

"The Script"

«Merge Record #» The official newsletter of the New Zealand Shareholders' Association Incorporated

June 2001

Ross Dillon - Advocacy

Ross has been an enthusiastic supporter of the principles embodied in the Association and agreed to accept vacant position on the board.

Ross is a partner in an Auckland based legal practice specialising in commercial litigation. With his extensive experience in commercial litigation he will be invaluable in the Advocacy role. ■

Your Board

Bruce Shepherd	Chairman
James Cornell	Membership
Chris Curlett	Vice-Chairman/ treasurer
Oliver Saint	Research
Ross Dillon	Advocacy

Contact Phone Numbers

The Associations contact numbers are:

Phone	+64-9-3095191
Postal	PO Box 6310, Auckland. New Zealand.
Web	www.nzshareholders.co.nz

Chairman's Comment

Our association is now 2 months old. We have, at the date of writing this piece, 135 members and rising steadily. Help is still needed in all aspects of our association, however the next step is the establishment of branches. **If you have an interest in establishing a branch in your locality**, please contact Chris Curlett and he will arrange to send you details of all members in your area so that you may make contact with them.

To obtain value from our association, the best way is continuing involvement with the association and its members. We encourage you to become actively involved.

We have also commenced the development of policy statements on issues that affect our members. The first such policy statement is on the issue of management share options. This will be published on our web site. Your feedback would be welcomed. ■

Montana

You will all be aware of the takeover battle between Lion Nathan and Allied Domecq for this Company. At the time of writing, the independent directors, who have been charged with setting the penalty to be imposed on Lion Nathan, have been asked by the Stock Exchange to refrain from providing a progress report on their deliberations.

Your Association must await developments but there is one comment that may be made now and that is the present Stock Exchange rules dealing with this method of penalty in a takeover activity ..

Montana (cont.)

... are unlikely ever to work. It is simply not acceptable for a Stock Exchange panel to make judgement in a case and then leave penalties to be dealt with by independent directors of the Target Company. There are no independent directors without a conflict of interest and this would probably be the case with similar situations. We think the Exchange has belatedly realised how impossible the task will be for the directors of Montana, given their conflict. It will be intriguing to see how the impasse will be resolved.

There is no need for other listed companies to go through the same hoop as Montana Group. Montana is an extremely well managed company whose operations are being sidetracked by unnecessary pressures. The rules should be changed without delay. ■

Issues - CDL Hotels - AGM

Profit over the last 5 years has shown a steady decline. Management sought to address this, but the plans had not been fully explained. In addition CDL proposed to pay a subvention payment to its parent company and the details of this were inadequately disclosed.

These issues were taken to management in correspondence, and by way of shareholders initiatives that attempted to make directors fees contingent upon profit. We also discussed the company's lackluster performance, and the director's plans to remedy it. As a result of the association's initiatives, at the annual general meeting, the board openly discussed the business of the company, and willingly answered all questions satisfactorily. The subvention payment, while inadequately disclosed, clearly delivered a \$3million benefit to shareholders, the equivalent of 1c per share. In subsequent discussions the company has confirmed they have no plans for any further subvention payments, and that they are anticipating an improvement of profitability in the current year. ■

Issues - Air New Zealand - Options for management

Air New Zealand has granted a significant number of options to its key management. The total number of options created under the programme is just under 2%, and the options were issued on an 'in the money' basis and the strike price does not adjust over time for the cost of capital. Both these features are considered inappropriate. We have written to the company expressing our views on their option programme, and asking a number of questions in respect of the issue.

Be that as it may, Air New Zealand's position is clearly dire, and it not of current management's making. On this basis there may well be compelling commercial reasons for the options creation and the commercial settlement reached between the company and management. ■

Issues - Telecom

We have written to Telecom regarding the private placement of capital at \$5.50 per share, being a discount to the then market price. While we understand the convenience of fast private placement versus a cash issue, we have asked Telecom to clarify its capital management policy into the future. ■

Issues - The Warehouse

The Warehouse has just announced an option programme for its executives. While the programme appears fair on the basis of calculation of strike price, and the adjustment of that strike price over time based on the cost of capital, the programme is generous, and on balance, in our view, considered inappropriate. The Warehouse is one of New Zealand's most successful company's generating robust cash flow's, and it has sufficient capital resources for its expansion objectives. On this basis it is more than capable of meeting cash remuneration and incentive programs rather than diluting shareholders interests through options.

We have written to the company expressing our views and asking the company for its rationale behind this programme. ■