

SCORECARD FROM CHAIRMAN BRUCE

As the year draws to a close it is opportune to wish you all the very best for the festive season, and you can reflect with some pride on the achievements of the NZSA of which all of us are all a part.

Not all of our achievements are as "high profile" as in the past, and interestingly the quiet achievements are far more important. It is time to tell you about some of them:

- 1 Sir Dryden Spring finally decided to give up on voting ADR derived proxies. While in itself significant, what was more significant is that he talked to shareholders about the issue (other than us, as he knew our view already) and then acted on what he found. Board engagement with shareholders in this manner is a major step in the right direction.
- 2 We clarified with NZX the voting arrangements on undirected proxies granted to the Board. In the past undirected proxies were voted by some Boards on all issues including issues of self-interest. Our complaints resulted in an effective ruling on this issue that has clarified for all companies that voting undirected proxies on matters of self-interest is prohibited under the Listing Rules. I am sure you have all been to AGMs where the Board proxies made the meeting an irrelevancy for those that bothered to attend. This very minor achievement has moved the balance. (See later)
- 3 We also clarified with NZX the Listing Rules as they relate to Directors' fees.

Again, through a successfully upheld complaint. In the past some companies rewarded their directors by paying fees through subsidiary companies over and above the amount approved by shareholders in the parent company. This cannot happen again. Shareholders must approve all fees.

- 4 Our past Glob winner, Phil Pryke is a reformed man. In a first for NZ if not for the world a major company has engaged with small shareholders (through the NZSA) prior to announcing a major move on governance. Further they listened to our concerns and changed the proposed resolutions twice in response to our concerns. In both cases the changes were significant and required the Board of Contact to go to considerable lengths to accommodate our needs. This they did willingly. The result of this you should read about on 16 of December 2003, and what you see should be seen as a gratification of previous efforts as the proposals are very firmly what we have been advocating for some time.
- 5 Without any further prodding from us a number of major public companies have given up on retirement allowances in one way or another. Graeme Bulling, a member should now see his efforts vindicated, the tide on this issue has now turned. As a reminder, Restaurant Brands was the first company to abolish retirement allowances, and Graeme Bulling was the first and only NZ shareholder to have his initiative passed by a public company.

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6 Despite resistance from Auditors, the push to impose upon them a regime of External Audit only is gaining momentum. It is fundamental to the confidence of all shareholders and therefore the share market that shareholders can believe the numbers. Confidence in this can only occur if Auditors are and are seen to be independent. They can in our view only satisfy this if they do nothing for their client companies but Audit. Through numerous speaking engagements, I am canvassing boards, CEO's and regulators on the newest issue which is external auditors also engaging as internal auditors. The vast majority see this as a non-starter. So market forces may over time force those ever-hungry auditors back into their very important role.

Again you will find two membership applications forms enclosed with this Newsletter. I hope that you will find the time to talk to your family and friends about your involvement with the NZSA and encourage others to join. We are now well over 500 members, and the target is 700. Numbers are important for credibility with regulators, and as you will have seen over the last week or so, there are a number of deficiencies in our laws that need addressing. Lobby groups have greater strength in numbers.

We are delighted that a group of members in the Waikato have decided to form the 4th branch of the Association

Have a great Xmas and a Happy New Year.

THE INTERNAL AUDITOR

Members may have noticed comment in the press recently about this feature of corporate governance and I thought it timely for a summary of the problem to assist members since the subject is rarely mentioned in the annual reports of listed companies.

In very large companies or companies whose business covers the receipt, counting and banking of large amounts of cash, an internal audit division will usually be created and staff will be employed by the company to undertake this work.

Internal audit operations involve the preparation and checking of systems to deal with the safe collection and placement of assets – usually cash. The idea is to ensure that those involved in these transactions carry out their duties in a safe manner without being given the opportunity for temptation. A complication in recent years has been the widening of the internal audit field to incorporate risk management responsibilities. The leader of the internal audit section should be responsible directly to the CEO and will be able to have free and direct access to the chairman of the audit committee of the Board. This incidentally is one reason why the CEO and chairman of a Board should never be the same person.

The external (or statutory) auditor will be keenly interested in the operations of this department as it will probably save the external auditor much tedious work. It may

not necessarily reduce work but it will certainly redirect attention to other areas of the audit. Whilst it is perfectly reasonable for the statutory auditor to separately recommend and set up systems it is not appropriate that statutory audit staff be engaged to carry out the operating features of the work. The auditor would then be in a position of self checking work which immediately raises conflicts.

There are occasions when a company, rather than setting up its own internal audit division, will tender for outside consultants to carry out this work. We have read in one New Zealand annual report that the statutory auditor has been appointed to do internal audit work. We have strong views on this point and our correspondence with The Warehouse Group and the Institute of Chartered Accountants of New Zealand, which are on our website, explain our position. There are only exceptional instances where it would be possible for the statutory auditor to carry out internal audit work and for the sake of any conflict arising, a general prohibition seems desirable. In contrast to the example shown above, NGC Holdings advise that their Audit Related Services Protocol considerably restricts the level of other consultancy services that the incumbent external auditor can carry out. The company appointed Ernst & Young (not the statutory auditor) to manage NGC's internal audit programme.

Oliver Saint

AGMs

Auckland International Airport

The AGM held on 19 November was well attended, if uneventful. In view of the number of proxies held on behalf of members, a short summary is appropriate. The new CEO provided a competent resume and his and the chairman's address are on the AIA website. Question time came at the end of the meeting and we hope this item will find its way further up the agenda in future years. There were five excellent questions. The first was who calls the shots on the possible entry of Virgin Blue. The answer was that Auckland Airport is responsible for satisfying the needs of new airlines. On capacity, there is plenty at Auckland Airport so based on these criteria there is no problem. The second and fourth questions related to waste disposal and the meeting was advised that two proposals involving the use of steam to sterilize the waste were being evaluated, this would take time but plans should be finalised next year. Margaret Crozier of Greenpeace congratulated the company and confirmed that their organisation was being kept in the picture. The sterilized waste would be sent to tips after being treated. The third question related to foreign currency exposure and the chairman confirmed that as billing was in New Zealand dollars there were few forex transactions. Finally the involvement of Infratil in the development of Whenuapai airport was mentioned. Clearly the company was unable to give any definitive answer to this question.

Oliver Saint

Cavalier Corporation

The AGM was held on 5 November but there were no fireworks! Your representative attended the last meeting chaired by Tony Timpson before Alan James takes the chair next year. In contrast to many meetings the chairman announced in detail the proxies given as well as the percentage of those that directed the chair for and against and the percentage of undirected proxies that he would not vote on Directors' remuneration, advising that a summary of this information was available for viewing on the way out. Also moved and seconded were the minutes of the last AGM, another rare

departure from the norm for listed companies.

The Company is on budget for the first 4 months of the current year with profits 10% up on a comparable basis. Earnings before interest and taxes are budgeted for \$33.4 million in the current year, an increase of 10% over the previous figure. The Company is having discussions with interested parties on the Microbial technologies and, responding to a shareholder, advised that a result would be available in, hopefully, both their lifetimes.

Oliver Saint

Hallenstein Glasson

I had met with the Chairman prior to the meeting and pointed out that while the company was maintaining what it had well, its earnings were like watching paint dry. I challenged them to come forward with a business strategy that could excite shareholders. The answer was "watch this space".

The meeting itself had a number of interesting twists. The first was the approval of a modest \$10k increase in director's fees. Conceptually the NZSA had no problem with this. We noted that at the start of the meeting the Board had 1.9m proxies. **Interesting that none of the major shareholders are likely to have bothered to attend this company's meeting or send in a proxy.** We had 120k proxies, and there were about 25 shareholders present. I pointed out to the Board that they could not vote their own shares or any undirected proxies on this issue and observed that this was the first meeting I had ever been to that the shareholders on the floor would have an effective say on this issue. Oliver Saint offered the meeting the opportunity for a poll on the issue but on balance was happier with the results of a show of hands, thus empowering those present. I pointed out that I was comfortable with the increase but even more comfortable that for once shareholders appeared to have the power to deprive the Directors of an increase if it was their wish. The Directors got their increase, and it was interesting to watch the Auditors counting the hands as they went in the air, prior to

the chairman declaring the result. It was unanimously carried but that was not the point.

The second significant challenge from the floor was a request for Board reform and rejuvenation. A number of shareholders male and female, including our own Coralie Van Camp noted that the Board was entirely male whereas the company's customers, including those of the menswear chain are predominantly women. The challenge was to appoint an appropriate woman director. After the meeting I raised the point again with the CFO who said, "watch this space".

So we are watching for the grand plan and the rejuvenation and feminisation of the Board.

Bruce Sheppard

Hellaby Holdings

Predictably this company's AGM was a low key affair, as you would expect from a happy bunch of shareholders with their Board on the back of a top performance.

Interestingly however, I took the opportunity to canvass the Board on the role of Auditors. The Board's view was that internal auditing was an internal process separate from external auditing and this was the Chairman's personal view also. Most Board members sit on a number of Boards, so this admission is significant.

I also noted that the Auditors were paid \$50k for "other Assurance". Hence the question on internal audit. In fact this payment was to check the appropriateness of a new financial reporting package. I pointed out to the Board that this creates an apparent problem in that the auditors will then be checking the results of a system that they have in turn recommended, which might compromise their opinion on the reporting deficiencies from the very same system. It was like watching a penny drop. Almost instantly the entire board saw the point and that this was in all likelihood inappropriate. Mr. Falconer comforted the meeting by confirming that the money was well spent, as they did not proceed with the installation. I doubt however that the Auditors will get a similar engagement in future.

Bruce Sheppard

Nuplex

The AGM was held in Auckland on 31 October. In view of the unfortunate due diligence problems with an acquisition two years ago resulting in the sale of the operations acquired and a substantial loss taken on the accounts, Des Hunt and Oliver Saint arranged a meeting with John Hirst and Graeme Storey a couple of days before the AGM. We accepted the assurances given at the meeting that the matters were taken seriously and the company had these two areas under control.

The minutes of the meeting may be found on the company website www.nuplex.co.nz (incidentally, one of the few listed companies that undertakes this valuable service for shareholders) and the statements by the chairman and CEO may also be downloaded. The chairman in his statement and during response to questions did not give shareholders an indication of the extent of the environmental problems and your representative towards the end of question time decided to give a brief resume of his findings during a visit to the ARC offices.

Oliver Saint

Sky City

The 2003 AGM was held at the Sky City Casino, Hamilton on Thursday 30 October, with over 550 shareholders present. Question time had the usual simple questions such as a coat hook was needed on the back of the door in the disabled person's toilet at the Auckland Casino. In response to a shareholder question, the Chairman said that the proposed smoke free legislation was of no real concern as the Group was already heading in that direction as currently over 50% of their facilities had smoke free areas.

The Chairman announced a 2 for 1 bonus issue and as expected, this was well received. He also announced that Sir Dryden Spring had been invited to the Board as an additional Director. A shareholder questioned as to why a director, Elmar Tolme, ex NZ Post, who had moved to London, was still on the Board. The directors felt that a London based director had its advantages for the Group. After all the Group has a 33.3% interest in Canbet, an internet betting company, which had moved its base from Canberra to England.

On behalf of our Association, and being a local shareholder in Sky, I questioned the wisdom of the Board employing the same Auditor to carry out their internal as well as the external Auditor duties. I told the meeting that the directors had made a wrong decision. The Chairman responded that the directors had carefully considered this issue and undertook to review this situation again this year. I also said to the meeting that I considered that the Directors should abolish their policy of paying retirement allowance following the lead by other prominent listed Companies. (The most recent example being Infratil who had announced they were to abolish that practice, and NGC Holdings also announced they were abolishing that policy) In response, the Chairman advised the meeting that they would review this policy during the year.

In response to my further question, he said that they were not granting any further share options to non executive Directors. As an Association, it is up to us to pursue these issues during the year to ensure a successful outcome.

After the meeting, the Chairman told me personally it was the first time we had officially attended their meeting and that he personally did not agree with our approach, not at this meeting, but in general. He was of the view we needed to be more professional. Yet another director commended me and our Association in what we were endeavoring to achieve.

Ken Winton

Telecom

The Telecom AGM on 9 October has had wide publicity. Held in Auckland for the first time, the Association had a strong presence at the meeting, and our representatives were allowed a good hearing, including considerable dialogue with the chairman beforehand. However, despite the best efforts of our speakers, particularly those of Ross Dillon and Oliver Saint, we failed to prevent the unwarranted increase in director's fees, the granting of options to the CEO, and the appointment of Lindsay Pyne to the Board. A significant development at the meeting was the vocal and voting support for our

position from a couple of institutions, and there are ongoing discussions about the Pyne appointment.

Russell Hodge

The Warehouse Group

Your representative was able to respond to the reply to our letter on the internal auditor situation at the AGM of the Company held at the Ellerslie Convention Centre, Auckland on Friday 28 November. A general comment on this subject is outlined elsewhere in this newsletter and the current position may be viewed on our Website. In summary, whilst the Company is comfortable with the present situation we must agree to disagree. However we know that their corporate governance procedures are excellent and there is no doubt that the situation will be reviewed regularly.

There were a number of important questions which brought forth a degree of clear response that is often missing from dialogue at AGMs. One shareholder asked about jewellery sales. The response was that their initial expectations had been higher than they have experienced to date. However the position would be clearer after the Christmas period which is traditionally the time when most jewellery is sold. Other questions covered:-

- A comment that the company was an equal opportunity organisation and yet the list of top management and the composition of the Board rather belied this in relation to the appointment of women.
- The sales volatility in the Australian operations which had previously been mentioned by Mr Tindall in his address.
- The difference between non executive and independent director which was covered on page 26 of the annual report and the large number of the Board – now 10.

Further comment was made on the conflicts that the statutory auditor may have to address.

Oliver Saint

AGM VENUES

The latest annual general meeting of Tourism Holdings which was held in Queenstown reminds us that there are numerous reasons for holding meetings away from the major cities of New Zealand; not all of them may have the interests of the shareholder firmly in focus. However, in the case of THL we are sure the wish to show off its main centre of operations was paramount and will have provided the Board of the company and shareholders with first hand information on the capabilities of its businesses in that area. For the Association, it presents a challenge in the form of finding an appropriate proxy for our members. We were glad to receive confirmation from a Board member of THL that our representative put our case on directors' retirement and the num-

bers of Board members most eloquently and we thank Cliff Broad, a Queenstown member, for his efforts.

The main purpose of this piece is to seek from any members who live in the more remote larger towns of New Zealand an indication of interest in becoming an Association representative at meetings in the area. Please contact us so that we may place you on our list of members willing to act as our representative at meetings of listed companies. The job, which is unpaid, requires a willingness to speak in public and to write a short piece for our newsletter if there are matters of interest that may be shared with other members.

Oliver Saint

INVESTOR EDUCATION

The Association will be offering shareholder education in 2004. Our Director of Shareholder Education, Graham Wilson, a qualified investment analyst and presenter, is offering Investing in Shares" courses through selected community colleges in Terms 1 and 4 of 2004. Locations are Aorere Outreach, Rutherford High School, Kelston Girls High, Glenfield College, Takapuna Grammar, Edgewater College, and East City

Community College. Over two evenings, those interested can learn useful tools for share investing, such as risks and returns, some ways of analysing shares, buying and selling, scams and success stories to learn from. Later in the year we plan to roll this education programme out nationally in partnership with others. More about this later.

Enquiries to Graham Wilson
Ph 0274 767 368

BRANCHES

Auckland Branch

There was a good turnout of members to the October branch meeting, which was a workshop conducted by members Des Hunt and Noel Thompson. They presented their method of analyzing company performance, using a number of companies as examples, and this was very well received by the audience.

About 30 members of the branch visited to Restaurant Brands New Zealand Ltd. The initial financial briefing was held in the Sinclair Room of the Quay West Hotel. The meeting started in a convivial manner with coffee tasting overseen by members of Starbucks Queen St branch. CFO Grant Ellis

presented the financial details. He outlined the figures behind the recently presented half yearly report.

Vicki Salmon gave an overview of the company using material that had been recently presented to analysts after the half year result. She stated that the outlook for the company is positive with an improving performance over all brands. She believes that there should be a better share performance in the future. Although AMP holds a 10% holding there is no great institutional interest in the company and no fundamental cornerstone holding.

Following the briefing members visited the KFC and Pizza Hut outlet in Quay St. The efficient operation of these fast food stores

was demonstrated. The staff were welcoming and in particular KFC Area manager Rex Radford explained the behind the counter workings of his business in a competent way.

Over 90 members and visitors attended the December branch meeting, which was addressed by Brian Gaynor who updated his last year's theme of 'Stars and Dogs' of the New Zealand Share market.

He stated that this year the number of 'Star' companies was the greatest he had known in his 27-year association with the New Zealand Share market. In his opinion the key ingredients of a successful company were

- 1 People. The quality of management was paramount
- 2 Immunity to severe business competition
- 3 Sticking to the knitting. He suggested that shareholders should diversify if they wished rather than the company doing it for them.

Brian's present list of 'Stars' is Auckland International Airport, Sky City, Sky Television, Ports of Auckland, Port of Tauranga, Michael Hill International, Fisher and Paykel Appliances and the new addition, Fletcher Building. Knocking at the door of Star Status were Contact Energy, Cavalier Carpets and Infratil. Also worthy of favourable mention were Metropolitan Life Care and Ryman Healthcare. Omitted from this year's list was the Warehouse as a result of its difficulties in Australia. The Dogs were Transtasman Properties, Fletcher Challenge Forests, AFFCO and Tower. In addition all companies subject to the Unit Trusts Act were in the Dog group. Heading for the dog pound were Telecom, Restaurant Brands and Pacific Retail. However as a result of the buy in by Toll Holdings Tranzrail had escaped from the Dogs list

Brian warned that the quality of the star companies was recognised in their price, and that some caution would be required particularly with those companies whose share price was dependent on the continued level of activity in the building market.

The branch now has over 150 active members, which will necessitate a shift to a larger meeting venue during 2004. The first meeting of the year is on Thursday 12 February, when the speaker is the Hon Lianne Dalziel, Minister of Commerce.

Bryan Trenwith

Tauranga Branch

Our activities have slowed as the end of the year approaches. We held our last committee meeting on 13 November and look to our final event of the year, our Xmas luncheon on 4 December which will feature an address from Craig Greenlees, chairman of Zespri. Kerry Drumm will take over the secretarial responsibilities of the branch in the New Year.

Branch members welcomed news of the establishment in early November of the new branch in Hamilton. It is hoped that we may have the opportunity to share company visits with our new colleagues in the future, as Waikato has probably a wider range of important industries than we have available in Tauranga, and we have exhausted most of these over the past 2 years.

We take the opportunity to celebrate the significant achievements of NZSA during 2003 and the marked improvement in corporate governance which has resulted. The training programs scheduled for 2004 under the guidance of Graham Wilson are eagerly anticipated.

We extend season's greetings and good wishes to all of our NZSA colleagues throughout the extending branch network and look forward to more progress in 2004.
Malcolm Dunphy

Waikato Branch

After a most enlightening and entertaining presentation by Bruce Sheppard at the Hamilton Club early in November, an enthusiastic group of people took up Bruce's challenge to form a Waikato Branch. Two weeks later, we met and shared ideas on how to promote the branch. The decision was made to organise another guest speaker, such as Brian Gaynor or Oliver Saint, to address a meeting in March. It was decided that the March meeting would also be an appropriate time to hold an AGM and invite others to join the committee. Committee positions will be formalised at this meeting. Ideas for future activities for the Waikato branch included organising site visits to AFFCO, Vertex, Kinleith and Port of Tauranga – the latter being in conjunction with the Tauranga Branch. We are also keen to tap into events organised by the Auckland Branch. The committee is to meet again at end of January to organise promotion of March meeting once details are finalised.

The branch already has close to 20 paid up members, and other NZSA members in the Waikato should contact me for more information.

Pam Freeman
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Wellington Branch

The last few months have been a period of consolidation and planning for the Wellington Branch. An action packed campaign for 2004 has resulted from this process, including proposed visits to Steel & Tube, Tower, Kirkcaldie & Stains and TranzRail. We encourage members to go on the company visits as they can lead to valuable insights into corporate governance and even the possibility of discovering a good investment opportunity. We are also planning a series of presentations on Investor Psychology, Taxation, and Technical

Analysis. Our next Branch Meeting is planned for late January 2004 and we expect to be able to provide full details of the plan at this time. Details of the meeting will be mailed or posted to all Wellington members shortly.

Ashley Chan, one of our hardest working members, announced last month that he had accepted a new role with Mighty River Power Ltd in Auckland. We would like to take this opportunity to thank him for the time and effort he has put into assisting the Committee in organising events for the Wellington Branch. We wish him well in his new role.

We currently have two vacancies on the Wellington Committee and would welcome with open arms volunteers to fill these positions. If you are interested please contact Peter Nalder (Chairman) on 04 478 5101 or me on 04 577 2623.

Ray Jack (Secretary)