

"The Script"

April/May 2005

The official newsletter of the New Zealand Shareholders' Association Incorporated

NEW ZEALAND EXCHANGE LIMITED

A CONSTITUTIONAL OUTRAGE

If Parliament dictates that the changes in constitutions of listed companies must be approved by their shareholders at general meetings, then the New Zealand Shareholders' Association believes that the law requires exactly that to happen.

Early last year, New Zealand Exchange Limited (NZX), a relatively new company to the exchange lists, decided in its wisdom that it would usurp New Zealand's regulations and enact, on its own, rule changes for the constitutions of all quoted companies. There may be an element of discussion but investors have absolutely no say or knowledge in the ultimate changes and there were no submissions available on the website to inform investors.

The result of the change in Stock Exchange rules is that shareholders have been precluded from voting. In short it is called disenfranchisement, a long word which means, in good Anglo-Saxon English, that our rights have been taken from us.

Why does the Stock Exchange consider this move to be necessary? The reason, in a word, is pragmatism, put more simply – to save money. In the last few years the changes in listing rules that once upon a time occurred no more than twice a decade have been coming out at the rate of bullets from a machine gun. Listed Companies naturally became concerned at the effect that these requirements had on their time and costs; remember that it is now easier to reprint a constitution than amend it clause by clause and provide inserts and amendment notices. Printing costs and time involved was excessive. We have to acknowledge a faint feeling of sympathy for the chairmen who we put on the spot at these meetings. They know only too well that compliance with the NZX listing

rules is a condition of their shares being quoted. They feel they have little they can do for their shareholders; after all it is a cost saving manoeuvre. Privately, chairmen have told us that the Exchange can be a very powerful force and it is not to the benefit of investors that their company be the target of NZX wrath. The power of NZX to be vindictive has already been felt by Spectrum Resources who were obliged, a few short days before forwarding a Notice of Special meeting and appraisal report, to mail to shareholders a 6 monthly report under separate cover. One chairman suggested that those that did not comply with the autopilot changes would be required to have an immediate extraordinary meeting simply to approve any changes in the constitution. Given the Spectrum Resources incident we believe this could happen. However our feeling of sympathy soon vanishes after we remind ourselves of the outrage that has been perpetrated.

We have used the term 'autopilot' to describe this new system but in truth it is very different from the system found on a modern day aeroplane or an ocean-going petrol tanker. Shareholders will be aware of our comments at almost all meetings we attend and we are sorry for the sometimes similar comments that we make although we try to use different techniques to keep the subject topical. We have raised this matter in our last three newsletters; it is now time for us to act. We would like to attend the meeting of NZX armed with as many proxies as possible

If you are a shareholder of NZX please let us have your proxy.

The Annual Meeting of shareholders is being held at the Crowne Plaza Hotel, Albert Street, Auckland on Thursday 9 June at 3.30pm. The Notice of Meeting of shareholders will be sent to shareholders on or around 25 May 2005.

Oliver Saint

PO Box 6310, Wellesley Street, Auckland. Ph (09) 309-9768

Chairman	Bruce Sheppard	bruce@gilsherp.co.nz	Ph (09) 309 5191
Secretary/Treasurer	Chris Curlett	chris.huston@xtra.co.nz	Ph (021) 738 032
Research	Oliver Saint	judenol@ihug.co.nz	Ph (09) 445 1876
Advocacy	Ross Dillon	ross.dillon@gazeburt.co.nz	Ph (09) 303 3764
Communication and Membership	Russell Hodge	rusorjudy@paradise.net.nz	Ph (09) 473 9658
Branches	Malcolm Dunphy	malcolmdunphy@xtra.co.nz	Ph (07) 575 6224
Corporate Liaison	Des Hunt	desdih@xtra.co.nz	Ph (09) 521 6117
Shareholder Education	Graham Wilson	wilspere@ihug.co.nz	Ph (09) 376 7368

UNFINISHED BUSINESS

At a recent Board meeting those of us who were up for reappointment at the forthcoming AGM next month in Hamilton were asked to put together, in not more than 100 words, a brief resume of our credentials, what we have done and how we can continue to contribute to the further development of the Association. When you begin to set down this sort of information you realise that 100 words is inadequate to cover the thoughts that come to mind and the aspirations for the future. I completed what was intended to be a summary of my career for the AGM agenda but there is so much more to say and I want to expand on the comments I will be making during the appropriate resolution at the AGM. In essence what I and my colleagues will be doing at the AGM is no more or less than what we expect every director of a public listed company to do whenever s/he comes up for reappointment to the Board. It matters not a jot that we are not remunerated; fellow members want to know that their interests are being taken care of and that the commitment is still present.

In talking to a member the other day, he said that he was happy to pay annual membership fees because he wanted to see public company Boards being made accountable to their shareholders. He wondered aloud whether we had much more to do now that we had accomplished so much since we were first established. Whilst he was happy to continue to support us, was there really anything more that we could do to improve corporate New Zealand? I was greatly encouraged by his comment but I was also somewhat astonished that he felt we had reached our zenith; there is so much unfinished business.

In an ideal world with continuous disclosure, good corporate governance, good auditing good internal control and total honesty there should come a time when an Association like the NZSA must theoretically become redundant. Sadly we do not live in an ideal world. Our major sin is greed followed by an expectation, certainly in New Zealand, that 'government' will support us if we come to grief. Followed by the belief held by some that if we do not mention our errors and mistakes they will go away. So the short answer to my friend is thank you for the encouragement but there is more to do; I would like to expand this thought.

In our message for 2005, published in the 2004 Christmas newsletter, I indicated that the quality of Boards of listed companies would receive our closer attention. There is no more important item on the agenda for shareholders than the appointment or re-appointment of directors. For too long this resolution has been allowed to gather dust and acceptance of the status quo is taken for granted. With new (well 1993) corporate law in place it is now the only matter that comes up for shareholder consideration each year. We must not let inertia creep into the picture.

There are other important matters that need addressing. We take exception as an Association to another listed company dictating what shall be in the constitution of those listed companies in which we place our money. The law says that if a constitution is changed then that change requires shareholder approval. The New Zealand Stock Exchange (NZX) has, no doubt with the assistance of its legal experts, managed to circumvent this piece of legislation. Please see our notice in this newsletter about the AGM of New Zealand Exchange Limited which is being held in early June. If you are a shareholder of NZX we openly seek your proxy so that we can make our views known in no uncertain manner. We have already communicated our views to the institutions who indemnify directors and their only comment was - thank you for the information.

There are other matters too. We are in the process of offering our assistance to the accounting profession to help them in their efforts to ensure that auditors who certify the accounts of listed companies are seen to be absolutely free from conflict of interest. Our progress in this regard, as with every other matter of importance, is published on our website. This is what you are paying your subscription for. We believe that one person has no show of being taken seriously by either the government or Boards but an Association is a different kettle of fish and if we are competent, diligent, honest and take a reasonable approach we can accomplish much. This is why we need you to retain your membership and encourage your friends to join. Thank you.

Oliver Saint

COMPANIES GOING OFFSHORE TO EXPAND

All too often we read or hear negative comments about companies that fail in their attempts to grow their business via offshore expansion. Institutions, media commentators and small shareholders are typically quick to ask questions like "Why did they take that risk?" and "What were the directors and management thinking to make such a drastic decision?" While such judgments are sometimes overly harsh, there is no arguing with the fact that New Zealand's corporate history is littered with examples of offshore expansions, often involving expensive acquisitions like Air NZ's purchase of Ansett, which have resulted in millions of dollars of shareholders funds being lost.

Currently we have a number of New Zealand companies operating in Australia and beyond. High profile examples include The Warehouse, Michael Hill International, Waste Management, Nuplex, Lion Nathan, Fisher & Paykel, Fletcher Building, GPG, and Telecom. The merits of the offshore expansion paths chosen by all of these companies, and their subsequent track records, have been widely debated and the jury is still out in several cases.

Rather than be negative and drawing the blanket conclusion that local companies should not expand overseas, I feel we should view disappointing overseas forays as valuable learning experiences. Any new venture or acquisition overseas carries a degree of risk; as of course do such activities in the local market. Examining in detail what went wrong in the past seems logical in any attempt to reduce the risks of future offshore activities and to assist in evaluating the feasibility and attractiveness of such opportunities.

After being involved for many years in manufacturing and exporting, I strongly believe that the country's long-term economic health is highly dependent on developing increasing numbers of companies who have the ability to grow their business offshore and compete on world markets. Thus I suggest that investors, whether institutional or private, who harbor concerns about a company operating offshore focus their efforts on making sure that key risks/issues are addressed rather than simply advocating a stay at home at all costs strategy. For the benefit of all concerned, as shareholders we should seek out and support those companies we believe have the competencies and

disciplines to succeed in moving offshore.

The following are some of the reasons I feel companies have not been successful. They are not presented in any particular order:

- a) Inadequate initial research resulting in risks being understated.
- b) Key executives not being involved in the evaluation process.
- c) Too much reliance on outside consultants.
- d) When expansion occurs via acquisition the price paid often makes it difficult to achieve a reasonable return on the investment.
- e) Financial and Management resources are often stretched from day one, which is not conducive to successfully managing major undertakings such as a large offshore acquisition.
- f) Underestimating the time it will take to determine the right product(s) or service(s) to create a competitive position. Even the most similar of markets are likely to differ in ways that can result in research and development and manufacturing resources being stretched to a far greater than first thought.
- g) CEO and other key executives not being involved enough on a day-to-day basis, resulting in important decisions not being made on time.
- h) Inadequate strategic planning on how to achieve the goals set in the new market.
- i) Not recognizing or giving enough weight to the fact that a new entrant to a market will almost always have to work much harder than established local competitors. The longer you take to become established, the more scope for opposition to fight back and perhaps reconfigure their position.

In light of the discussion above, the following list contains a number of important questions I think investors should ask when evaluating a company that is contemplating entering an overseas market.

- a) Does the company have a dominant market position in its local market?
- b) Are the company's existing financial and management resources substantial enough and deployed in a manner that will allow a new market to be successfully opened up, assuming an opportunity exist?
- c) Do the company's expansion goals seem feasible and financially prudent?
- d) Has the target market been researched

carefully by the appropriate members of the management team.

- e) Is the CEO totally committed to the project? They should not be too reliant on consultants, especially where there is a lack of senior management buy-in.
- f) Is it best to make an acquisition or start up a new company?
- g) What type of bridgehead can and needs to be established in order to quickly show the target market that the company is serious and competitive and thus build credibility with various stakeholder groups.
- h) Does the company have the resources to make quick changes to its product(s) or service(s) should they be required to meet the needs and wants of the new marketplace?
- i) Have they correctly calculated selling prices, bearing in mind distribution

margins can vary greatly in each market place?

- j) How sensitive is the company to currency fluctuations?
- k) How capable is the firm of operating profitably should prices come down?
- l) What legal and any other approvals may be required? Some of these can take time, and unanticipated delays can prove very costly and frustrating.

While at first glance the items in this list and the one that preceded it appear very obvious, the track record of New Zealand firms suggests that it is fundamental issues like these that are either being brushed over or completely ignored on a regular basis, by both investors and management alike!

Des Hunt

AGMs

Waste Management N.Z. Tuesday 19 April 2005

The CEO, Kim Ellis gave shareholders a slide presentation of recent developments in Adelaide incorporating:

- 1 the Wingfield Transfer Station
- 2 new state-of-the-art haulage vehicles that have a carrying capacity of 53 tons
- 3 the Inkermann Landfill that embraces a netting system to capture and retain flying debris during the disgorging of truck contents.

The chairman asked for questions after the presentation and there followed a useful dialogue into which the CEO cleverly interposed and sought comments from various members of his management team who had been introduced at the start of the meeting. This is one of the few AGMs where shareholders are allowed to assess and question senior management and full advantage was taken by shareholders.

As the Company had decided to follow the autopilot clause for a new constitution, your representative expressed the now well-known view of this Association that the procedure contemplated was unconstitutional and unlawful. The proxies held for slightly more than 100,000 paled in comparison with the 34 million or so proxies available and as no more than a dozen shareholders elected to raise their hands against the resolution it was not deemed necessary to call for a poll.

There were several interesting questions. An Association member, John Clifford referred to

an article in the April 6 issue of The Independent where it was confirmed by a spokesman for Hon Michael Cullen that CVM (comparative value method) would be introduced into the Budget in May. The proposal was apparently required because of the increasing numbers of New Zealanders slipping through the tax net by opting for offshore-based investments. The shareholder wished to know how this would affect shareholders of companies like Waste Management N.Z. who have large operations overseas. The chairman advised that no details had been presented to him but the position would be investigated and shareholders kept in the picture. Another shareholder asked about the liability for restoration and aftercare once a landfill had been closed. There followed a detailed explanation of site preparation from the rock foundation to drainage and other covers to ensure leachate was collected and the site remained environmentally secure. The possibilities for methane gas collected from sites was also discussed. Kim Ellis was prompted by your representative to mention the recent case of the award to a former driver of the Company for 'bullying'. Brief details were given to shareholders but the order by the Employment Relations Authority was being appealed and he was therefore constrained from further comment. In summary a rewarding meeting made even more acceptable by the stellar performance during the year.

Oliver Saint

BRANCHES

Auckland

On 1 March more than 30 members of the Branch paid a site visit to the Head Office of Sanford Ltd. This was a most interesting and informative occasion and it provided a chance to see the company's new auction system for selling fish, the fish processing area, the retail fish market and the seafood training school. The auction system is used daily so sell fish to the local market. The reserve, is the price that the company can obtain in the overseas market, and this process provides transparency for local wholesale pricing.

CEO Eric Barratt and four divisional heads gave a comprehensive review of the company's operation. This was done with the aid of a very well produced visual presentation. Sanford owns 26.4% of the total New Zealand fish quota. Quota is a valuable asset for the company as it is a legislated property resource. Because of this, the company has a vested interest in sustainability of the country's fishery. Sanford has therefore recently taken the initiative in moves to reduce the size of the Orange Roughy catch. Sustainable development is a major policy for Sanford. Sanford sees itself as a food service company. It aims to get its product onto the white tablecloth sites of the world's restaurants. It strives to obtain the highest green weight return per kilogram of quota. It was therefore interesting to note that valuable Orange Roughy was processed by hand to ensure that the greatest amount of flesh could be obtained.

Quality was a theme that was revisited through the presentation. There is ISO accreditation, an enviable safety record, and great care to preserve bird and mammal life associated with the Antarctic fishing in particular. With no waste thrown to sea, the birds take little interest in the fishing boats! Divisional managers talked about the In Shore, Deep Water, Marine Farming and Pacific Tuna operations. This is a company with a large capital investment and a significant overseas operation in Australia and Argentina. It has extensive overseas markets in The Americas, Asia, Europe and Australia. The share price is closely correlated with the \$NZ vs. \$US.

At the conclusion, we were treated to delicious seafood sampling which had been prepared on site. Thanks to Eric Barrat and

his team for their efforts in making this such a satisfying visit. It was good to have had an insight into a company that is making such an important contribution to our export economy and which is the longest time listed company currently trading on NZX.

At a Branch Meeting on 13 April, over 80 members listened to a fascinating address from Ralph Norris, CEO of Air New Zealand. He predicted a strong future for the Company in a local niche market and in regional hubs, but there will be some very large mergers in the next ten years, including amongst low cost carriers.

About 40 members are looking forward to travelling by bus to visit Northport and NZ Refining Co on 17 and 18 May respectively, with an overnight stay at the Settlers Hotel in Whangarei.

The speaker at this week's Branch Meeting is Ann Sherry, CEO of Westpac NZ.
Bryan Trenwith

Bay of Plenty

Four of our members joined the Waikato Branch in their recent visit to Innovation Park, Hamilton. Thanks Waikato; net - working knowledge and contacts - this is a huge plus which members tap into if they so please. Those who have, not only help the Association's credibility, but give themselves insight into opportunities; some of which have be stunning.

With two bottles of wine up for grabs the "share pick competition" has received a good amount of interest - NZOG, RMG and GPG as always have been the favourites. Many members are canny and have picked the gearing of warrants or options or penny dreadfuls. This wasn't quite the response that was sought but they are within the rules - next year there maybe a ten dollar fine for the worst pick and that may change the flavour of choices.

Comvita asked the Branch to scrutineer the election of new directors at their recent AGM; three nominees for only two places. So it was important that we did a good job and we did. One of the existing directors seeking re-election was not successful. Comvita missed their 2004 prospectus forecast but they have been almost forgiven, largely because they communicate well with

stake holders. And it wasn't too bad and they paid the dividend they promised.

Balance Agri-Nutrients have agreed to host a company visit in July, and von Dadelszen & Co, one of our local sharebroking firms, have agreed to provide a lead speaker to our May discussion group, the topic being "what are your investment criteria".

Howard Zingel

Canterbury

A second Education Day was held on 9 April at the Cashmere Club with about a dozen attendees. The first AGM of the Branch is scheduled for 9 May at 7.30 pm in the Library of the Cashmere Club. At the conclusion of business there will be a talk by Mr. Rick Hellings, the CEO of Smiths City Group.

The committee is finalising details of a branch visit to Mooring Systems tentatively set for 15 June and another one to Skellerup Industries in July.

The Branch will also be representing the NZSA at the AGM's of Trans Tasman Ltd and NZ Oil Refineries.

We have had some Bookmarks printed which we intend distributing at any Company AGMs being held in Christchurch with the prior approval of the company of course. We hope by doing this to make the investing public more aware of our presence and thus possibly recruit more members.

Richie Mein

Waikato

Committee meetings have been held monthly this year since February. The committee has been pleased to see membership increase and recognises the challenge we have to provide a programme to please and satisfy all our members.

In February we visited the offices of ABN AMRO Craigs to hear the sharebrokers explain how they handled the deals they made on our behalf. We were shown the enormous amount of information that is available to them at the touch of a mouse – after their digestion of the data they can provide clients with the best research and advice.

In April we visited Innovation Park, which is sited in the grounds of the Ruakura Research Establishment. The building houses many embryonic companies who use the resources at the Park to go from pure research into commercial reality. An interesting visit, where we learnt about 'Angels' and were given a very positive promotion of the organisation at the Park, related to the wealth of research carried out at the Waikato University and at Ruakura. We were informed that there were plenty of angels in the Waikato, but we would be welcome as new ones.

The committee received a visit in March from Howard Zingel of the Bay of Plenty Branch, and both branches benefited from swapping ideas and the consideration of successful activities.

We are pleased and excited to be asked to stage the 2005 national AGM for the New Zealand Shareholders Association.

Alex Eames

Wellington

On 15 March the Wellington Branch held its first meeting for the year. The highlight was the guest speaker Anthony Tyne, an investment professional with significant experience in the New Zealand equity market. Anthony talked candidly about investing in stocks with a particular focus on how to select stocks and how to make the crucial decision of when to sell them.

The Wellington Committee will be meeting on 3 May to organise the next Branch meeting, which will be the AGM for the election of the Committee. If anyone is interested in being nominated for the Committee can they please contact me on 04 495 5171.

Look forward to seeing you all at the next Committee meeting.

Ray Jack

Wellington Secretary

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Institute of Chartered Accountants
27-33 Ohinerau St, Remuera

Whangarei

Saturday 9 July 2005
Starting in the Sharemarket 9.00–12.00
Investing in Shares 1.00 – 4.30
Northland Polytechnic

Wellington

Wednesday 20 July 2005
Starting in the Sharemarket
Saturday 23 July 2005
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Tutor: Graham Wilson, NZSA Director of Investment Education
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