the media and by some members for being party to an arrangement involving a degree of confidentiality, albeit of a voluntary nature. I make no apology for that. In fact I signalled this possibility in my speech to the NZSA Conference in July.

However, media reporting has left a great deal to be desired. Speculation has been presented as fact. A glaring example is two reporters claimed the NZSA had signed a written confidentiality agreement. This is complete fiction. Not only did it not happen, it was never even discussed.

Over the years we have publicly attempted to effect change at GPG and been completely ignored. By working alongside the institutions we have been able to effect a tremendous outcome which will ultimately benefit all shareholders. This would not have been possible if strategies and differences could not be ironed out privately. Yes there were some minor compromises required and the process was slower than we would have liked, but not once was the NZSA ever treated as a second class citizen. We were 100% part of the process. Our opinions were listened to and respected. Our vote carried exactly the same weight as everyone else. Your board was kept informed and agreed that in this specific case, the strategy was both appropriate and effective.

Make no mistake. This is a watershed event for shareholder activism. It will have been noted in every boardroom in the country. And it is a timely reminder for some.
Classic old raider Sir Ron Brierley finally had to acknowledge who owned the company. Like Shoichi Yokoi, even he eventuality surrendered to reality.

John Hawkins

NEW ZEALAND SHAREHOLDERS ASSOCIATION INC.
PO Box 6310, Wellesley Street, Auckland Ph (09) 309-9768
Website – www.nzshareholders.co.nz

Chairman- John Hawkins – jhawkins@internet.co.nz
Secretary/Treasurer- Chris Curlett - chris.curlett@xtra.co.nz Ph (021) 738 032

Corporate Liaison- Des Hunt - desmondhunt@xtra.co.nz Ph (09) 521 6117
Newsletter & Branch Liaison- Alan Best fleshnfruity@xtra.co.nz Ph (09) 524 0317
Proxy Coordination- Jacquie Staley – proxies@nzshareholders.co.nz Ph 021 2889990
Governance issues - Grant Diggle - grant.diggle@gmail.com
New national members
Marketing - Jacqui Bensemann – jbensemann@argusfire.co.nz
Gayatri Jaduram – gayatri@cogswelljaduram.co.nz
Lyn Lim – lyn@forestharrison.co.nz
National Manager- Patrick Flynn - patrick.flynn@nzshareholders.co.nz

NEW NZSA DIRECTORS APPOINTED

As you all know, we have been pushing companies to seek greater diversity in the directors they appoint. We do not promote this at the expense of the appropriate skill set and ability - this must always take precedence. But too often, a "pale, male and stale" conservatism seems to preclude younger, female or varied cultural background candidates from being considered. In our view, boards should try to reflect the nature of the business they oversee.

The NZSA is very conscious that we are seen to "walk the talk" and accordingly I am delighted to welcome three new appointments to our National Board.

Gayatri Jaduram has an Honours degree in Commercial Law from Auckland University. Following an extensive career in large corporate law firms, including at partner level, Gayatri established her own niche legal firm. She has many outside interests at the community level, and is a regularly asked to speak at banking, finance and insolvency conferences and seminars. Gayatri has been heavily involved in the NZSA submissions on the new Securities Act.

Jacquie Bensemann is qualified in accounting and marketing and runs a medium size engineering/service business employing up to 140 staff and contractors. She brings to the board a huge diversity of experience, both in NZ and overseas and a strong background in best practise corporate governance. Jacquie is President-elect of the Rotary Club of Auckland and is involved in other business and community organisations at a senior level. Jacquie has been appointed Chair of the Associations marketing sub-committee.

Lyn Lim is our most recent appointment. A first generation New Zealander, Lyn has an Honours Law degree from Canterbury University and a background with large corporate law firms. She is now litigation partner in her own commercial law partnership. Lyn holds senior appointments with a number of New Zealand China trade, business and youth training organisations, and is a former committee member of the Auckland District Law Society. She is currently on the ANZ National Bank Private Bank External Advisory Board.

It is a measure of the increasingly positive perception of the NZSA that we have been able to attract directors of such exceptional calibre. They all bring skills and viewpoints that complement the existing board members abilities. I am confident they will promote the Association to a broader audience, as well as extending the quality and scope of activities we are able to undertake on your behalf.

John Hawkins

AUCKLAND AIRPORT DIRECTORS ARE FLYING HIGH.

We are concerned to see Auckland Airport wants a 12.2% increase in total directors' fees. They state they are recommending this on the basis there has not been an increase since 2007. Chair Tony Frankham says that the increase is to pay for future performance of the board. He seems remarkably confident in his crystal ball!

We accept that AIA has come through the GFC relatively unscathed. Partly this is due to the directors' efforts, but we should remember that AIA has a natural monopoly in the Auckland operation. However, when you look at the EPS and dividends paid to shareholders it is difficult to justify such an increase under the current economic conditions. On every measure, the company has effectively flat lined for several years. Over the next two years, the Airport company is unlikely to be able to pass on any increases in costs beyond the inflation figure - so for shareholders to receive any upside in the EPS it can only come from increased productivity or an improvement in passenger numbers.

In fact, AIA is paying out 102% of underlying earnings this year just to maintain the dividend. Without significant growth, this is unsustainable and well in excess of the boards own guideline of 90% dividend payout to underlying earnings.

While we are not averse to boards being well rewarded for superior performance, this is a case where we would like to see some improvement in shareholder returns before the full amount suggested is paid. Half now and half in 12 months if the promised improvements materialise seems a good compromise to us!

Our research shows that AIA's current fees are reasonable when compared to other natural monopoly organisations. For example, Vector Energy fees are virtually identical. This company turned down an increase last year even though they had not received one since 2005. Now they are only asking for 5.5 %. Why is there such a difference between the consultant's recommendations for these two companies? The Vector consultant's recommendation was in line with what the Vector Board is proposing.

Auckland Airport's engaged two consultants. One claims director fees increases of between 25% and 39% would be reasonable. The other suggested a more modest figure of around 15-20%. Clearly there is no consistent methodology being employed in arriving at these figures. This only goes to illustrate that the consultants are part of the problem. One inflated fee assessment accepted by shareholders rapidly ratchets up expectations in every other review.

Over the past few years we have seen companies getting away with paying large increases to CEO`s, Chairmen and to a lesser extent Directors, without a corresponding relationship to performance. The common reason given is the need to pay ever higher remuneration to attract the right people. Another excuse is claiming directors now have more risk and responsibility than in the past. In our view both of these have been overplayed.

We are however encouraged that AIA is proposing that 15% of directors fees paid will be used to buy shares in the company. This alignment of interests is to be applauded and we would hope to see other companies following suit.

Another problem is the common claim that "we have to compete with what is being paid in Australia." However, it is apparent very little attention is paid to the difference in living cost between the two countries or other key factors. As an example - the cost of housing in Sydney is way more expensive than Auckland. If a company has to attract an Australian Director, then it does not automatically mean the local directors have to be paid the same amount. One possibility in this regard would be to pay the Australian director the same number of dollars, but denominated in Australian currency.

When companies go outside to replace the current CEO, inevitably there is a major increase in what they end up offering the new appointee. In his 2001 book, "Good to Great" , management guru Jim Collins points out that the most successful companies tend to promote someone from within their organisation - so why is it that our directors' seem so reluctant to follow this path more often?
It is totally unacceptable that some CEO's earn more in a year than their employees can in half a lifetime.

As shareholders we must be more careful in what we vote for. Too often in the past resolutions have been approved without thinking of the long term implications.

Des Hunt
Sharechat – another NZSA Channel
The above article is our latest contribution to Sharechat. Members should take a look at the website, Sharechat. In the Blogs section NZSA's directors are taking turns at commentaries on companies and issues that concern us all. The first three articles have been on NZ Farming Systems Uruguay partial takeover offer, Nuplex's move to Australia, and Auckland International Airport's proposed increase in directors' fees. Sharechat's news and commentaries are a useful supplement to The Scrip,and give us a wider coverage. It is good to see that the site is getting hits and feedback from readers, (both members and non members.) Make sure you add your comment, if you agree, or wish to add something to what is being said.
Editor

DELAYS IN THE SECURITIES ACT

At a recent FMA briefing, Simon Botherway mentioned in passing that the Securities Act was not likely to come into effect before 2012. This is a year after the initial intention. In our submission to the Capital Markets Development Taskforce we said this was a real possibility and that was one of the reasons why the FMA needed to get up and running first, so that at least the regulator would

- Be more proactive than our Securities Commission has been in the past
- Avoid things slipping between the cracks of several different regulators who mostly don't talk to each other
- Set up a centre of excellence with sufficient resources to do their job properly
- Set up proper governance and appoint a CEO to run the FMA more efficiently
- Remove enforcement from NZX

A caller from Dominion Post, who gained confirmation from Simon Power's office that Securities Act has slipped into 2012, wanted comments. Our key points are that the delay:

- Will leave the FMA without some key tools until the Act is passed.

- Will leave retail investors more vulnerable than they should be, which is undesirable
- Will not tighten up on Kiwi Saver and superannuation schemes nearly fast enough
- Will do nothing to rebuild investor confidence, which is even more important in the wake of South Canterbury finance and the other Hubbard organisations.
- Leaves the inadequate and unclear documentation and disclosure issues unresolved for far too long.

The FMA will improve things as above, but will not be fully effective until the new Securities Act is passed. Come on Simon Power. We know you're a busy man but this one needs a push.

John Hawkins

BOARD MATTERS

Many of the concerns during the last 2 meetings are covered elsewhere in this newsletter. However members should be aware that with the expanded board we are now able to handle more issues.

1. Our submission on the Securities Markets Act covered 26 pages of detailed recommendations – Thanks to Grant, Gatri and John
2. Our Marketing subcommittee convened by Jacqui Bensemann will maintain a consistent and colourful brand. The new banners and pamphlets will be noticed in this year's AGMs
3. Our legal issues formerly handled by Ross Dillon, can now generally be covered in house again, by Gyatri and Lyn
4. Our corporate advocacy, handled largely by Des and John, is really bearing fruit as directors seek our reaction on a wide range of issues.
5. Our communication through our own website and Sharechat is expanding.
6. Our information base for companies and accounts is expanding, and will eventually be available to members through the website.
7. We have agreed to include registered debt securities in our surveillance programme, because so many of our members invest in the bond market.

For a small voluntary organization we are well served in both branches and directorate. We are far from a one-man band

Alan Best

FINANCIAL DISPUTE RESOLUTION SERVICE

When the new Financial Services Register comes into effect on 1st December 2010, one of the requirements of being registered as a financial service provider will be belonging to and paying a fee for an accredited financial dispute resolution service. This is seen as a protection for investors, and an efficient way to ensure that real complaints and disputes are settled readily. It provides a ready reference point when a complaint to a financial adviser is not settled promptly. There are 4 practising dispute resolution services and the one we have reviewed is Financial Dispute Resolution, a division of the service owned by ACC. It has experience already in the fields of telecommunications and health disputes, but is independent of any industry association, and so is recognized as being impartial. To qualify for the resolution service, an investor must have made a complaint to his financial adviser and given him an opportunity to resolve it. Once a dispute situation has developed, it is progressed by the service through the following levels:

1. collecting and clarifying information. This often gains immediate settlement.

2. assessment by the resolution service to aid mediation.
3. proposal by the service for a final binding resolution
4. decision by the service to be binding on both parties
5. appeal by the complainant to the courts in the event that the decision is rejected.

The fee for the service is covered by the government and the registered member, not the investor/complainant. However not all advisers will be registered and if you feel that you might need such a service it will be important to check whether your adviser is registered.

Alan Best

COMPANY AGMs AND PROXIES

WAKEFIELD HEALTH LTD – AGM 6TH AUGUST.

Background

I was motivated to join the Shareholder's Association after an unsuccessful attempt to legally challenge the Wakefield Hospital following a Securities Commission finding in July 2002 that Wakefield's Prospectus had misled investors (the Securities Commission at that time didn't tend to pursue findings through the courts). As a small shareholder I challenged the directors at the inaugural AGM, tried to take a Disputes Court case and even attempted to launch a class action.

This was the first Wakefield Health (name changed in 2006) AGM I have attended since that time and what a contrast I found. Those early meetings were amateurishly run with very few questions from shareholders. Friday's meeting was well run with intelligent and probing questions from a series of shareholders along with considered and respectful responses from the Board members and the CEO.

The Gory Details

Wakefield in the last year like most companies in recent times has been challenged by the recessionary economic environment.

Total revenue declined 11% in 2010 as a result of a combination of reductions in the number of private patients, changes impacting ACC workflows and DHB contracting opportunities reduced. While the decline in revenue was moderate, the impact on margins was more marked given the company's high fixed costs. This represents quite a change from the previous 8 years where growth in revenue resulted in margin expansion!

The company's response has been to focus on its costs however it has made a conscious decision to retain clinical capacity within the hospitals, even though this came at a cost. Time of course will tell if this strategy will able to be sustained.

Net debt has continued to decline and is now at very low levels, however with several developments currently on the go this may change. Indications were given that alternative funding options, i.e. Cash issue, bank finance were currently under active consideration. It seems to me interesting, with these developments in their final stages, that long-term funding decisions are still to be made. Apparently other development plans are currently on the drawing board to "ensure the hospital remains the premier tertiary private facility in central New Zealand". Nice for the doctors and staff I suspect but not so sure about the shareholders!

Much time was spent discussing the to-date failed attempt at securing a controlling stake in Norfolk Investments Limited, which owns 60% of Grace Hospital in Tauranga. As worthy an acquisition as it may be, the bottom line is $350k has been expended on 2 failed attempts. Wakefield is leaving open the possibility of a further attempt; however this time, indicating that it would be on the basis that Norfolk pick up the costs.

I do wonder, with a company like Wakefield in the Healthcare sector where a sizeable chunk of the shares are owned by the specialists that work in their facilities, whose interests are the Board/management really focused on? It is very easy to burn large amounts of money on new and shiny medical facilities and devices! We all know with an aging population the long-term outlook for Wakefield, like many other healthcare companies has to look promising, however that does not necessarily mean prosperity for the shareholder!

Directors Fees
Director's fees were left unchanged for the second year in a row.

Gender Diversity
Wakefield has one woman on the Board. I discussed the Shareholders stance on gender diversity with a director after the meeting. It was agreed that Wakefield as a healthcare provider would benefit, in particular, from having increased representation by women on the Board. I said that we would be keen to see this happen and are likely to be asking questions at next year's AGM if there has been no progress. The director indicated they would bring the issue to the attention of fellow board members.

In Conclusion
This meeting was a revelation to me in how far both the company and its shareholders have come since those early days. However the company continues to face the same sort of challenges as it did back then, i.e. managing escalating health costs, high capex with ongoing volatility and constraints in demand for its services. Shareholders and particularly non doctor shareholders need to continue to challenge the directors and management to focus on cost control and improving returns on capital for the benefit of all shareholders.

Phil Kelliher

KIWI INCOME PROPERTY TRUST – UNIT HOLDERS MEETING 12TH AUGUST

It's been a while since KIP last held an AGM in Wellington, and so although in Trusts the important issues are not up for a vote, I thought it might be worth a look. Others must have thought the same as it wasn't a bad turnout – approximately 80 unit holders turned up on the day.

Chairman Sean Wareing opened the meeting but said very little about anything before handing over to CEO Chris Gudgeon. Chris gave a good rundown on the last year's activities – essentially KIP have reduced debt, maintained occupancy at around 97%, maintained a distribution of 7.5 c/unit and are generally happy with how their assets are performing given the conditions, especially Sylvia Park which the best performing retail complex of it's type in New Zealand.

Looking forward the tax changes which remove depreciation on building will impact profits and the expected distribution for FY 2011 is 7c per unit.

As there was a very capable and well regarded woman on the board already in the form of Joanna Perry I didn't feel the need to make any comments on the NZSA position at this time.

After the meeting I spoke with Joanna and she said that the real issue to be tackled was diversity on boards rather than just woman on boards. What needs to happened is for the pool of potential directors to be expanded and boards to take on relatively young and

inexperienced directors and mentor them while they come up to speed – a process that can take several years.

Martin Dowse

FISHER AND PAYKEL APPLIANCES – AGM 23RD AUGUST

The meeting departed from recent habit by being held at the East Tamaki meeting hall. The addresses and slides are well presented on the website, and so we will focus on the outlook and questions.

FPA faces a long path to recovery. It has a global manufacturing strategy in place based on its new facilities in Thailand and Mexico, and the Italian subsidiary, but slack markets in Europe North America and Australia. It has a programme of board renewals in place but a key retirement around the corner with Ralph Waters. It has a potentially fruitful alliance with Haier, but is reporting slow sales in China. It has a new chief executive appointed from within (3 cheers) and the reshuffle below him has only just started. It has repaid its amortising facility ($235m) 6 months early, but cannot yet say when dividends will recommence. It still needs to liquidate the properties in Cleveland (Brisbane) and East Tamaki (Auckland) to pay down another $40m of debt.
Ralph Waters reported an easing of stringent bank conditions to 3 monthly from monthly leverage testing. The net profit forecast for the year was at the lower end of brokers' estimates at $45million, but the Finance subsidiary is confirming its strength with a forecast of $34million. You'd expect $80million would be enough to provide for a dividend next year.

Q1. Before the approval of the annual report, it was noted that the Haier directors had attended few of the board meetings. We were assured that they now had the situation better organised with the election of Phillip Carmichael, the American president of Haier Pacific, fluent in Japanese and Mandarin to assist with communications, and an alternate for the busy financial controller of Haier, Tan Lixia. These two are now travelling from China every month.

Q2. There was discussion about the increase in directors' fees from $900k to $1.25million especially in view of the lack of dividend. However the notes explained that the increases were the result of government regulation on the appointment of 2 independent directors in the F&P Finance, and the new directors. Long serving directors would receive no increase. We were assured that the payments to Haier for governance were minimal in view of their time commitments to Fisher and Paykel, and that the directors' fees were paid to the company not directly to the employees on the F&P board.

Alan Best

INFRATIL LTD - AGM

This AGM was a fairly quiet affair with about 70 shareholders on hand plus assorted staff and management from Wellington Airport and NZ Bus, and one or two journalists and photographers.

Chairman David Newman started off with a quick overview of the last year then passed over to CEO Marko Bogoievski. Marko seems to be thriving at Infratil and talked enthusiastically about the year just gone. It's been a year of re-alignment with Infratil offloading approximately NZD 400 million of non-performing assets (Lubeck Airport and

Energy Developments), expanding existing assets (Australian Energy) and purchasing the Shell NZ assets (as Greenstone Energy) jointly with NZ Super Fund.

Marko emphasised that Infratil have a long term investment focus and are already looking ahead to 2030. He said that in the current environment there are opportunities for investors with solid operating experience to acquire assets at very good prices (i.e. the Shell transaction) but also that the best investment ideas are often internally generated projects where Infratil can dictate the sequence and timings of events.

He expects the earnings growth rate to accelerate over the next few years and the first couple of month's results from the Greenstone Energy have exceeded expectations.

Question time:

- One shareholder was very unhappy with the Wellington buses and wondered if Infratil employees should be made to travel by bus at least once a month. The response was that many staff and management do use the buses regularly and they are working hard to improve services.
- Another shareholder asked (re Greenstone) if there was any contingency plan in place in case there was a fuel supply problem. Good question. Marko answered that they have locked in a supply agreement with Shell International and it is probably on better terms than Shell NZ had.

Directors Lloyd Morrison and Mark Tume were up for re-election. Lloyd spoke and said he was glad to be back at work and it looked to him that Marko is doing a better job of running Infratil that he (Lloyd) had.

I always make a point of asking Mark Tume a question (I'm not sure why, it just seems the right thing to do) so this time I took the opportunity to note that NZ Shareholder Association had a project underway to increase the number of women on boards and while I had no questions to ask at this AGM they should expect questions next year. The fact I'd said this to Mark triggered some laughter at his expense, mostly from the board.

Martin Dowse

FISHER AND PAYKEL HEALTHCARE - AGM

The following were the highlights of the meeting chaired by Gary Paykel, and presented by MD Michael Daniell.

The chairman reported that Sir Colin Maiden will be stepping down next year and that they are actively seeking new talent. This is timely because:

- Gary Paykel aged 68, has been on the board since the IPO.
- Nigel Evans, aged 69, has been on since 2001.
- Lindsay Gillander, aged 60,has been on since the beginning.
- Roger Francis, aged 65, has been on since 2009
- Arthur Morris, aged 54, has been on since 2008.

There are no women directors and little international marketing experience, although North America represents 47% of total sales, Europe 32%, and other regions including Asia 21%.

The new Icon range has been piloted in New Zealand and Australia, and it is anticipated they will be sold world wide as soon as market reaction has been assessed.
Capital expenditure is budgeted at NZ$57m with $50m on the new factory in New Zealand, and NZ$7m on the Mexico plant expansion.
The financial data reported may have comforted some shareholders:
15% increase in profit after tax
10% growth in operating earnings
22% growth in Obstructive Sleep Apnea products
11% growth in Respiratory and Acute Care products
43% pretax return on average shareholder equity
25% increase in research and development to 7% of operating revenue
12.4cents/share imputed dividend
The forecast for the full year is NPAT of NZ$65-70m
However when one looks at the returns from 2006, one finds the following
in NZ$000s

Accounts	2006	2010	Difference	%increase
Sales	289,547	474,755	185,310	64
Expenses	81,679	137,541	55,542	68
R & D	17,348	35,272	18,042	104
Gross Profit	203,092	271,383	69,051	35
NP Before Tax	104,065	106,815	2,706	2.6
NP After Tax	69965	71631	1,749	2.5
Diluted Earnings/ share	0.13	0.14	0.1	-7.6
Profit on Sales	24%	15%	-9%	

When we approached Gary Paykel with this information, he invited us to discuss it with the CEO and CFO, and claimed that the strength of the NZ$ over the period was to blame. However, when we took out the figures in US$ the story was similar except that Net Profit Growth fell from 2.6% to 1% - far from spectacular.

Des Hunt

AIR NEW ZEALAND AGM – 26TH SEPTEMBER

As the New Zealand Government as the predominant shareholder has the power to appoint the auditor, the only formal resolutions concerned the re-election of directors Jane Freeman and James Fox which were passed on a show of hands. The Financial Statements were not received or discussed, so the bulk of the meeting was taken up by the addresses of Chairman John Palmer and CEO Rob Fyfe.

Both spent much of their time discussing the proposed alliance with Virgin Blue. This has been initially declined by the Australian authorities in their draft decision, on the grounds that it would reduce competition. Air New Zealand's counter is that the alliance would provide a fully integrated service between many Australian and New Zealand airports and so be a direct alternative to the equivalent Qantas/Jetstar operation. This means that competition would be enhanced rather than decreased. A final decision is awaited.

The Chairman said that estimates of the global profitability of world airlines for the 2010 year had improved to $8.9 billion, compared to last year's loss of $9.9 billion. Air

NewZealand's trading conditions had moved in line with this and earnings 'were up' without putting a precise figure on it.

The Annual Accounts are hard to follow due to foreign exchange fluctuations and financial and fuel derivatives. The Notes to the Accounts on Financial Derivatives alone cover 6 pages. The 2010 Annual Shareholder Review attempts to clarify the reasons for the reduction of $20 million in profit before tax to $123 million, compared to the 2009 year. This shows overall savings from reduced capacity and lower fuel prices more than offsetting reduced passenger revenues, but this is negated by a $250 million 'net impact of foreign exchange movements'. This indicates that the airline will continue to be severely affected by influences beyond its control – namely FX markets and fuel prices.

Bill Jamieson

TELECOM AGM - 30TH SEPTEMBER

(Over 600,000 proxy votes held)

The meeting commenced with a brief video of how Telecom had handled the consequences of the earthquake which hit Canterbury at 4:35am on September 4th. My perception is that their services (landline, mobile and emergency calls) came through very well even in areas which lost power and water. Their staff did an amazing job of restoring and maintaining facilities in those first hours and days. When disaster hit it was reliance on dependable telephone communication which did much to reassure stunned residents. Telecom's staff at all level deserve the highest praise. And just to let the visitors know, there was a magnitude 4 aftershock just minutes before the meeting started!

The full transcript of the AGM including the addresses by Chairman, Wayne Boyd and CEO, Paul Reynolds s are available on their Web site:
http://investor.telecom.co.nz/phoenix.zhtml?c=91956&p=irol-agm
To highlight some of the most significant items:

- They have changed their dividend policy to increase dividend payout to 90% (but of course their profits are now lower!. The net effect should be about the same.)
- Executive remuneration – which has been a topic for criticism of Telecom in recent years – was defended by the Chairman who also noted that the CEO had elected not to accept the full amount of his short term incentive payment because of the current difficult economic environment.
- Ultra Fast Broadband (UFB- just one of the numerous acronyms which proliferate their Annual Report and the presentations!) is an area of on-going government regulation and control adversely affecting Telecom. He warned of the potential dangers from the government's policy leading to duplicating of some UFB fibre already existing!
- They have a strategy for splitting the corporation to facilitate participation in the government's UFB investment programme. It will come before shareholders for approval if Telecom's negotiations are successful.

The resolutions were all passed and the election of Board members went smoothly. It is worth noting that Telecom has been successfully at renewing its Board almost continuously over the years and is certainly free from the accusations levelled at some companies for failing to refresh their Board membership and letting some just keep the seat warm!!

One final point, in conversation with Paul Reynolds after the meeting, he express the view that shareholders should be more vocal with the government when shareholders' interests are under attack by government regulatory changes.

Robin Harrison

RAKON AGM – 10TH SEPTEMBER

This was held on Friday 10 September at Ellerslie convention centre in Auckland. It was a relatively low key affair with about 120 shareholders present. Your Association only had a small number of proxy votes, but we fielded a steady stream of enquiries at our stand where stunning new banners were rolled out for the first time.

Chairman Bryan Mogeridge was quite upfront that the company had a forgettable last year with very disappointing results. This included a net loss of $5.4m, notwithstanding a positive second half. He blamed this on the global financial crisis and the slower than expected recovery but claimed the worst was now behind. It sounded rather too much like a repeat of last year's address for your correspondent.

However Rakon has no debt and a strong balance sheet. The combination of acquisitions and a high internal R and D spend of $10.5m per year has meant that the profit contribution from consumer devices of 80% three years ago, has dropped to 40% of NPAT, with the more stable and higher value network components market now yielding fully 40% of total profits. Very high reliability items remain at 20% and the recent acquisition of another European company Temex has significantly increased capability in this area.

The company is proceeding at full pace building its new Chinese plant for producing low value, high volume oscillators, and says it is comfortable with an EBITDA prediction of $25-30 million for the current year.

Anticipating questions following the last AGM, the Chairman indicated that with the final building blocks of the strategic plan now complete the company would be closely looking at the payment of dividends. However he would not be drawn on the timing beyond suggesting "a year or two".

CEO Brent Robinson gave a comprehensive presentation on the range of products the company produces, the markets they sell to, and the scope of Rakon's global manufacturing and marketing reach. There is no doubt that the company is in the very top echelon in what it does, but shareholders rightly questioned whether this was translating into premium prices for the products produced. The constant downward pressure on margins as quantities increase means they are seeing no rewards and the share price remains moribund. Both the chairman and CEO were adamant that benefits would be evident going forward.

One other question related to the security of ownership that the company had for its new facility in China. This arose because of the extraordinary recent episode where Millennium and Copthorne Hotel Group had one of their properties sold fraudulently (but apparently entirely legally under Chinese law) by a crooked executive who pocketed the proceeds. The Chairman assured shareholders that Rakon was confident in the arrangements it had put in place to protect its Chinese interests.

As expected, Bryan Mogeridge and Bruce Irvine were re-elected as directors.

John Hawkins

IRONGATE PROPERTY LTD – AGM 24TH SEPTEMBER

Approximately 60 shareholders attended the Irongate Property AGM in Wellington.

Chairman Kevin Podmore opened the meeting and gave an overview of market and economic factors which the company has had to contend with since March 2009. He outlined the company strategy, which is mainly about reducing debt through selectively selling down the property portfolio. A longer term objective is to reposition Irongate Property as a listed property development, funds management company.

The company sold $159m of property assets in the 14 months to 30 June 2010, and reduced bank debt to $76.45m. The company has exited property financing lending and changed its name from St Laurence Property & Finance in December 2009, in a clear effort to distance itself from St Laurence (in receivership). One goal not met was to realise $25m from the loan portfolio. Plans to sell down loan exposure to the Riverpoint project didn't progress due to market conditions.

A net loss after tax of $54.5m was the result to 31 March 2010 (2009: a $87.2m loss), driven by a $24.8m fair value adjustment to assets, $12.7m in loan provisioning, a $9.6m loss on disposal of investment property and inventory, and a decrease in NTA backing to $0.41 per share. A chart of liabilities, assets and equity over the last five years, showed a decline in the balance sheet of more than a 50% since its peak in 2008. Equity has dropped by 62% since then as a result of the drop in property values and losses on realisation of assets. In the year in review, Irongate's equity decreased to $73.8 million.

General Manager Chris Minty gave a comprehensive report on property, joint venture and inventory sales, and how the portfolio has changed. Irongate now owns 15 properties (2009: 21) valued at $171.6m (2009: 247.8m). Occupancy is down to 79% from 83.5%, and the weighted average lease time is up to 4.63 years from 3.78 years. Net rental at $12.8m is down from $17.9m in 2009.

Mr Minty went through the pending sales, and plans for adding value and / or selling more properties during the current financial year.

Back to the Chairman who reported that asset sales funded repayment of $88.1m in senior debt. $30m in bonds were repaid using $10m from asset sales and $20m of new funding from the Bluestone Group through TEA Custodians (Bluestone).

The decision to obtain funding from Bluestone was characterised by the chairman, as expensive (15%pa with special conditions attached), but was the only viable alternative to selling down assets at fire sale prices with significant resulting damage to shareholder value, or to going into receivership. The company was in the process of negotiating a shareholder support package from St Laurence when it was placed into receivership.

(Readers may remember the St Laurence's attempts to go around its trustee with a restructuring proposal direct to shareholders, last year. The trustee placed St Laurence Ltd into receivership.)

Key issues going forward are to resume paying dividends and to see the share price improve. The board has resolved to not pay dividends until after the $50m in bonds due in May 2011, have been repaid.

(Shares have most recently traded at 4c, down from a 12 month high of 12c, and 35c in December 2008. 2.1m shares have traded in the last 12 months which is 1.4% of the 149.5m shares on issue.)

At 4c, the shares are trading at a 90% discount to net asset backing. Factors impacting the share price include the need to fund repayment of $50m in bonds in May next year, fallout from the St Laurence receivership, the lack of dividends and uncertainty over asset value.

The objectives for this year are to realise a further $100m or more from asset sales, to reduce bank debt to less than $60m, to repay $50m in bonds, to secure a new cornerstone shareholder, and to reduce the gap between the share price and net asset backing.

Business of the meeting covered setting auditors fees and approving the issue of 26.4m ordinary shares to TEA Custodians (Bluestone) Limited for $1.615m. A show of hands approved setting the auditors fees. Voting on the share issue to Bluestone was done using the ballot box and was approved.

Questions from the floor followed.

The chairman was asked why Irongate's 2010 financial report was late, almost to the point where the NZX would suspend trading of the 2011 bonds. Kevin Podmore explained that questions arose during the audit process relating to the "going concern" status of the company. This was happening in the context of repayment of $30m in bonds, and establishing the funding line from Bluestone.

Management was asked why the Molesworth St property in Wellington had been vacant for so long. Chris Minty reported that a decision had been pending on redeveloping the property for some time, but with the market downturn and the cost of redevelopment, nothing much had happened. When pressed he confirmed that the company was open to offers. Discussions with an interested party had fallen through some time ago.

A shareholder sought clarification on which entity her holding was actually in. The chairman explained that the shares were in Irongate Property Limited. He also stated that the majority shareholder is St Laurence Funds Management Limited, and not St Laurence Ltd. (in receivership). St Laurence Funds Management owns Irongate's management contract.

In Summary.

Irongate Property is continuing to sell properties to pay down debt and it appears more likely than not, that the 2011 bonds will be repaid.

Shareholders however, will be dismayed at the low share price and the ongoing sell-off of assets, and reduction in equity. They are unlikely to see any improvement in the share price until after the bonds are repaid in May, and all being well, the resumption of dividend payments.

The reality for shareholders is that Irongate Property is on the way to becoming a much smaller company, from a balance sheet perspective, and that this will be reflected in the long term share price. If a new cornerstone investor is found, clearly this will further dilute the value of the existing shares.

Finally, Chris Minty comes across as knowledgeable and experienced in managing a portfolio of commercial property, and realising value in a difficult market.

The AGM presentation is available at the company's website: www.irongateproperty.co.nz.

Scott Hudson

BRANCH REPORTS

AUCKLAND

The branch hosted a 2 company presentation from Renaissance Corp & Hellaby Holdings. Both of these are "turn round" stories resulting from the dramatic change in the business environment emulating from the global financial crisis in 2007/8

Renaissance Corp –recently appointed Richard Webb CEO
Industry segment - Information technology (I T)

27 year old business – 400 staff operating in NZ main centres

Mainly known for the distribution of "Apple" products in NZ

Richard gave an interesting update on the change in direction of the business to put more focus on customer needs following some poor results over recent years. In the last 12 months there has been major internal management reorganisation. They operate in the fast changing technology market and are migrating towards "cloud" computing. This concept is growing rapidly and is beneficial to end user businesses with lower costs through access to off site Network applications provided rather than the end users developing their own IT systems.

They provide a complete range of I T services/solutions/equipment/training and education through 5 specialist divisions.

Balance date is being changed from Dec. to Sept. to better synchronise the results with performance and forecasting requirements.

In response to questions the company was diversifying away from concentration on Apple products. It was noted that 26 similar products (including Renaissance's own notepad) were in development to compete with the Apple tablet.

Hellaby Holdings – John Williamson CEO (July 07)

Industry segment – Investment Company. Operates small corp. HO of 6.

Old established company converted to an investment company several years ago and has now a diversified range of industrial equipment, automotive distribution, flexible packaging, and shoe retailing (Hannahs & No. 1 Shoe Warehouse) businesses. Now fully decentralised to independent operating divisions with 10 CEO's reporting to John Williams. 6 of the 10 businesses have been restructured.

The group results for the latest year to June have shown a turn round with much improved profit of $10m, from the serious position it was in, in 2008 with poor profitability and far too much debt. Core debt has reduced from a peak of $118m to $25m. The change has been brought about by emphasis on operating cash flow, sale of the Barbeque factory, sale of other non core businesses, and reduction in debt to manageable levels that has gone some way to restoring overall profitability.

The share price high of $7.32 in Feb05 to $.40 in March09 to currently $1.78 tells the story re share market perception.

Many of the businesses are still feeling the effect of the slow economic recovery – equipment and agriculture particularly. Revenue was down 5% in each of the last 2 years. John was confident that the company was in a good position to improve performance. Operations were “lean” and were meeting the challenging current conditions.

A 3 for 7 rights issue has been announced to strengthen the capital structure and add some flexibility for growth opportunities. A 5c dividend is payable on the rights increased capital.

The full presentation is available on the NZX/Hellaby website.

Noel Thompson

Shareholders should question the Auckland Energy Consumer Trust.
If you have recently received a dividend of $320 from the Auckland Energy Consumer trust (AECT) you may be very happy. However I recommend that you attend the AGM - details below because there is another story.

AECT holds about 70% of the shares in Vector on behalf of users in the areas Vector operated in ,in the early 1990s.
Its costs reduce the dividend to us "beneficiaries " by between $3 M and $5 M a year - a considerable amount when one realises that it is merely a custodian of shares,- receives 2 dividends & pays out one.
Its accounts reduce this cost by offsetting almost $2m interest (it earns by not paying out the Vector interim dividend until the final is received) against the costs.
That virtually halves its stated costs.

You may well find it interesting that last year the chairman of the trust received a fee of $90000 which is 50% of that of chairman of Vector. Not bad for simply collecting a dividend and passing it on!

AGM of AECT is on Wednesday 27 October at 7 pm at-
Ellerslie event centre
Auckland racing club

Tony Sullivan

WAIKATO
Our August meeting was addressed by Rob Alloway Managing Director of Allied Farmers. We did have some fears that Rob may not turn up. However we were pleased he did; and addressed us in what I thought was an open and frank manner.

He outlined his career to present. From an electrical and engineering background in the dairy industry he ended up in senior engineering and management roles at Fonterra. In 2006 he took up the role of CEO of NDA and participated in its private equity buyout. Rob exited NDA to concentrate on investing, founding Allied Capital in 2009. His stake in AFC came about through an underwriting deal; and MD role as not being happy with the existent management.

I felt he expressed genuine sympathy for Hanover investors and wanted to do the best for them. He was scathing of Watson and Hotchin and gave the impression of them not having had things all their own way.

Rob was happy answer questions and joined the members after his presentation for further discussion.

Following the meeting AFC has continued to be in the news with both Chairman and Rob Alloway announcing resignations. Final rites have not yet been administered, their bankers have been temporarily placated, but not their auditors. It has certainly been an interesting saga, with the full story perhaps yet to be told.

Editor's note:The Board is keeping a close eye on the Allied-Hanover situation. Subsequent to Robert's report, the auditors issued an unsatisfactory report. Price Waterhouse Coopers, who did the original valuation of the Hanover Assets, and then after only 100 days found they were worth much less than valued, carefully protected their backsides in the audit. They could not tell whether the company could continue as a going concern, nor could they tell whether the accounts "give a true and fair view." Are these people appointed to give investors confidence in the company's accounts? How much faith can we have in them as independent experts in future? Roll on a new system for the supervision of auditors, and fast!

In September, Mark Cairns CEO of Port of Tauranga updated us on the Port's activities. This too was a topical address as Mark had just attended the New Zealand Ports and Shipping Conference. This conference highlighted the need for the concept of two major hub ports to service New Zealand and the necessity to implement reasonably urgently if we don't wish our ports to become merely feeders to the large Australian ports. The disadvantage of this to New Zealand would be the obvious monetary and time costs in double handling the cargoes. Mark naturally pointed out that as New Zealand's largest and most efficient port Tauranga should be one of these super ports. These super ports will have to be able to serve very large ships with 7,000 TEU (container) capacity. Tauranga was best positioned to meet the requirements for these vessels with consents already underway for dredging the deeper channels and at least cost. The additional infrastructure requirements around improved rail, road and extra land could easily be met or were largely in place.

Tauranga's performance has been impressive both financially and operationally. Since inception as a public company, returns to shareholders have exceeded 18%pa.This can be contrasted with Auckland's poor performance.

The challenge for Mark to overcome will be the political one. The government at this stage does not appear willing to make a super port choice, although ports are required to act commercially and must achieve their cost of capital. Unfortunately super mayor aspirants may have super egos. All may not be plain sailing for Tauranga to achieve super port status.

Both meetings were well attended and generated a good level and depth of questions.

Robert Foster

WELLINGTON

It's nearly the end of what as been a busy and entertaining year for the branch. By the time you read this we will have run nine branch meetings this year, with a great variety of informative and entertaining speakers.

Our last meeting of 2010 will be a visit to Time Cinema in November for the screening of an investment film. We were hoping to watch Wall Street II but that's not going to be out on DVD in time so I guess that one will have to wait for next year!

I would like to welcome Cheryl Barber, Anne Hare and Scott Hudson onto our branch committee. Thank you (and the other committee members) for volunteering your time for the benefit of all shareholders. Thanks also to First NZ Capital for their ongoing support in hosting our meetings, and to all shareholders who have attended.

Martin Dowse - Chairman

CANTERBURY

Company visit to The Press

On August 25th, several members of the Canterbury Branch of NZSA visited The Press in Cathedral Square, a division of Fairfax Media. We had the good fortune to be hosted by a Mr Robert Richardson who was a mine of information, leading us around the heritage building, up narrow stairs, into long corridors and into sizeable offices where people were gazing intently at computer screens, preparing copy for the next edition of the daily paper.

The Press building is a fine one with Historic Place Category 1 status, however the interior will need considerable work once the Press moves out (in fact they did this earlier than anticipated, thanks to the magnitude 7.1 earthquake a week and a half later)! However, one could see the dedication and resourcefulness of the staff who obviously take considerable pride in their work and their daily paper. It was a very busy place with various departments doing everything from creating specialist lift-outs (fashion, home-ware etc), the easily recognisable journalists renowned for their robust articles and willingness to burst the occasional inflated bubble, to cartoon creators, photographers and on it goes. It takes a lot of people to put a paper together, (though admittedly fewer than years ago).

It was a thoroughly enjoyable journey through the various facets of the paper. We were delighted to have Robert to help enliven our visit and it made us appreciate a great deal more of the importance of the daily newspaper. Despite the sceptics, we hope the Press continues on ever upwards for many years to come.

Barbara Duff

Sharemarkets and the Global Crisis – presentation by Alan Robb.

Alan has a strong accountancy background on which he has built his career as an independent financial commentator. Some of us can remember back in the '80's when fashionably successful entrepreneurs were building huge corporations on borrowed funds and innocently enthusiastic equity partners – who also borrowed…

And the fashion back then was to rubbish accountants – they blew the wrong way, they stopped us from "hitting the deck running" and as a career choice they were redundant. "Finance" with its international overtones was in!

So to members of the Shareholders Association it was a sobering exercise to listen to Alan Robb as he cited 2008 percentage falls in world's stock markets, the high and growing unemployment figures and some disturbing facts about toxic capital development loans and under-utilised production capacity in parts of China.

And if we thought we were pulling through the economic collapse he pointed out that since the 2008 figures he cited we have had the emergence of sovereign debt crisis: Greece, Portugal, Italy, Ireland, Spain…..

And since then in New Zealand we have had – on top of the 30-odd finance company collapses - the collapse of Alan Hubbard and South Canterbury Finance.
Alan Robb did not present us with an optimistic view of the future.

Alan put the international financial crisis down to three main and related causes, which he cited (in July 2009), as the rise of Chicago-school economics, greed and a breakdown in ethics.

Despite my socialist background, I happen to be an admirer of the raw, rational relationship of economics and society expressed or observed by Adam Smith. So, I have some sympathy with the so-called “Chicago School”. Personally, I doubt that the “school” was responsible for our present crisis. But, of course, Alan Robb also listed greed and a breakdown in ethics. I certainly do not believe that these two causes are unique to the Chicago School. Nevertheless Alan gave us good examples of “greed is good” philosophy and in terms of ethics, the breakdown of personal responsibility as lawyers and accountants became limited liability organisations and payment and reward became neat (and massive) bonus income packages.

Add to this the jacking up of “Financial Derivatives” and currency dealing and we have the recipe for financial crisis.

He also decried the lack of study of economic history. I must concur, for already we have market traders who were not even born during our last economic crisis. An expression I remember a Reserve Bank employee on National Radio summing up back then as “Our experts lacked experience”….

So for us as stockholders he summed up “The need for regulation is unchanged, the amoral casino mentality continues, the crisis is not over.”

I recommend you read his address on his Blog site www.alanrobb.coop .

Tim Kerr

BRANCH CONTACTS		
Auckland	Phil Kavanagh	philkav@orcon.co.nz
Waikato	John Davies	cjdavies@xtra.co.nz
Bay of Plenty	Allen Smith	allen.smith@wave.co.nz
Wellington	Martin Dowse	martin@dowsemurray.co.nz
Canterbury	Robin Harrison	robin.harrison@canterbury.ac.nz

MICHAEL HILL'S BUYBACK

Some members were concerned at Michael Hill International's proposed buy back of shares. This would have given the Hill family over 50% when they currently own 48%, and should have triggered an offer to all shareholders, or the equivalent sale of some of the Hill family holding. The Takeover code defines 4 categories of major share buying:

0-20%	permtting any buys on or off market
20-50%	permitting a full offer, partial offer, shareholder approval or exemption
50-90%	permitting 5% creep in 12 months, or the 20-50% provisions
90-100%	permitting compulsory acquisition

So the move to over 50% would under the code have triggered an offer to all shareholders, or an exemption. It is probable that MHI did receive an indication from the Takeovers Panel that it would not receive a waiver. Our view was that shareholders may well have approved the Hill family move, because they would not have wished to incur the costs of a partial takeover offer at the current low price, they see the Hill family as a responsible cornerstone shareholder which already has effective control, and the shortage of scrip would have strengthened the price of their own shares. At any rate it was good to see the Hill family's enthusiasm for more shares in their own company.

Alan Best

HYBRID SECURITIES AND THE GOVERNMENT GUARANTEE.

Many members have been involved in discussion on the collapse of South Canterbury Finance, and the Hubbard Trusts. One member suggested the NZSA should go to bat for holders of Preference shares (SCFHA) listed on NZDX, and assumed by some to be debt securities. In fact these are specifically excluded from the Government Guarantee scheme because they like many other hybrids are actually shares. Members wishing to gain more information on the different types of security traded in the NZDX, should try to attend our Education Course1, which covers this subject. As the Treasury website says "A retail debt security does not include:

* equity or equity like instruments such as shares or redeemable preference shares;
* interests in superannuation schemes, unit trusts, shares or similar instruments where the income from the investment is shared;
* subordinated debt issued by banks or non-bank deposit takers (other than some redeemable shares issued by building societies and credit unions). Subordinated debt refers to deposits or loans that are repayable after all other creditors of the bank or non-bank deposit taker have been repaid. It ranks behind other creditors in terms of distributions on insolvency (but ranks before distributions to shareholders)
* under the terms of the extended scheme, debt securities that have been restructured or rescheduled under a moratorium the terms of which have not been first approved by the Crown."

So why did the government bail out the unsecured debt holders?
In our view the Government was too generous in bailing out debt holders not covered by the guarantee. The reason they did it was to achieve unencumbered control and save cost over time, but it was expensive up front and it absolutely sent the wrong message to investors. The hybrid nature of the preference shares is the reason they were listed on the NZDX. The higher return was the supposed compensation for the deep

subordination. With that subordination comes higher risk. In this case it turned to custard. That is simply the risk/reward balance in action.

Alan Best

UNRULY IFRS

In the annual accounts of Colonial Motor Company the operating profit of $7.345m was reduced by Income tax expenses of $8.717m. We asked why, and our researcher, Mathew Underwood, filed the explanation.

"The deferred tax liability to be carried on the balance sheet is the difference between the "Carrying Value" and the "Tax Base" multiplied by the current tax rate.
The "Tax Base" is defined as the amount that is deductible for tax over the life of the building.

Most of us use the liability method of tax for our "simple" accounts, charging the tax assessment against P & L and to the balance sheet, and carrying the net deficit or surplus after provisional tax is paid / over paid / underpaid as the balance sheet amount. We also do the same things for tax and for financial accounting, why would you not? IFRS does not follow this approach.

The shock this year is that there will be no further tax claims, so the "tax base" expression drops to nil, and a tax charge needs to be made for the expected claims of tax across the life of the building reducing to zero. This is all done at the rate of 28%. There will also be some effect of changing rates from 30% to 28%.
CMC notes the tax effect of the change of stopping depreciation each year will only be less than $200k per year in cashflow.

If we gross up that 200k at 28% we get depreciation of around 715,000 having being charged a year. That is probably visible in the accounts somewhere too, but it was not immediately evident.
If we look at the $6,383,000 tax charge at 28% we can see the amount of depreciation no longer to be claimed is around 22,800,000. This is over the life of the building.
The number of years you have to claim 715,000 to get 22,800,000 is around 31 or 32 years."

This is symptomatic of the confusing information being presented under IFRS rules. Some of our leading Directors have spoken and written to Sir David Tweedie, Chairman of the International Accounting Standards Board, trying to make annual reports clearer to shareholders.
As Grant Diggle pointed out, the requirement that we mark all property to market when there is no intention to sell is misleading. This would be much better covered in a note to the accounts showing the difference between the current market value and the book value, accompanied by the company's property holding policy.
Shareholders should not hold back from asking for proper explanations of values they think are distorted by IFRS rules.

Alan Best

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