

August 2009

BUCE'S EDITORIAL – THE GREAT DEBT DEBATE – THE CLOSING CHAPTER

The NZSA wrote to 19 of the 20 companies that I identified as possibly having too much debt or possibly being in default. They elected to not to write to one on the basis that it was a stock market darling, had strong operating cash flows, albeit that they had low EBIT as presented in their IFRS compliant financial statements. Instead NZSA had a face to face dialogue and discovered that IFRS did not serve this company well, and actually failed to represent easily and succinctly the financial strength of that particular company. Having satisfied themselves, NZSA directors determined that no more should be written on that company. The list is thus a list of 19 companies out of 47 major companies that had debt.

In order to assess the debt levels of each company and compare each with the others on the list, a generic set of likely bank covenants was compiled by me, and systematically and consistently applied.

Most banks lend on Income and/or assets thus the covenants were constructed with this in mind. The four measures that I compared were Debt relative to earnings before interest and tax excluding non recurring or abnormal items, Debt to equity as a measure of the buffer provided to the providers of debt by the providers of equity, debt to net tangible assets plus debt, as a measure of asset cover, and finally earnings before interest and tax to interest, as a measure of the number of dollars of income covering each dollar of servicing.

The 9 that looked like they might be in default or near it in June 2008 or equivalent balance date were written letters that expressed this concern, and all the letters can be viewed on the NZSA website.

The 10 that looked as if they might be in default, if either their equity eroded due to impairments of goodwill (another IFRS trick,) or if profits declined, were written to in different letters. These too can be viewed on the NZSA website.

Those companies that replied also have their letters available to view on the NZSA website, and surprisingly, not all replied. If you own shares in any of the companies that did not reply you should take it that the directors and managers of those companies do not care to respond to proper inquiries from the owners of the companies they manage or from a body that is now accepted as representing the interests of those owners. That is a pretty damning indictment of those boards especially when they say that they regard their shareholders as owners and treat them as owners. The two non responding companies who were on the second list were Team Talk and Sky TV network. Sky has virtually no assets strong income and lots of debt.

Just as I and the NZSA are prepared to be judged by what we do, right or wrong, well or badly, so too should companies be judged. Rather than my analysing the responses in detail, or providing you with any guidance on the strength or weakness of the companies written to, you must do this for yourself by reading our letters and their replies. It is my view that debt is the number one risk faced by equity investors today and that is why I did this work. I do own shares in some of these companies. Hellaby, Restaurant Brands, and Fisher and Paykel. However, I want to raise some of the issues from the replies.

Firstly some of the substantive matters.:

In one case I got the numbers wrong. In calculating the EBITDA of Vector I eliminated the EBITDA in respect of the business they sold which was shown in their accounts as business income discontinued. I then compared this reduced EBITDA with the total debt outstanding at balance Date. Michael Stiasney pointed out that at balance date the sale proceeds had not resulted in the debt being reduced thus I was comparing pre divestment debt with post divestment EBITDA. Fair point, and if I had spent extra time on dissecting Vector accounts and checking each disclosure subsequent to balance date I could/should have picked this up.

Of the remainder of the replies all have accepted the numbers in my analysis as correct.

With the exception of Nuplex whose own corrected numbers are in my view wrong and in any event did not alter the substance of the analysis which is that they were in June 2008 most likely in default. Read their letter, as they state they were not in default, and what is more, their bank arrangements don't include provisions for default - just "discussion points". This is inconsistent with the announcements they made when they did actually default, and in any event "discussion" with banks is rarely pleasant.

Save for this you may take my numbers and analysis as accurate and non contested.

Now to the replies themselves. Nuplex was defensive and stated that the letter must have been sent to them in error; a bit rich for Nuplex to be in denial when they clearly have defaulted and diluted shareholders who didn't cough up on a 7 for 1 basis. Perhaps those who have not replied are also in denial.

Some were ashamed to even have been written to as they thought that they were in such great shape that to even be included on a list with other companies that might be complete dogs would be damaging to their reputation. This too is interesting on the basis that that company had already announced a placement and rights issue to reduce debt.

Only one, Provenco, admitted that it was either at June 2008 or subsequently, in default, but claimed that it was no longer in default. Neither I nor the NZSA could find any announcement to NZX disclosing the existence of any default. That is interesting. They have now admitted serious difficulties, and a share raising, (*Editor: and receivership.*)

The other 18 protested in various ways the strengths of their businesses, and most confirmed that the banking covenants that they had were not those that I had used, but were variations on the theme customised to their circumstances. Most refused to disclose their actual covenants as they were "subject to Confidentiality" One presumes they mean commercial and contractual confidentiality. Some did disclose covenants, and have done so directly – Kirkcaldies, and Fisher and Paykel Appliances.

Mum and dad investors who happily think that their capital notes are a debt instrument with something resembling a debt security, will be surprised to note that all companies issuing such hybrids, and all their bankers consider that such securities are in effect equity (with the exception of Vector whose bonds share securities with the prime lenders.)

A number have completed pre-emptive capital raising, (Allied Farmers, Sky City and Freightways.) Some have affected complete hat tricks by dramatically changing their debt profiles either by driving superior turn-around performance on earnings or by extracting cash out of working capital, (Convita and Hellaby.) Even Allied whose results for the full year 2008 were appalling, looking as though they were on the cusp of default, have significantly improved their half-year earnings.

One, MetLife that was on my default list, is significantly disadvantaged by IFRS which results in the EBITDA significantly understating the true economic performance. The Chairman's letter which followed a meeting between him and me is enlightening in respect of the rest home business and alarming in respect of the deficiencies of IFRS.

Now to the three big themes.

The first is the mismatch between investors and issuers' perception of Corporate bonds, the second is the contractual confidentiality of Bank Covenants, and the final is the idiocy of the International Financial Reporting Standards.

Junk Bonds.

These usually when issued accompanied by a prospectus that fully presents the terms of the issue and the securities and what happens in default. Mostly this document is unread. The theme in the pitch is that mum and dad are buying a bond or even a bank term deposit. Often the interest rates are low and this perversely increases the uptake rate as high returns are now known to be for high risk, and so conversely, low returns must be less risky. Boards happily sell this dream to investors, but they know that they are in reality issuing hybrid equity, and it helps them borrow more from their banks thus increasing the risk to the bond holder and equity owners alike, as the banks also regard such cash from mum and dad as equity. This deception is relatively unique to NZ, and in Australia this type of capital is a statistically insignificant investment class. Here even boarder-line issuers like Provenco take in mum and Dad's money on the understanding that they might one day get it back in cash.

While investors in NZ are dumb enough to buy an equity risk for a low debt return we should not be surprised that these instruments will continue to be offered. The issue is, should we ask the companies' office not to approve any prospectus for such junk unless it is clearly explained that it is a fixed rate equity instrument? At least then, if the punters read the front page they are alerted.

Banking arrangements.

The first issue with this is: should as a matter of public policy bank covenants be allowed to be confidential to borrowers who take money from the public? Debt is a major risk to equity capital and returns and the terms on which debt is provided should in my view always be fully disclosed when such debt is provided to public issuers. If banks or borrowers want confidentiality they should remain private companies, investors in equity deserve to be told of the major risks they are taking. Relying on continuous disclosure doesn't fix the issue, as until the company actually defaults they are not obliged to disclose this risk, and as you will see even when they have defaulted they won't necessarily disclose. If NZX prosecutes this as a breach of disclosure rules, the poor

shareholders will have their equity eroded by a fine, and thus dig a bigger hole for the victims. The whole structure of regulation and penalty really needs to be rethought, the NZSA will be submitting to government on this as well as the issue of NZX's role in regulation.

The second point is: which party is demanding confidentially the listed, companies or the bank? Well we understand it is the banks. So why do the banks want to hide the arrangement they are making with their borrower? Here are a couple of clues. When the market was running hot if a customer disclosed the full terms of its lending, it was an open invitation for another bank to under shoot the terms and steal the business. Another reason is this: if the SME's knew the terms on which listed companies were getting debt and compared this to their own higher-cost borrowing arrangements, the banks would come under pressure. Thus banks desire to hide their arrangements to protect the securities that they demand from the SME market and to avoid being low balled further in the corporate market.

Or maybe they don't want depositors with the bank to truly understand the risks banks are prepared to take with the life savings of the poor old mum and dads again.

In short the corporate banking sector is likely to be as messy as the housing lending market where banks in euphoria lent up to 100% of a houses value. Heaven only knows how stupid they have been prepared to be with the corporate borrowers. In the words of Mark Weldon "Sunlight is the best disinfectant." The banks should release the borrowers from confidentiality and come clean on the risks they are prepared to take on behalf of their depositors.

Financial Reporting Standards

This issue, referred to in the first paragraph, is raised by the accounts of retirement village operators, as compared with the same standards applied to utilities (Vector) and investment companies (Hellabys.) We will never believe that IFRS, predicated on the assumption that one set of rules fits all, is in some way better than meaningful information, thoughtfully compiled by honest directors. But this issue must be left to a later editorial.

If you take the time to read the letters on the NZSA website carefully both as to content and style you will gain an interesting insight into business in NZ, banking, and corporate attitude. This has been a useful and interesting exercise.

Bruce Sheppard

Editor's note: Provenco has just announced its receivership. This justifies Bruce's concern and warnings over high debt levels amongst some listed companies, based on last years reports.

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MEMBERSHIP COMPETITION – PRIZES SPREAD AROUND

The 3 months competition to sign up new members proved to be very successful indeed with 89 new members joining the Association between 1 April and 30 June. The Branch with the greatest % increase on the 1 April member level was Wellington Branch with 16.25% - winning the \$500 prize will help offset their very generous contribution to the cost of hosting the NZSA 2009 annual national conference/AGM. Robert Johnston, an Auckland Branch member since December 2006 took out the Individual prize of \$500 for introducing the most new members during the period. The New Member Lucky Draw made at the Wellington AGM went to Graham Blakeley who joined NZSA in May – he gets a refund of his 2009/10 annual subscription + a bottle of French champagne (maybe he'll join the Auckland Branch now after his lucky strike!). Thanks to everyone who participated in making this a worthwhile effort for the NZSA.

Patrick Flynn

NZX - THE 20 MINUTE RULE – WELDONIA CONCEDES A POINT

One of the enduring issues of conflict that I had kept in reserve for later was the 20 minute delay rule on the publishing on the free to air platform of company announcements.

NZX have historically delayed the publication of announcements from companies for 20 minutes, while allowing those who pay, access to this information real time, thus allowing those who pay, a 20 minute advantage. As NZX has joint (with Sec Com) responsibility for policing insider trading. The anomaly of actually making profit from facilitating some to trade (for 20 minutes) with inside information is simply unacceptable.

The NZSA has written to NZX on this issue a number of times, but perhaps the reply from Simon McArley on the 20th October 2008 is the most enlightening response. The letter purports to justify the delay. Read it for yourself and judge. (www.nzshareholders.co.nz) Search correspondence use key word NZX, you will be surprised at our activity in this area.

Anyway the letter that I drafted to Andrew Harnos (NZX Chair) on the inappropriate role of NZX in regulation, which I did not send to them, but did send to John Key and Bill

English in draft and in confidence, may well have hit its Mark (pun intended,) as NZX has announced that as a result of discussion with market participants they are now going to publish real time.

A section from my letter is set out below.

“Firstly we have the issue of the 20 minute lag. We have written to you about this before, and have received nothing but self serving platitudes in reply. Do you not see the irony, of an organization charged with policing insider trading (along with Sec Com) actually enabling such trading by selling information to people to enable that trade. It is a bit like a crooked policeman sly-grogging in his patch, and turning a blind eye to the drunks he should arrest. Now sure the information is yours, or at least you might argue that, so why should you not have the opportunity to sell it. We could live with this if you did not also have the role of regulator.

The alternative argument is that the information is not yours but the listed companies that gave it to you, and that it is immoral of you to profit from such information. Regardless, you own the NZX website and the communication platform, you have paid for it and it is proper for you to turn a profit from it, but how do you reconcile this to then having the role of policing those who use this information for profit from insider trading. Perhaps this is why you have not to my knowledge ever taken an insider trading case, nor have you to my knowledge announced any serious investigations. Your inaction in this area reinforces the perception.

Then we have the issue of the nature of the disclosures themselves, you post what is given to you and don't look at the content, you consider that to be the company's job, fair enough, but when the annual and half year results only include earnings data and nothing on the balance sheet except book equity, don't you find that your prescribed disclosure is somewhat inadequate? Either you don't know the importance of a balance sheet, which would be alarming, or you do and prefer that that information is preserved in a different data base for separate sale. So what are you, incompetent or corrupt?”

I guess you can see why the NZSA was resistant to sending such a letter, and it underlines the divergence in approach that is now emerging between my style and the NZSA's.

Now ask yourself why the NZX would voluntarily give up something that helps drive nearly half of their revenue voluntarily and why they would do so at this time, coincidence, or response to my and the NZSA pressure.

I think the NZSA can claim a minor victory however the cynic in me tells me that they have not done this without a greater reason. By doing this they have cut away one of our three main arguments to deprive them of the regulation function, the remaining two are just as important, but it does weaken the case for taking regulation off NZX. So ask yourself this, why would NZX give up a revenue spinner to protect what they say is an unprofitable role in regulation? There is another innings to play in this test match.

Bruce Sheppard

THE AGM SEASON IS HERE – ACTION STATIONS!

Yes, it's that time of year when the small (and not so small) shareholder gets that once-a-year opportunity to attend the company AGM, hear the Chairman's annual report and review of financial statements, vote on the appointment of incoming directors, (and with your prompting hear them speak about what relevant skills and experience they bring to the board table,) and vote on the recommendations for directors fee pool increases (are there ever decreases?). It is important that NZSA is seen and heard at these important meetings and your association representatives will be attending in person to represent you and other members, especially where proxies are concerned. Please take the opportunity to speak to other shareholders about the benefits of joining together under the NZSA banner, and make yourselves known at the NZSA member stand if you see one.

Patrick Flynn

THE BEACON AND THE GLOB

The New Zealand Shareholders Association each year gives the Beacon award for outstanding performance, judged against the following criteria:

- Leadership and guidance on corporate practice.
 - Bravery in standing out from the crowd on issues that are controversial and taking stands against the trend on issues of governance, transparency, and individual conduct.
 - Conducting himself/herself in a manner that is a guide to others, ignoring self-interest, and putting the concerns of others to the fore.
 - Behaving in a manner that is respectful of the rights of others and treating the smallest shareholder with the respect of a business owner.
 - Working within the rules and best practice while ensuring fair and equitable outcomes for all.
 - Or such other act as may, from time to time, be identified by the executive board of the New Zealand Shareholders' Association
- Past winners include Ralph Waters, Bryan Gaynor, and last year Bruce Plested of Mainfreight.

The Glob is awarded on the opposite criteria, and is not appreciated by the recipient. Finance companies who issued debentures – Ponzi-like – to mum and dad investors are still on the black list, and directors, regulators and media are still running for cover.

Who do you think deserves these awards in 2009? Email your nominations to Joe, rjturnbull@xtra.co.nz or Howard, howardz@xtra.co.nz. You have to look after yourself, but this is one way you can share your pain and success with others.

Howard Zingel

COMPANY AGMs AND PROXIES

We have already started receiving annual reports from companies and Annual General Meetings have commenced. Most commentators are suggesting that this year will see a difficult reporting season, and an AGM season not without friction.

The CEO of Australian Shareholders Association, Stuart Wilson, has written some important points for his members to consider and these are printed below as they are just as relevant for our members:

Quote: When you receive your annual reports, what do you read first? The Profit and Loss? The management discussion? Or do you read it front to back? This year we are urging our members to start their analysis at the audit statement. In December, auditors at over 400 companies inserted either a qualification or an emphasis of matter to their statement. So it will pay to check if the auditor sees any problems with the figures that are contained in the report, or if there is any uncertainty surrounding the company continuing as a going concern.

When reading annual reports, my eyes are always drawn to graphs, charts and tables. This year, we suspect that some companies will use every trick in the book to make these graphics look flattering, so we are urging members to read them with some scepticism.

In particular, watch out for any missing charts, such as the trend in earnings per share over the years. Also, be careful with the term 'underlying earnings'. This term is meant to better reflect the true operating performance of the company, but in the hands of marketers and investor relations flunkies, underlying earnings has been known to dress up recent results, particularly for use in charts at the front of annual reports.

This year will require a more thorough analysis of the balance sheet too. Debt, in particular, is an area that we will be looking at. In times of financial crisis, it is imperative that companies properly classify their debt as either current or non-current, and explain the nature of, and breaches of, debt covenants. Most companies, however, have acted by now to bring their debt under control.

Valuations are also worthy of closer analysis. There is so much press about falls in property prices — office and commercial in particular — that companies with exposure to these assets will be incurring write downs. Goodwill write-downs, or the absence thereof, will also be on our radar.

Dividends will be another area of interest for members. We know that the bulk of our members rely on dividend income, and this year we have seen pressure on earnings combined with dilution from capital raisings. Therefore we expect dividends to be hit by a double whammy. We want to make sure earnings are being retained rather than paid out as dividends, as companies are doing this for the right reasons. Remuneration will be another critical area to focus on. Unquote

Please don't forget to appoint the Australian Shareholders Association as your proxy holder for your Australian shares, by naming them on your proxy form, signing and posting or faxing to Australia.

In New Zealand on the proxy form

- Appoint the Association by writing NZSA as your proxy holder
- Sign and date the form

- Direct the proxy holder if you wish, or tick the proxy discretion box
- Post the form to the share registry – either Computershare or Link Investor Services – in the envelope provided

Jacquie Staley

NZSA AGM - WELLINGTON - 24 JULY

Thanks to Wellington Branch for a really stimulating and well organised day. It was generally agreed by attendees that taking advantage of the cheap airfares was incredibly good value for money, by comparison with other more expensive annual conferences. The following summaries of our keynote addresses don't do them justice, but may indicate the richness and diversity of the programme.

The Hon Bill English: Towards an ownership society.

The Minister of Finance gave a brief overview of the imbalances left by their predecessors including imbalances between the tradeable sector which shrank by 10% and the non-tradeable (government) sector which had grown by 15%; the binge of debt funded consumption which left government spending at a level 2nd highest in the OECD; mounting deficits caused by spending on social services which would take about 10 years of careful management to clear; and a GDP of about \$50 billion less than forecast which meant \$16 billion less tax to spend on government services.

The government planned to address these problems in a series of pragmatic and practical ways.

1. It had appointed Don Brash to help close the gap between NZ and Australian incomes. Unclear from the minister, was just how the previous governments Task Force on Capital markets would play out with this new appointment.
2. It was overhauling overseas investment approvals, formerly in the hand of the Commission which rejected only 2% of applications although it conducted lengthy and expensive investigations.
3. It was stimulating infrastructure investment in roads, transmission, and broadband.
4. It was revising RMA systems to free up construction and electricity approvals
5. It was revising the emissions trading legislation, to bring it into line with Australian practice.
6. Government policies would be aimed at not increasing taxation, while governments in Europe and America would need to increase taxes to finance the massive cash injections they have made. The working group on tax would recommend simplification and minor changes. Mr English seemed to be under the impression that there had been broad agreement on FDR tax, although it had been suddenly pushed through select committee against a huge number of submissions.

One was left with the feeling that Mr English was placing an awful lot of hope in practical innovative spirit of New Zealanders to get us out of the recession.

Questions centred on the need to separate the regulatory and discipline functions of NZX from the listed company, the funding of our education programmes and Financial Literacy, the emission trading scheme as yet not detailed, and the need for New Zealanders to invest directly in overseas capital markets rather than via PIEs or NZ Funds.

Tim Brown – Preserving investor wealth in difficult times.

Tim has been a popular and speaker to NZSA meetings of recent times, and very supportive of NZSA objectives.

The main point of his address which was well supported by charts and overheads was that investors should take a long view of business. He pointed out that although Infratil aimed to preserve a growth rate of 20% pa, in 15 years of life, 6 years had produced negative growth. He claimed that good companies do not follow the objectives of politicians which are “to stay in power, to do things for the electorate, and to do things for the country,” in that order. Nor do they follow the investment traders who invest for short term return, and play the whims of the market. Investors’ demand for immediate return is not always in their own best interests.

Tim quoted Anthony Bolton, Britain’s best known fund manager:

1. Consult your investment company responsibly and sparingly after considered research. Interaction costs money.
2. Bolton’s large investments demanded regular meetings with management. Take advantage of these opportunities.
3. Always vote your shares.
4. Give clear feedback to the board on its strategies and remuneration.
5. Give advice where appropriate on mergers, acquisitions, divestments, and sales of assets.

Tim claimed that modern accounting rules were confusing and demanded elaboration at company meetings.

He concluded with the story of Infratil’s Snapper ticketing system accepted by Wellington, but refused by ARTA in Auckland, which is now saddled with costs of \$11m in development and tendering, more millions budgeted for implementation, and seems no nearer to achieving what Wellington has been running successfully for two years. Snapper is ready to roll out now at no cost to ARTA or Auckland ratepayers. The fear of on-going licensing costs as a system grows, can be taken too far in this small market.

Oliver Saint: Z Scores

The Z Score ratios were developed by Professor Altman in 1968, to predict bankruptcy or insolvency within 2 years, and are well explained in various papers on the internet. They should therefore be used as a screen for investment targets in the initial stages of investment choice. Oliver took us through the ratios together with the multiplier (weighting) given to each, to arrive at a total Z Score.

The following predictive scores are widely accepted:

Over 3: Company safe; continue with investment choice based on an understanding of the directors, the activity, and the share price.

2.7 to 3: Proceed with caution, and watch the trends in cashflow.

1.8 to 2.7: Avoid because of the high risk of company distress.

Below 1.8: Avoid – the company will disappear.

Members were encouraged to produce their own scores by reference to Credit Guru, ExcelUser, or Wikipedia websites.

Rodney Dickens – Recession and Share investing.

Rodney is a challenging speaker, with a sceptical, and well-researched message concerning economic cycles. Investors should cash up during a time of high economic activity, wait for a recession and then invest fully for the upturn. The question is all about timing and the lead indicators. Business confidence surveys, consumer spending, and labour market data all lag as indicators. The problem is accentuated by Reserve Bank commentaries which tend to have a bob each way on lower household spending, borrowing, savings, and unemployment – all lagging indicators. Bank economists who are employed solely to increase the Bank's public profile, tend to follow the reserve bank, which is often influenced by what the government wants to happen.

The true indicators of recovery are house sales, migration figures and low interest rates. The turning point in New Zealand was a 40% rebound in house building, combined with net migration of 30k, beginning in the latter half of 2009. It results in domestic consumption, and borrowing- not things we support politically, but real indicators of every recovery. The company cycle is always emphatic destocking in response to lower sales and negative sentiment, followed by a drive for efficiency, which in turn is followed by a drive for increased profit during the upturn. So shareholders should be selecting sound companies which have a record of recovery from recessions. And that is exactly what Rodney has done for this, the third recession he has faced.

In the midst of this challenging material all the AGM resolutions were passed without dissent.

Alan Best

COMPANY MEETINGS

PIKE RIVER COAL SPECIAL GM - JUNE 09

The Pike River Coal Special Meeting was a very low key event held in a small room at the Terrace Conference Centre - so small I struggled to find it and arrived just as it started. Gordon Ward (CEO) and an assistant were the only representatives from Pike River Coal - there were no other board members present and only about 15 shareholders.

The purpose of the meeting was to vote to allow NZOG to exercise options from the recent rights issue. Shareholder approval was needed as NZOG is a major shareholder and exercising the options could increase its shareholding. Gordon explained that if NZOG chooses to exercise the rights its shareholding could increase by about 1% depending on whether or not other shareholders did the same.

The vote was a formality and the resolution passed.

After the vote Gordon gave an update on progress and the current market for hard coking coal. Gordon knows the business inside out and gave a great summary of where they are at. Essentially thanks to the Chinese becoming an importer of coking coal the demand is there - it's up to PRC to supply it. The price for coking coal is holding up reasonably at USD 120 per tonne given the current recession. Spot prices were up to 300 USD per tonne last year and PRC's cost is around \$100 NZD a tonne.

Remedial work to fix the collapse of the ventilation shaft was completed in early June and coal production has started. Currently the coal is being mined mechanically but hydro extraction should commence within the next few months. The first shipment of coal is expected to take place in September.

The crunch comes at the end of November as one of the covenants on the Liberty Harbor bonds is that by then hydro extraction must be producing coal at the rate of 67,000 tonnes per month. If this rate has not been achieved then either the terms of the bonds will need to be renegotiated or the bonds repaid (USD 27 Million).

There is still a lot of work to be done to get to 67,000 tonnes per month given it's a new mine with a new workforce and new equipment to be bedded in.

Martin Dowse

KINGFISH AGM – 24 JULY

The share price and net asset value both declined approx 30% for the YE 31 March 09 mainly due to selling pressure on small cap companies in the present market. The share price discount to NAV continues to be substantial and was currently 18% in line with other investment type companies.

The most interesting announcement was the payment of an 8% dividend payable quarterly at 2% of NAV to give shareholders a return of capital at the asset value rate commencing in Sept. This payment would be taxed at the PIE tax rate up to a maximum 30%. Although Kingfish was earning only 4% pa from its investments the balance would be made up from capital distribution. With approximately 48% of shareholders in the Dividend Reinvestment Plan this would have very little effect on cash flow. Approximately 40% of investment type funds in the USA have a permanent minimum distribution policy similar to what Kingfish has adopted. In answer to questions the board stress that this policy would not alter the long term growth objectives of its investment guidelines and merely provides certainty of a regular return for those who require it. The effect on the share price will be interesting.

Noel Thompson

NATIONAL PROPERTY TRUST AGM

When 2 or 3 years ago, St. Laurence bought out the management rights for the National Property Trust (NAP) they soon discovered a breach of covenant, which they tried to fix with the issue of convertible notes. These have now become shares, resulting in reduction of debt level from over 50% to 36 % now.

The manager of NAP (one of the smallest NZX listed property trusts) also inherited one of the (if not the) shortest of all weighted average lease terms across the portfolio with just over 3 years. The property mix (50 % retail & not exactly in prime positions of the most prosperous regions - 27 % office) is not the ideal base for asset realisation & tenant retention in the prevalent economic climate must be another worry. Downward revaluations (so common in this industry these days) led to a net loss after tax of 21.2 million. Kevin Podmore, Chairman of the manager & Managing Director of St. Laurence did not shy away & presented his report firmly, promised to focus on further debt reduction & asset sales (hopefully not forced), & fronted up to questions from the

audience. Sir Selwyn Cushing - who a year earlier had a special NAP meeting ambushed by his son with an organised vote, (according to insiders a retaliatory move for Podmore standing in their way in an unrelated deal,) that defeated an ill-prepared NAP proposal - called the NAP balance sheet a disgrace but later gave NAP a tick for asset sales which Podmore called unexpected, resulting in a good laugh at both ends.

Ted van Arkel (ex-MD Progressive Enterprises/Foodtown, now Restaurant Brands chairman) did not stand for re-election & Kerry Hitchcock (recommended by Sheffield Consultants & proposed by the manager) was elected by show of hands after the revelation of proxies had indicated a clear majority.

Uli Sperber

METHVEN AGM - 28 JULY

The meeting was held in the Owen Glen Building at the University of Auckland Business School and was a first time for many shareholders present, and what a magnificent facility – spectacular modern building with all the latest hi tech features – great facility for students with banks of computers separate from the study rooms. It is worth a visit to see what has been achieved.

Now back to Methven. The new chairman Phil Lough said that although they were pleased with last years result at 3% above the previous year the company was giving guidance for a reduction of 15 to 20% for this year and (20 to 25%) for the first half on last year's results. The UK business in particular was experiencing intense competition, the country in a deep recession with much lower returns. Prospects in Australia were expected to be better. The Commerce Commission was investigating misleading advertising re Satinjet shower water and energy savings. Net debt would be further reduced this year from operational cash flow.

The prospects for Methven were disappointing, but they are operating in a difficult industry, have trimmed costs, pulled back from the USA and are targeting areas where they have expertise. They have a good share of the NZ market and if prospects improve they could surprise on their bold forecasts for the year.

Noel Thompson

TURNERS AND GROWERS AGM – 4 JUNE

A well attended meeting for these times, and for these days not too bad a result.

Chairman Tony Gibbs opened the meeting by reading a statement made at the AGM in 1962 by the then Chairman, the late Sir Harvey Turner on the company's role in the naming and early exporting of Kiwi Fruit from which endeavour they are now totally excluded. He made clear his intention to make vigorous representations to have this exclusion rectified and allow T&G to again participate in a trade which over past years they had been forced to pursue by selling (and very successfully) Kiwi Fruit grown off-shore.

Reverting to the report: 2008 produced a similar profit to 2007 ; Profit in 08 being \$14.1 million co/f \$14.0 million in 07. The Domestic Market Division was up through until the last quarter of the year when demand fell away and a weaker NZ dollar increased the

price of imported products. A low national export crop impinged on Enza pipfruit export returns. Domestic Jazz volumes increased to 720,000 tray cartons; the Pacific Islands Exports Division had a much improved year; the tomato and glasshouse unit had a poor year due mainly to the discovery of a new tomato/potato Psyllid, and the subsequent ban on exports. Enza foods had a better year but was hard hit in the last quarter by cheap imports, particularly from China flooding the market. The Apple orchards in Hastings (purchased in 2007) which made a loss in that year turned a profit in 2008 even though a portion of the orchard was being replanted in new varieties.

The groups total asset position increased by \$45.1 million; asset backing per share stood at \$2.82 (compared to a trading price of \$1.36. A fully imputed dividend of 10 cents per share was paid in April.

RESTAURANT BRANDS AGM – 26 JUNE

NZSA PROXIES: 542,458 votes. In regard to resolution 5 (Increase Directors' Fees) there were 210,000 for and 56,594 against.

Key points:

The resignation of Mr Beck was announced today. According to his bio in the annual report, he has been an executive director of Pencarrow Private Equity Ltd and currently holds a number of other directorships. Mr Beck has been a director of Restaurant Brands for eight years and was a member of the board remuneration committee.

Restaurant Brands rejoins the NZSX50 from next week.

After refusing a proposal for an amendment from a shareholder the resolution for an increase in directors' fees was carried. Mr Isaac, a shareholder, commented that had the amendment been allowed he would have proposed that the directors receive shares to the equivalent value in lieu of directors' fees.

From the annual report only two directors, Mr Arkel and Mr Diab held shares at balance date, 50,000 and 4,000,000 respectively, with Mr Diab continuing to buy since.

Asked about a possible share issue in the next 12 to 24 months, the chair stated that this had not been discussed, and Mr Ellis commented there was very little point at this stage and also gave the currently low share price as a reason against.

Martin Ehrenstein

MAINFREIGHT AGM – 30 JULY

Mainfreight has an excellent Executive Chairman in Bruce Plested, and so I thought it was worthwhile to print in The Scrip, Bruce's bigger picture views for New Zealand, which were printed in the Annual Report as worthwhile food for general thought and discussion.

- What about a four-year electoral period to enable the development of longer term strategies
- Instead of building new prisons let's release enough inmates on a regular basis to accommodate new offenders

- Let's provide free university education for the skilled people we need, ie doctors, scientists, teachers, engineers, if they fulfil certain employment criteria in New Zealand
- Introduce capital gains taxes on sales of property other than the family home
- Lower company tax to 10% or thereabouts. Nothing will boost our economy more than nurturing our businesses. The tax will still be earned by the Government, as dividends are taken
- If we really want a cycle track the length of New Zealand, why not attempt to do it using volunteers, the unemployed, companies or just challenge us to find a way
- Appoint successful young business people to serve on the boards of SOEs, and other Government run organisations. As day follows night, weak boards result in weak management and poor outcomes
- Don't allow local bodies to own majority shareholdings in strategic assets, ie ports, airport, electricity. Much of this monopolistic structure is effectively bound in shackles through incompetent and agenda driven boards.

The meeting was short – with accolades being made as to how well the company has handled the downturn, by focussing on cost control, managing margins and staff foregoing annual salary reviews and bonuses. It is obviously a dedicated and focused team.

Mainfreight's debt has been renegotiated with their bankers Westpac and Commonwealth Bank out to 2012, which gives the company more certainty and the freedom to continue their growth strategies.

A question was asked as to whether the Board had considered overseas directors in view of the company's overseas expansion, or rejuvenating the current team of Directors – but the Chairman assured the meeting that the current Directors had immense experience and the company ensured they understood the global business issues and strategies. All resolutions were passed unanimously.

Although media comment was: "price down on first quarter results," we note from the meeting that "first quarter results will show the environment has been tougher, but trading in July has seen an improvement in volume, especially in Australia and China."

Jacquie Staley

Editors note: Bruce Plested received our Beacon Award last year and continues to impress in leading a growing international freight business in a tough world wide recession.

RYMAN HEALTH AGM - 31 JULY

During a period when public companies directors and funds managers have earned a reputation for serving their own interest before those of their clients, the annual general meeting of a relatively small listed company that caters to the needs of elderly people is almost a somnolent experience. The meeting, held in a function room in one of the company's own retirement complexes on a Friday morning, passed quickly

The Chairman's report:

The Chairman, Dr David Kerr explained that this meeting was on Ryman's 10th anniversary as a listed company, and he had been advised it was the top performing company in the share market. On listing, the company had seven retirement villages, and with the aim of developing two new complexes per year, now has 21. Although, David

Kerr explained, this last financial year had been a challenging one realised profits increased 5% to a record \$53 million. Adding unrealised valuation gains, the reported net profit under IFRS was \$66.1 million – slightly down on the previous year. However, David Kerr emphasised it is the realised or trading profits that are the best indicator of the company's ability to generate cash, dividends and long-term shareholder value. He also emphasised that the company was in a very healthy position with a strong balance sheet, an excellent land bank and a burgeoning need for its services. Dr David Kerr added that dividends are important to the company and paying dividends will continue to be company policy. 49.5% of profit is paid out in dividends and shareholder equity has grown 10%. The three drivers are:

- High occupancy rates
- Better Government funding of aged care – which flows through to paying registered nurses
- Fees reflecting running costs not the capital investment. That is, the company can invest in its own development, and occupancy fees can be kept comparatively low, providing a barrier to competitive entry.

A 35% debt to equity ratio, good capitalisation and high “headroom” with bankers and the addition of a second company banker, CBA, helps position the company as a worthwhile investment.

Longer term an extra 3000 people turn 85 this year, and this number is increasing every year – 30,000 turn 85 over the next ten years.

Ryman has three well-known operating advantages:

- The company's combination of retirement villages and resthome/hospital facilities within each “village” or complex is in line with Government's “community care” model.
- The company's in-house property purchase, design and ownership.
- Quality care – negligent elderly care has come under the spotlight recently.

In his final statement, Dr David Kerr introduced Jo Appleby, new Board member and thanked and complimented his Board, its stability and enthusiasm (and one suspects he was alluding to its vocal passion.)

CEO's Report:

CEO Simon Challies addressed the meeting. Supported by large screen visuals Simon commented about Ryman residents being members and shareholders - and present with us at the meeting. A very valid comment we were to discover later. Ryman's growth was pictured on a map and Simon stated that a couple of the Ryman projects are currently the two largest construction sites in the North Island apart from Auckland's Eden Park. The Ryman occupancy terms are endorsed by Aged Care and Grey Power and will be recommended for consideration for adoption by Government. Mr Challies made the point that lawyers involved in settling in new residents comment on the fairness of the company's terms and conditions.

In summary Simon Challies described the continuing development of current and new complexes, the company's commitment to looking after its residents and reviewing its services (especially in light of concerns about resthome care generally) and the Triple A exercise programme with Les Mills which has proved very popular.

Questions from the Floor

Prior to closing the meeting we were given the customary opportunity to hear questions from the floor. There were only two questions. The first question was from resident and shareholder Mr Hogg, who commented that one aspect of the Ryman Village life was “active retirement” and he was looking forward to and expecting an emphasis on people 65-plus, but his experience was that the company was really targeting 85-plus. Mr Kerr replied that Ryman was effectively obliged to consider all applications for residency without prejudice and as it is their policy to offer all levels of care and thus it was not possible to put an emphasis on any one particular age group.

The company’s experience, however, was that the people in their sixties found they were a generation too young – they were, almost literally, sharing their homes with their parents.

The second question was raised by Norman Roberts, a noticeably elderly gent even amongst shareholders and guests who would never be asked their age at a bottle store! Supporting himself on his zimmer frame he brought up the problem of distinguishing spoken words in the dining room. He said he did look up acoustics for the aged on the Internet, and there was a chuckle from the audience. Mr Simon Challies acknowledged the relevance of the question and confirmed audio loops have been installed in larger rooms as a result of concerns raised by residents and that in certain areas of the complex where an echoing effect was a problem for some residents with a hearing problem a remedy was being sought and was still under investigation. Mr Challies also acknowledged that bringing the issue up at the AGM was pertinent, and he was applauded by those present at the meeting.

It is difficult to find fault with this company. Their conservative but well planned strategy has produced a very successful formula that has seen it recognised as the most successful company listed on the NZ stock exchange.

They have a ready made growing market and they have researched this, learnt the lessons, gained the experience over the past 10 years and developed their business plan accordingly.

Tim Kerr & Max Smith

BRANCH REPORTS

BRANCH CONFERENCE 24 JULY.

After the AGM, Branch delegates gathered for an information sharing conference, which also addressed issues which had emerged over the year. Perennial subjects included the setting of one inclusive subscription to include branch membership, representation of branches in monthly board meetings, development of branch education programmes (especially to include spouses as in Bay of Plenty,) the development of new branches outside the existing five, induction of new chair persons and committee members, promulgation of NZSA views in company meetings, and improvements in the NZSA website.

The board will consider all recommendations and comments. Watch this space for regular news of general branch concerns. Members are encouraged to write to the editor with any suggestions over branch organisation. This is your journal.

AUCKLAND

1. Branch Meeting – 24 June 2009

The meeting was well attended and all present appreciated the presentation given by representatives from Rakon: Bryan Mogridge – Chairman and Justin Malone – Marketing Manager.

The company started 1967 in garage of Robinson family home & is now global leader in design & manufacture of frequency control solutions and componentry with revenue/ebitda in 2008 of 174/25.4 million dollars & expected 139/19.5 m in 2009.

Quartz crystals resulting from chemical process are supplied by contractors from low cost countries & turned into precision components via highly automated processes in Auckland to facilitate global communication connections via satellites within fractions of a second. Rakon is leading supplier to global electronics industry in its segment (applications: personal, precision & emerging GPS, cell phone & other communications).

They focus strongly on research & development to remain a step ahead of rivals, & to enjoy profitable market phase before opposition catches up & mass production/over supply results in lowering price points. Rakon prides itself of a high degree of staff retention & of a pragmatic & unconventional management style & business approach. Whilst their IPO document of 2006 stipulated a no-dividend policy, Brian Mogridge hinted the first dividend might not be far away. Rakon does not deny affects by global recession but - based on above explanations - sees itself in a sound & strong position when world economy recovers.

An informative & entertaining presentation by Brian & Justin, well received by our members.

The guest presentation was followed by the Members' Forum which was hosted by Uli Sperber, John Hawkins and Noel Thompson. The main topic covered was the number of companies raising new equity recently and the related issues concerning:

- a. Dilution of shareholding value
- b. Earnings per share
- c. Differing conditions between the various offers
- d. Demands on companies to raise equity in order to replace debt

2. Education

The response to the courses held recently has been very positive and we are in the fortunate position of having a number of people on a waiting list for the Investing course at Glenfield College,

5th and 12th August followed by Sharemarket Basics on 1st and 8th September. Anyone interested should contact John Hawkins (jhawkins@internet.co.nz) or 478 3198.

Course material is currently being reviewed and refined in preparation for the next series.

3. Company Visits

Monday, 24th August, at 10am Renaissance Corporation will be hosting a visit to their new acquisition, Natcoll a hi-tech educational facility concentrating on cadcam and computer graphics. There is room for 30 members. Uli Sperber or Joe Turnbull will help you with details.

4. Membership Drive Update

There has been a steady flow of new applications for membership thanks to the sterling efforts of members in attracting new people to the Association. We are looking forward to meeting with the new members and sincerely hope they will be attending future Branch meetings.

As part of the new membership programme, John Hawkins has arranged for a 'New Member Greeting Desk' to be set up at each Branch meeting so we can be sure that new arrivals are taken care of and made to feel welcome.

Scheduled Meetings

The next Branch meeting will be held at the Alexandra Park Function Centre on Wednesday 26 August. The guest speaker will be Jonathan Ling, CEO of Fletcher Building.

Ken Cook. – Chairman.

WAIKATO

Congratulations to Bruce Sheppard and the NZSA Board for their stance on company announcements to the NZX. This finally elicited a favourable response from The Securities Commission, if not from the NZX the original target. This type of advocacy and result makes for a compelling reason for all small shareholders to be members of the NZSA.

On 18 June Tim Miles managing director of PGW Wrightson addressed us with the topic "Food, Change, and Opportunities in Agriculture."

Tim gave us an enthused and inspirational talk on his vision for food production relating to New Zealand and PGW's prospects. Tim thought food producers in the next 50 years have the opportunity to be in a "sweet spot" with large world population growth and the developing middle classes in China, India and the Middle East with a desire to consume protein; coupled with the worldwide constraint of limited extra available arable land. New Zealand and South America were seen as having the best prospects for meeting these demands. Aligned with the strong demand is the continuing and increasing price for agricultural products, (not withstanding the recent corrections). An interesting illustration was given of how approximately 50% of our meat is exported to the most supermarket intensive retail environment in the world (i.e. the UK) Not surprisingly Waitrose and the like, have captured a greater proportion of price increases over the years.

Tim was disappointed with the lack of political prominence given to the agricultural sector. For an industry that contributes over 50% of NZ's earnings, the Minister of Agriculture has in recent times been typically low key and even been out of cabinet. Tim made the case for having a soil scientist permanently attached to the Prime-minister's department.

In response to questions Tim said it was extremely unlikely that there would be any merger with Silverstream Farms. With regard to PGW's finance co, it was considered to be relatively secure with the majority of loans made to the agricultural sector which should still be able to service their loans. Tim also made comment that it was going to be extremely difficult for the government to abandon the guaranteed deposit scheme especially in an abrupt manner on the cut-off date. With regard to PGW's own debt they were committed to paying it off as it came due over the next 12 – 18 months. Tim was

personally in favour of a more aggressive approach as he thought there may be more short term buying opportunities for PGW.

The talk unfortunately clashed with Gareth Morgan's latest roadshow but good numbers still attended and members were well rewarded with their choice.

A small contingent (6) from Waikato made the trek to Wellington to attend the National AGM. All enjoyed the full and interesting program. Martin Dowse and his Wellington Committee succeeded in their aim of making the AGM the most exciting event on the NZSA calendar. Thanks for your hospitality and a great day.

Robert Foster

WAIKATO AGM and Dinner

Our Branch AGM and Dinner was another great event, this year held in the Gallagher Room, Waikato Stadium on 21st July.

We were honoured to have Roger Kerr, Executive Director Business Roundtable, as our guest. Roger has spent much of his career working to improve the quality of economic policy debate in NZ. He addressed us with his Topic: Crisis, Recession and Recovery. An enlightening address covered numerous areas of the economy, both domestic and international. Roger gave a balanced view with facts to back up his positions. The address was followed by a number of questions from members, with good discussion following on into the evening!

Alex Eames has stood down as chairman of our Branch upon completing his 3 year term. A presentation was made to Alex at our last committee meeting as he was travelling overseas at the time of our AGM.

Bronwyn Smits, our Activities Convener, has retired from our Committee. Acting Chairman Gary Cave moved a vote of thanks and made a presentation to Bronwyn, thanking her for her work in arranging our speakers and activities.

The current committee has been re elected for the coming year, and will elect the new chair in its first meeting.

John Davies

BAY OF PLENTY

It is business as usual for the BOP branch. The May discussion group meeting was well attended with 37 members discussing bonds, risks and credit ratings. Then in the limited time left, Howard Zingel discussed "Investing Howard's Way".

The June discussion group opened with Bruce Anderson telling the story of his lifetime of investing in a dramatic manner that had better not be described for fear of being misunderstood.

That was followed by a discussion on company insolvency which arose out of Bruce Sheppard's comments in The Scrip. The meeting concluded with a free for all on what members were currently investing in.

On Saturday the 18th of July the branch held a well received two hour educational course:- "Share Investment Basics – Be Prepared," the presenters were Kerry Drumm and Allen Smith. The course focused on the needs of investors' spouses who might suddenly find themselves in control of a portfolio if their partner became incapacitated.

The house full sign went up at 26 (non members welcomed). It was rated a success by all who attended.

The branch is currently looking forward to our AGM when Cameron Watson from ABN AMRO Craigs will be our guest speaker.

Lloyd Christie

WELLINGTON

It was all hands to the plough in Wellington with the AGM on 24 July. The stimulating speakers and the chance to meet the experienced representatives from other branches drew a good crowd from the local branch, and we believe it will provide a boost for our activities in future.

Martin Dowse - Chairman

CANTERBURY

Site visit to Windflow Technology

Geoff Henderson has long been a believer in wind power. He designed a wind turbine and started Windflow Technology Limited in order to build it. On April 7 a group from the Christchurch branch of the Shareholders Association visited the factory to see how he is progressing in turning his dream into reality. The group was given a presentation about Windflow and a tour of the factory.

The Windflow 500 is a medium sized wind turbine, big enough for utility companies but smaller than other turbines designed for utility companies. This is a niche in which the company has little competition. Sheralee MacDonald told the group that the Windflow 500's installation cost per megawatt was less than that for other wind turbines. It has two blades instead of the more usual three.

Given the current concern about global warming, Windflow seems to be in the right place at the right time. Sheralee said that 40 of Windflow's turbines have been installed and the company has orders for approximately another 60. She said that what slows sales is getting resource consents, not the recession. So far, all of Windflow's sales have been within New Zealand, but the turbines could be modified for use in other countries which have strong winds and similar electricity systems. The company has about 50 employees.

The group was given a tour of the factory by Rick Ward, the factory manager. Here the turbines are assembled from parts made mostly in various places around New Zealand, with only around 10% of components being imported. The group saw turbines in different stages of manufacture as they progressed through the factory's several work stations. Some of the technology in the turbines was explained. A torque-limiting gearbox enables the turbines to operate at higher wind speeds than other wind turbines. The blades are designed to teeter back and forth slightly to reduce the load on them.

Mighty River Power has taken a 19.95% share in the company. At the time of our tour Windflow's shares had last traded at \$1.85 compared to a 52-week high \$4.16.

Peter Heffernan

Our next function is a site visit to Lyttelton Port Company on Wednesday, 12th August (details on the NZSA Canterbury web page).

BRANCH CONTACTS

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Wellington	Martin Dowse	martin@dowsemurray.co.nz
Canterbury	Robin Harrison	robin.harrison@canterbury.ac.nz

MEMBER'S ISSUES

FREIGHTWAYS SHARE ISSUE

John Clark wrote:

Yesterday we received a communication indicating that we have been allocated 449 shares at a cost of \$1,095.56. This was after applying for the maximum number of 5,122 shares indicated in the Offer document dated 11th May 2009 costing \$12,497.68.

.....
From the 2008 Annual Report we note that the average number of shares in circulation was shown as being 128,611,000. At \$2.44 per share that indicates a value of \$313,810,840. You raised \$50,000,000 or approximately 15.9% of the existing capital, *(Editor) but the allocation to small shareholders was pitiful.*

Is this fair to your smaller shareholders?

We think NOT.

We believe that you have shown little confidence or consideration for your smaller shareholders who have been disadvantaged by pandering to "The Institutions". Indeed "The Institutions" have profited at our expense.

Why was this offer not made on a proportionate basis to ALL shareholders? This would have ensured equity between all classes of investors.

I presume you may have taken advice from market professionals in devising this Plan. I suggest that you were very poorly advised and one has to wonder why the Plan was weighted so heavily in favour of "The Institutions".

We hope that you will see your way to rectify this injustice.

Editors comment: We have not properly addressed this issue from NZSA Board because we were at the time addressing the debt issue, although we did receive several notes of complaint. We fully support John's view. This is now an issue for the AGM. Shareholders, please make your views known at the meeting in October.

F&P APPLIANCES

Peter Horwood wrote of his concern at the calibre of this company's senior executive staff "allowing some appalling decisions and oversights to occur with tragic consequences to shareholders and staff."

“A culture of greed and nepotism has been allowed to develop giving rise to the financial disaster,” he observed.

With the appointment of new Chinese Directors, Peter hopes that some of these problems will be sorted, but concerns over buying third tier brands in Italy and USA, and buying and not selling off Farmers’ finance business have left a bad taste in the mouths of most investors. Will executive pay at \$13.86 million for 2009 be reduced by at least 5% in the March 2010 accounts, as promised?

Editor’s note: These issues must be canvassed at the annual meeting on 17th August. Lets make it a good turn out for NZSA, with well informed questions for the board.

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