

"The Script"

February 2003

The official newsletter of the New Zealand Shareholders' Association Incorporated

STOP PRESS! TOWER

The Shareholders Association has been working closely with Colin Beyer and Tony Gibbs to attempt a relatively bloodless transition of both leadership and management at Tower. It is important that all protagonists in the interests of the company adopt a workable transition plan.

It is the Association's view that a majority of the existing board should go, and therefore the issue is when and on what terms.

Again watch this space as the pace of

change is very fast and by the time this gets to you it may well all be solved or in the words of Tony Gibbs, "World War three' will have started.

We may well be requesting proxies from you to support a sensible resolve, so hold on to those ballot papers until further notice. At present, we can give no firm indication as to voting until much nearer the AGM. We may also wish to use our website to publish up to date information.

Bruce Sheppard

DIVIDEND POLICY

The dividend expectation of shareholders is frequently expressed by relating the total dividend paid as a percentage of net profits after taxation. For a great number of companies a policy based on this ratio is perfectly appropriate and well understood by shareholders. However there are a number of companies that carry large amounts of goodwill and other intangible assets on their balance sheets. These assets may be written down annually – amortised – and the resulting charge reduces the disclosed profits available for dividend. There is often little or no indication from the Board as to whether amortisation of intangible assets is taken into consideration when reporting the percentage of after tax profits that is being paid to shareholders. It is of course possible to work out, if a policy is stated, whether amortisation is included.

The Board of **Waste Management N.Z. Limited** is to be congratulated on their announcement on 17 February that they have amended their dividend policy to take account of amortisation. This is a first and very welcome indication that at last this matter is worthy of disclosure to shareholders. The text of the statement is simple:-

"In determining the final dividend the board reviewed and changed its dividend policy from that of distributing approximately 50% of net profit after tax to distributing 50% of the sum of net surplus plus amortisation."

We congratulate the Company. A more detailed commentary on this topic will be provided on our website in the future.

Oliver Saint

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WHAT TO DO WITH YOUR PROXIES

Risk, Reward and Responsibility – Exercising your Right to Vote

As seasoned investors I am sure you all know about Risk and Reward. I now want to introduce you to the responsibility that goes with investment. Responsible investment is the glue that joins reward to risk, and if responsible investment is practised consistently rewards can be increased and risks reduced.

Responsible investment is about changing your focus from buying a share to a focus on buying part of a business. Having changed your focus you must then behave as a responsible business owner. If you need any proof that such an approach pays look no further than Hellaby Holdings Ltd. David Houldsworth the CEO of Hellaby's said at the last AGM that Hellaby's business was about buying businesses they understood and behaving as good business owners. It is working for Hellaby's, its investee companies and Hellaby's shareholders. (Disclosure of interest: Bruce Sheppard is a Hellaby shareholder)

It is impossible for you to be a good business owner if you do not exercise your right to vote on issues that shareholders are expected to have a say on. For the 2003-year this will be one of the NZSA's hot topics and we will be endeavouring to put increasing pressure on institutions to do some work for their money. It would be impossible for us to take this stand if we are not actively encouraging small shareholders to behave appropriately also.

Our first preference is for you to attend every shareholder meeting of every company that you own shares in and to exercise your right to vote on a fully informed basis.

If you are unable to do this we would ask that in every instance:

- that you complete the ballot papers sent to you by the company voting yes or no on each issue that you feel passionately about or feel sufficiently informed to cast a rational vote
- sign the form, and fill in the proxy holder as the New Zealand Shareholders Association Inc.
- mail the form directly to the company or the share registrar and either send us an E mail telling us you have done this or send us a photocopy of the proxy form in the mail.

We will then arrange to attend the meeting. The share registrars have agreed to allow us to do this by appointing a corporate representative for the association. Our representative will then vote your stock.

If we cannot attend the meeting or we have no pressing issues with a company we will contact the chairman of the company and appoint the chairman as our corporate representative but only on the basis that they undertake to vote it as we direct.

Alternatively you can appoint a proxy of your choice and some companies also provide for postal voting if you prefer.

Bruce Sheppard

NOMINATIONS FOR THE NZSA BOARD

All members of the Board will retire, and in turn offer themselves for re-election at the AGM in June.

Any member of the Association may be nominated for election to the Board provided that a nomination paper signed

by the member himself (or herself) and supported by 2 other members of the Association is lodged with the Secretary, P O Box 42 139 Orakei, Auckland, prior to 20 March 2003.

AGMs

Calan Healthcare

The Calan AGM was a well-attended affair, and as usual was acrimonious. What however was different about this AGM was the attitude from the chair and from Mark Littleton. The chairman was new to the company and Littleton regarded by many as arrogant was particularly humble.

The chair tolerated intense questioning from the Association both before and during the meeting on due diligence payments to the managers outside of the management arrangement.

Littleton tried to come to the party with full explanations on the operations of both Calan and his own private management company and appeared sorry for the poor returns experienced by Calan Healthcare Properties Trust.

Be that as it may, there are a number of underperforming assets to be sold which might result in further write downs and there is of course the matter of the minority stake in the Ascot operation which is probably also over valued.

Watch this space, probably more bad news to come before the good things come through. However, the good news is a commitment from management to discontinue speculative property development. Calan shareholders can expect a passive property fund to emerge over time but don't expect any short-term relief.

Contact Energy

The Contact AGM was held recently in Christchurch. It was a sunny day, the share price was rising and the shareholders were happy.

Our representative, Harold Brittan, asked the Chairman that in view of the heavy voting at last year's AGM, would there be any change in thinking on the question of director's retiring allowances. The Chairman

indicated that the Board was comfortable with their present arrangements.

Michael Hill International

The AGM was held at the Hilton Hotel on Thursday 28 November 2002. A brilliant opening address by Michael Hill and a short video to mark the 21st Anniversary of the opening of the first shop in Whangarei left shareholders in a state of such exhaustion and good spirits (glasses of champagne were offered before the meeting) that questioning was far from their minds. However your representative offered profuse congratulations to Board and management for what had been a remarkable achievement for a retailer covering 21 years of wholly organic growth. Few other listed companies have been able to match the performance since listing in 1987.

A meeting of even the most efficient company is likely to arouse in the minds of the investor the possibility – perhaps even the risk – that future results may not live up to the steady and controlled organic growth of the past. The visionary is not ageless and perhaps there may be a temptation to increase the speed of expansion so that the results can be seen more quickly. Faced with this question Michael Hill responded in spirited style suggesting that he had in him the strength and health to see the fulfillment of a further 21 years of growth. On the question of how long the test run in Canada would be he was more ambivalent and offered no particular time frame.

The constitution will soon be changed to ensure that the three years retirement gratuity for non-executive directors will be removed.

Oliver Saint

Strathmore Group

The AGM was held in Auckland on Thursday 30 January 2003. The Chairman gave shareholders a brief update on events since the special meeting in November and

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allowed for no questions apart from those dealing with his address.

Item 16 of the Accounting Policies deals with the Going Concern of the Group. In this comment the directors referred to the realisation of SoftTech and the renounceable rights issue as indications that the Group had adequate resources for the immediate future. However at the

meeting the Chairman advised that the issue had not proceeded nor had the sale of SoftTech taken place. The comment that monthly overhead expenditure had been reduced to \$20,000 per month was the only comment that shareholders were given to indicate a continuing operating viability. Following director resignations, Mr Ken Wikely's appointment as a director was confirmed at the meeting.

Oliver Saint

OPTIONS

Members will be aware that our first policy statement was on the subject of Options. It continues to be a subject on which we have strong views.

Late last year the International Accounting Standards Board issued a draft accounting practice on options. Other matters were covered as well but the options statement was at the heart of their pronouncement. Our New Zealand body, the Institute of Chartered Accountants of New Zealand, to emphasise their support for International accounting standards, decided to issue the International statement without amendment, for local comment and intended practice.

Our attention was drawn to this statement and we decided that the subject was so important that it was imperative we prepare a submission. There were many matters that we found desirable about the exposure draft but unfortunately we could not agree with the very complicated and subjective measures that were being proposed in

order for companies to arrive at an annual charge for options. We therefore presented our own recommendations which largely mirror the thoughts that we originally made in our policy statement.

A portion of our submission comprised response to specific questions posed by the two bodies. These replies are only of value if the questions themselves are included. However to incorporate the questions would have made the document extremely lengthy and would have added very little to the understanding of members. Therefore **part C only of our paper is shown on our website under the heading Guideline Statements**. The draft of the International Standard is available on the website at www.icanz.co.nz, as will be the response received from all those making submissions. So you will be able to see the full text of our paper on that website in due course. It is a mammoth presentation and will have serious consequences for some listed companies, particularly in its present form.

Oliver Saint

DISTRIBUTION OF THE NEWSLETTER

At present we are emailing copies of the Newsletter to those members who have given the Association an email address, as well as posting a hard copy to every NZSA member.

As our membership grows, this is an increasingly expensive exercise. We could make considerable savings by discontinuing the hard copy to those who also get an email copy.

Would those of you who receive an email copy, please send me an email with your advice about whether you still wish to receive a hard copy. I can then start to rationalize the system.

Also, if we don't have your email address, please forward it to me for our future use.

Russell Hodge rusorjudy@paradise.co.nz

BRANCHES

AUCKLAND BRANCH

A very successful branch meeting was held on 3 December at the *Horse & Trap*, and attended by over 85 NZSA members and guests. Brian Gaynor's address was both entertaining and informative and generated lots of questions. This was followed by short workshops on P/Es by Graham Wilson and on Understanding Company Accounts by Phillip Clemow, respectively. Auckland branch membership doubled to over 65 at this meeting.

A group of 32 members were hosted by Ports of Auckland on 19 February at the Auckland Container Base. Managers explained the operations in the control rooms, and a bus was provided for a tour of the base. This was followed by afternoon tea and then Geoff Vazey, the CEO spent over an hour explaining the success of the business and outlining its future, as well as answering many questions. Our members were most appreciative of the time and effort put into this visit by Geoff and his team.

The next branch meeting is at the *Horse & Trap* on Wednesday 12 March, starting at 7.30pm. The guest speaker is Mark Weldon, CEO of the NZ Stock Exchange, and Phillip Clemow will conduct a follow-up workshop on Understanding Company Accounts.

TAURANGA BRANCH

The Tauranga branch committee held its first meeting for 2003 on Thursday 13 February. Allen Smith, who has served as Secretary / Treasurer from establishment in 2001, has indicated he will need to vacate these offices from this year's AGM because of his involvement in organising a major function for a previous employer. He reported to the meeting that we currently have 39 active members and funds of \$900 approximately.

Steps will be taken to find a successor to Allen's portfolios.

The major focus of the meeting was to identify a list of possible company visits during the year to enable members to familiarise themselves with local industries and approaches are now being made to the companies concerned to finalise acceptable dates, a list of which will be notified to members as soon as this task is complete. Malcolm Dunphy, in the course of reporting on the NZSA meeting he had attended in Auckland on 11 February, indicated that any members interested in attending functions organised by the recently established Auckland branch (such as an address by Mark Weldon on 12 March) can probably be accommodated subject to prior approval by the Auckland committee. He also reported that the NZSA newsletter to be published later this month would provide detailed information for members of how they should deal with proxies from companies in which they hold shares. The Association will be represented at the Tower AGM on 27 March and will be seeking proxies for this event.

It is intended to continue the discussion groups which were introduced last year with one proposal being that attendees be encouraged to choose one company and give a brief presentation on this to the group.

WELLINGTON BRANCH

The branch committee has now met twice and planning is well advanced for the **Inaugural Branch Meeting** at the **Johnsonville Community Centre, on Tuesday 4 March, starting at 7.30pm.** All Wellington NZSA members in the Wellington region are invited to attend.

Members can contact the chairman, Peter Nalder, by emailing NalderP@caa.govt.nz or by telephone in the evenings on 04 478 5102, or the secretary, Ray Jack, by emailing ray.jack@nbnz.co.nz or by telephone on 04 577 2623.