

ADVANCE NOTICE - ANNUAL GENERAL MEETING

The second Annual General Meeting of the Association will be held on Tuesday 24 June at the Ellerslie Convention Centre, starting at 2.00pm. Rob McLeod and Bill Falconer will be Guest Speakers.

The Agenda and other material for the meeting will be posted to all members with the Formal Notice of Meeting shortly. There will be a Workshop for the Research Team and others interested at 11.00am, followed by a light lunch before the AGM.

CORPORATE GOVERNANCE

There have been some interesting developments in this area of corporate affairs since the Enron debacle. Many of the initiatives dealing with a failure of Boards to address corporate governance matters emanate from overseas and the following summary should assist members.

Australia

The Ramsey Report published in October 2001 for the Minister for Financial Services and Regulation dealt with a 'Review of the current Australian Requirement and Proposals for reform'. (Copies of the report may be obtained at www.treasury.gov.au). The report deals with proposals for the following:

- Keeping audit firms independent of their audit clients (covering employment, business and financial relationships.)
- Other means to enhance Audit independence (the establishment of the Auditor Independence Supervisory Board, Audit Committees and appointment of auditors)
- Other issues considered. (Education, competency etc.)

In another initiative the Treasury, through CLERP 9 (Corporate Law Economic Reform Programme) produced a paper in September 2002 called 'Strengthening the

financial reporting framework'. Copies of the report can also be obtained from www.treasury.gov.au. This paper covered the following major topics and sought comment from interested parties:

- Expansion of the Financial Reporting Council
- Requiring an annual audit declaration of independence
- Compulsory rotation of audit partner after 5 years
- Adoption of International Accounting Standards Board standards
- Maintaining continuous disclosure
- Improving the effectiveness of disclosure in prospectuses
- Formation of a Shareholders and Investors Advisory Council

European Community

The European Shareholders Group produced in February 2000 a paper called 'Euroshareholders Corporate Governance Guidelines 2000'. In this paper the Group recommended the following:

Companies should state their financial objectives and strategy for maximizing shareholder value in the long term
Anti-takeover defences should be avoided
Membership of non-executives on the Board should be limited to 12 years

Continued on Page 2

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There were other recommendations but these are already incorporated in our procedures.

United Kingdom

Two reports were published earlier this year with a good degree of collaboration. The Higgs Report (obtainable from www.dti.gov.uk) commissioned by the Chancellor of the Exchequer to 'Review the role and effectiveness of non-executive directors' aimed to provide an accurate picture of the status quo, to lead a debate of the issues and to make recommendations. The report contained a list of useful websites that is now a feature of these types of reports.

Recommendations for inclusion in future annual reports of listed companies included:

- Advising how the Board operates
- Advising procedures on Board performance
- Including a nominations committee with terms of reference
- Non-executive director meetings

The Smith Report (obtainable from www.frc.org.uk) was commissioned by the Financial Reporting Council to cover 'Audit Committees Combined Code Guidance'. This report dealt with, among other things, the inclusion in annual reports of:

- The Role and Responsibility of audit committees
- Auditor Independence – non-audit services
- Audit Committee to recommend appointment and renewal of the external audit auditor
- Particulars about the Internal Audit function.

United States of America

The Sarbanes-Oxley Act 2002 was designed to protect investors by improving the accounting and reliability of corporate disclosure. The Act is wide ranging and covers many items such as:

- Auditor Independence, covering pre-approval requirements, services outside the practice of auditors, audit partner rotation, conflicts of interest etc.
- The Establishment of a Public Company Accounting Oversight Board, dealing with registration of accounting firms, adopting rules, inspection and discipline procedures.
- Corporate responsibility. Covering the CEO and CFO requirement to certify annual and quarterly reports, undue influence on audits, forfeiting of certain bonuses and profits, insider trades, rules for attorneys, off balance sheet transaction, conflicts of interest, internal control evaluation code of ethics for the CFO.
- Analyst conflicts of interest
- Corporate and criminal fraud and accountability, falsification and destruction of records.

This act, which has a reference HR3763, may be found at www.senate.gov.

Please understand the above are a sample only of the concerns in many countries. France for instance produced the Bouton Report in September 2002. Please note that where there is no website reference members should use google.com. If the title is described accurately there will be no problem in locating the source.

Oliver Saint

PROXIES FOR AUSTRALIAN SHARES

Members will possibly have equity investments in the Australian market. It is also possible that some of you may not have completed proxy forms in the past for lack of an identifiable person (other than the Chairman) to whom proxies may be directed.

You should be aware that there is a sister organisation, the Australian Shareholders' Association Limited who have branches in all of the States and Northern Territories to whom proxies may be directed.

There are two ways of approaching the naming of proxies. If you do not have a website you may nominate your proxy as Australian Shareholders' Association Limited at P O Box 519, Chatswood, NSW 2057, Australia and send the proxy back to the Share Registrar. However this method assumes that the Association will nominate one of their members to represent them.

This may not always be the case since they do not necessarily attend all Annual General Meetings.

If you have an Internet connection then we suggest that a better method will be to go to the website www.asa.com.au. At the top of the home page you will see three headings, ASA & Membership, Investors Corner and Companies & AGM's. Click on this last heading and a pop up menu will appear. Direct your cursor to the 'Vote your Shares' page and click this highlighted heading. You will then find a table of listed company Annual General Meetings and ASA representatives who will be attending. Read the instructions on this page and complete your proxy. If your particular holding is not included in the list, return to the page several days later and it should appear if it is a reasonably large company.

NZSE 50 INDEX

The New Zealand Stock Exchange has introduced a new Index, the NZSE 50 Index, that is intended to replace the old NZSE 40 Index as the official benchmark.

Indexes are important to all investors as they offer a basis for comparing performance of portfolios. This is true whether you are a private investor or an institution with several unit trusts under management. The investor who is unwilling to monitor value against an Index is living an Alice in Wonderland existence.

The new Index is a Gross Index. That is, it assumes the reinvestment of all dividends. It also assumes the reinvestment of the Imputation Credit. This is significant for the individual since very few of us ever consider the dividend we receive as reinvested unless we subscribe to a company's dividend reinvestment process, the dividend declared being automatically converted into new shares. Of course we are never in a position to reinvest the Imputation Credit. There is thus an immediate air of unreality in this new Index which is probably why it will take some time to become an accepted benchmark, a Capital Index being the

preferred option. It is not intended to have a Capital version of the NZSE 50. We are advised that the NZSE will continue to calculate the 40 Series but the 30 series will cease to be calculated on 31 December 2003.

There are a number of rules that assist the liquidity of the 50 Index. These are:

- The eligible pool will comprise the top 80 'liquid' companies by market capitalisation.
- Blocks of shares with ownership greater than 20% of capital are excluded.
- Blocks of 'strategic' shares with ownership between 5 and 20% are excluded.
- Institutional holdings for portfolio purposes are not considered strategic.
- The weight of the top 50 company's shares will be determined by free float.
- Overseas companies are capped at 5% of the Index.

There are other important formulas that are outside the scope of this article to explain. For a more detailed explanation of the Index you are encouraged to visit the Exchange's website at www.nzse.co.nz.

AGMs

Kirkcaldie & Stains

The Kirks 2003 AGM was well attended. The audience was appreciative of a detailed presentation by Chairman Denis Tait and Managing Director Richard Holden, followed by an informative Q&A session.

In the course of events, several key points were made by both men:

- the 2003 profit forecast in the Investment Statement is still valid
- sales in the first 4 months of the 2003 year are up 5.6% (2002 sales grew by 11%, and net profit before tax by 13%)
- net profit after tax fell in 2002, only because the company took a conservative stance on future tax benefits – however, it is possible that these tax benefits are realisable.

In the short- to medium-term, the company has three main sources of revenue growth and cost savings.

Firstly, the Stage II refurbishment of the flagship Kirks store, involving upgrading of the menswear department, is underway. The company is planning to add key brands such as Armani, Versace, Cacharei, and Escada.

Secondly, storage is to be consolidated in the new Harbour City Centre premises, and the management of Harbour City Centre will be integrated with that of Kirks. These measures should help improve overall efficiency.

Thirdly, the company hopes to lease out space in the Harbour City Centre to a permanent retail presence – currently there are only two temporary retail shops. Acquiring high profile profitable lessees would enable the company to charge higher rents and/or obtain a percentage of the sales turnover in the medium-term.

The long-term success of Kirks revolves around its commitment to customer service. The company welcomed comments and questions from shareholders, who are primarily also its long-serving customers.

There was an indication that several experienced staff – such as the employee responsible for organising cruise ship visitors and employees in the furniture and haberdashery departments – had left the company. MD Richard Holden did say, however, that staff training programmes are currently in place to maintain service levels at the expected standard.

In line with this customer focus, the

company has in recent times held “new season” ladies’ fashion evenings that have been well supported. Mr Holden proudly boasted that by next year, new seasons’ styles will be released in Kirks at the same time as in the home of style, Paris.

The inevitable question surrounding the appointment of a female to the Board was raised and roundly applauded. Chairman Denis Tait agreed that if the Board decided to find a replacement for retiring director Tur Borren, then a female director would be top on the list of priorities.

Ashley Q, Chan

Disclosure of interest: none

Tower

Chairman Bruce Sheppard led the small NZSA group which attended the Tower AGM in Wellington on 27 March. The meeting, as has been well publicized, was a relatively uneventful affair after all the public and behind the scenes activity which had preceded the AGM. The new Chairman, Olaf O’Duill, has indicated his intention to review Director’s retiring allowances, but our Association is not satisfied with all payments to the directors of Tower and its subsidiary companies, and has challenged their legality in letters to both Tower and NZSE. See our website for copies of our letters and the recent reply from Tower.

Waste Management N.Z.

The 2003 AGM was held on 10 April in Auckland. The Managing Director, Kim Ellis addressed the meeting and took the opportunity to elucidate the strategy for investment by the company in Australia. He indicated that his feedback from extensive talks with institutions had shown that this was a major area of concern for them. Whilst no new initiatives were announced, shareholders appreciated this opportunity to hear the strategies for business in Australia that has been such a trap for many New Zealand listed companies.

The bombshell, dropped by the chairman before discussion had commenced on the long- term incentive arrangements for the Managing Director that the directors had decided to withdraw the motion, was met with stunned silence. At the start of the meeting a slide had shown the proxy position of all resolutions, a procedure, by the way, that other listed companies might

consider in the interests of a more informed meeting. The slide revealed the following: The issue of Zero Exercise Performance Rights to the Managing Director:

For the resolution	8,488,823
Against the resolution	8,537,667
Discretionary	1,022,824

However the Chairman was aware that, of the discretionary votes, 535,074 were at the disposal of the New Zealand Shareholders' representative who was in favour of the issue. Thus the resolution, which would have been passed on a show of hands, would also have been carried on a poll. You will have by now heard that the reason for the withdrawal of the motion was not only lack of adequate support but also an incorrectly presented proxy that was not withdrawn or otherwise legally attended to before the meeting. This presented the chairman Mr Jim Syme with a moral hazard which he chose to deal with by withdrawing the motion. We have nothing but admiration and praise for the manner in which the Chairman addressed this matter. It is a

shining example to other chairs throughout New Zealand of what leadership is all about. Indeed whilst there are some months to go Mr Syme must be a strong contender to win our Beacon award for 2003.

Before closing, there is also another lesson to be learned from this unfortunate saga. It is that minority shareholders **do have the ability to make their voice heard** but this can only be done if you **attend and vote or send in your proxies in time**. Our appreciation to all of you who sent in their proxies.

(PS: For details of our letter to the Company and the Company's response on this matter please refer to the advocacy page of our website.)

FROM OUR LAST AGM

Paul Swain's speech notes at our last AGM are included in the Ministry of Economic Development website – www.med.govt.nz Go to 'Business Law and Trade' and click the right hand side heading 'Publications'. Then scroll down and you will find NZ Shareholders' Association AGM speech notes Hon Paul Swain (July 2002)

BRANCHES

Auckland

On 12 March, over 60 members and guests heard an interesting address from Mark Weldon, CEO of the NZ Stock Exchange. Mark discussed the evolving role of the NZSE on issues of compliance, investigation and enforcement and the role of legislation, and answered many questions. He acknowledged the important role of NZSA and hoped that relationships between shareholders and directors would continue to improve. Phillip Clemow then continued his series of talks on understanding company accounts.

On 9 April, 26 members and potential members attended a shareholder orientation programme at Tranz Rail. The visit commenced at company headquarters in Takapuna with a presentation from the Managing Director, Michael Beard. The group heard how the company expects to improve its precarious financial position, and a wide-ranging question and answer session followed. After lunch, a bus took the group to the Auckland Container Terminal, where they observed current methods of

loading containers on to rail wagons, before boarding a train for a trip to Huntly and back. Michael Beard and other senior executives discussed other aspects of Tranz Rail's business informally during the journey, and refreshments were provided. The train trip ended at the Southdown marshalling yards where the group toured the Freight Depot, before being transported back to Takapuna. On 30 April, 50 members attended the second Branch Meeting for the year, to hear Rod Oram, founding Business Editor of *The NZ Herald*, and now Adjunct Professor at the NZ Centre for Innovation and Entrepreneurship at Unitec and a free lance journalist. Rod's address 'Confidence where it Counts' was stimulating and very well received. He concluded by discussing his pick of the best listed companies, and answered many questions. The meeting concluded with a short session from Graham Wilson on Dividend Yield.

On Friday 2 May, a large group of members visited the North Island Distribution Centre of The Warehouse at Wiri. After a tour of the impressive facility, the scope and

efficiency of which overwhelmed most of the visitors, there were presentations by Glen Inger, Luke Bunt and Mark Fennell on current operations, expansion and the strategy to overcome poor performance in Australia. The visit was most useful in giving our members an insight into the organization and the caliber of the company's management.

The next Branch Meeting on 29 July will incorporate the Branch AGM, and include a Guest Speaker and a further session on understanding company reports.

Branch members are encouraged to make every effort to attend the Association's AGM on 24 June.

Any NZSA members in the Auckland area, who are not yet members of the Auckland Branch, and who would like the opportunity to attend future branch meetings and workshops and be eligible for company visits, should contact Russell Hodge, whose contact details are on the front page of this Newsletter.

Tauranga

The Branch Committee has met on 20 March and 17 April since the last Newsletter. Generally, these meetings are scheduled to take place a week or so following meetings of the NZSA Board, so that members can be brought up to date on current issues. A discussion group of about 12 members met on 28 February to hear presentations from Allen Smith, Howard Zingel and Bruce Anderson, on the activities of Merck Smith and Co, Williams & Kettle and Cedenco respectively. The next such group meeting is on 9 May.

A group of 25 members took advantage of the opportunity to visit Convita on 27 March at Paengaroa. The 2 hour visit included a tour of the visitor centre, presentations by the Company Chairman Bill Bracks and Financial Controller Grant Young, with plenty of time for questions, and the meeting ended with refreshments.

Upcoming company visits will be to the Affco Works at Rangioru on 21 May and to Trust Power at Tauranga and their Matakina Dam on 14 August.

The AGM of the Tauranga Branch is scheduled for Thursday 31 July from 4.00pm at the Bureta Park Motor Inn, with two Guest Speakers. Current membership of the Branch is 41.

Malcolm Dunphy, Chairman

Wellington

The next meeting of the Branch will be held on Tuesday 10 June at the Johnsonville Community Centre, starting at 7.30pm. Current members and their guests and prospective members are all invited, and since the venue can hold up to 60 people, this should be a well attended meeting. The meeting will take the form of a Wine & Cheese Evening, with cheese and biscuits provided. Committee members will each donate a bottle of wine, and additional bottles will be welcome.

The Agenda will include an introduction and membership drive from Peter Nalder, an address on how to pick a good or bad company from Ray Jack, followed by a panel discussion.

A company visit is planned to the offices of Infratil about 24 June. As numbers will be limited, any member interested in meeting the board of this energetic and forward thinking company should contact Ashley Chan at ashley_chan@gfsg.co.nz.

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

Peter Nalder, Chairman

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