"The Scrip" December 2006

The official newsletter of the New Zealand Shareholders' Association Incorporated

THE YEAR IN REVIEW

2006 has been a tough one for self reliant New Zealanders who seek to provide for themselves through saving and prudent investing.

There have been a number of relatively minor matters during the year that have damaged investor confidence and or destroyed shareholder wealth; however, three particular events have substantially absorbed your executive's attention this year.

We stated at the AGM that we felt it was inevitable that we should increase our level of lobbying at government level, as we perceived that government was likely to be the origin of most of the major issues affecting our members.

Capital Gains Tax in Drag

The first major issue that took hold this year was the fight to dispose of the nutty Cullen capital gains tax. This fight is not over yet. The first round was detailed press releases and submissions to the Finance and Expenditure Select committee. We also extensively lobbied to ensure that the committee had plenty of submissions for all angles. I encouraged immigration consultants, VC fund managers, boards of private companies, academics and business and investment leaders to participate in the process and also to make oral submissions.

The second iteration of the tax was the fair rate of return method, set at 5%. I was asked to submit again on this proposal, which I did although it was rushed and not as well conceived I would have hoped. A number of these submissions are now on our web site. It was fairly clear that the second round of submissions requested were lip service to a process as the legislation was unlikely to be changed further.

The amended legislation is a wealth or asset tax dressed up as income tax. It still has to pass its second reading in Parliament. That will happen next year unless some right-minded MP's see the sense in voting against it. NZ First is already wavering, and the Greens are threatening to abstain. If NZ First breaks ranks and the Greens vote against it then this tax is finished.

Xmas is coming and it is time for a letter writing campaign. Don't send them by e-mail send hard copy by post. If you've time and a legible hand, hand write your letters, they make more impact. Fill the NZ First and Green MP's letterboxes.

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Unbundling Telecom
This is asset theft without compensation. I made a submission to the Select Committee on this issue and presented it orally. In reality the Select Committee asked more questions and were more engaging on this issue than they were on the capital gains tax issue.

While not the best of news, the Bill has been watered down considerably and the outcome obtained is that which Telecom itself advocated. I guess this is a win for the rights of asset owners who have retained the right to manage their own affairs on their own terms. This said Telecom would not willingly have restructured itself in this way. The irony is that the restructuring is unlikely to achieve anything much for the consumer or for market competition but it will add cost to Telecom. I guess that it is just a cost of doing business.

Feltex
The implosion of Feltex while not unforeseeable has caused immense damage to the confidence of investors in our capital markets and total loss to the investors in Feltex.

Our objectives on this matter are these:

- Sort out the most cost effective and most likely to succeed method of recovering as much as possible for Feltex's shareholders from those who caused or profited from this disaster.

- Ensure that those who oversaw the disaster, the Directors, never have the opportunity to do it again. We will seek to have them barred as directors,

- Ensure that our regulators do a proper job and do so transparently so that investors can have confidence in our market processes.

To achieve these objectives, we have met with the Minister of Commerce and MED officials, and outlined the issues. We are advised that the Securities Commission investigations are ongoing. The MED is awaiting our complaint on the possible barring of the directors.

We have applied to have the company liquidated. This was decided in our favour on 13 December. This is a precondition to the one element the media has picked up on, namely, the banning of directors. But more importantly a liquidator is the best and most cost effective method for shareholders to recover something from the mess. This action has proved to be considerably more expensive than we thought. due to it being contested

Administrative Matters
You will note that our website has been rewritten this year.

You will note that our membership has expanded considerably. Adversity unfortunately was the driver of this.

Our board member numbers remain down. We are seeking to appoint up to three new members in advance of the next AGM (any appointments will be approved or rejected at the next members meeting). If you are interested could you please send your details to either Chris Curlett or me.

Have a great Christmas.
Bruce Sheppard

THE INDEPENDENCE OF THE LISTED COMPANY DIRECTOR

You will read elsewhere in this Newsletter the comment of the chairman of Michael Hill International when introducing his fellow directors. A few years ago our Association was party to an exchange of correspondence with Sir Ron Brierley on the subject of the independence of directors. Both chairmen hold a similar view. The gist of their remarks was that all directors are independent and all are required to look after the interest of all shareholders. Of course in theory this is a perfectly proper response and I am sure that every director of a listed company will act for the benefit of all shareholders where this is possible. But business is in the habit of creating situations that provide conflict for the most well-intentioned of directors. The procedure under good corporate governance rules will require the director to step aside and not participate in discussions. This is fine in most instances but if there is only one non-executive director appointed and he has been the person with the conflict then who will be there to defend the interests of minorities? Another factor in the independence equation is competency. Who will be in a position to supply a critique of fellow directors if there is only one independent director? Naturally a chairman will have the responsibility of evaluating fellow directors over time. How do shareholders fit into this subject and what can they do? Fortunately shareholders and particularly institutional shareholders are becoming increasingly outspoken on the re-appointment of directors. They expect performance and through discussion at Annual Meetings and separately during the year people are able to assess quite accurately who is pulling weight and who is a passenger. Thus the resolution for the appointment of directors is no longer a matter of a rubber stamp. Much work is undertaken by a Board to ensure a good spread of discipline among its members.

Our Association takes the view that all directors with the sole exception of the representative(s) of a major or significant shareholder should be asked to address shareholders when they are first appointed and on each occasion they are re-appointed. As I have noted many times at meetings, this is usually the only time shareholder will be able to gain a view on the quality of the director and the opportunity should never be taken for granted, whatever the qualification or title of the director. If there is one action that a shareholder should take during a meeting, it is to stand up and request that the re-appointed director be asked to address the meeting. The relatively small number of proxies received by listed companies suggests that the message still has not sunk in. Once again I plead with our members to sign and send in their proxies if they are unable to attend meetings.

It would be avoiding the issue if I did not close by mentioning the Feltex Carpets saga and the responsibility of that Board. The first comment I will make is that in my view the figures and information in the Prospectus were not unrealistic. Yes, the debt was high but not extraordinarily so. The Board mix seemed to be reasonable and shareholders were entitled to look to the chairman as a good selection in view of his Institute of Directors position on the Director Selection Board. The 2004 Accounts, whilst showing a deteriorating position did not immediately signal alarm bells. Rather there was a caution to watch this group in the future; if you like, a first signal. It was the next series of events that were critical. Shareholders following the announcement of downgrade in profits and the wholesale sacking of managers with decades of experience suggest to me real panic by the Board and the lack of a planned strategy. I need say no more because that was the point at which the company crumbled and had no hope of repair.

My closing comment is that I have from long experience avoided new issues of any sort until at least three years pass and results continue to show growth. This way, Board competency is assessed, profitability measured and confidence gained. Yes, I have missed some excellent profits in the initial stages of development but I have also avoided the worst of the horror stories and am still here to tell the tale. Caveat emptor.
Oliver Saint

HALL OF SHAME

When we started this feature in our last newsletter we thought that it would be an isolated instance and little expected a repeat plaque to appear in the next Scrip. We are sad that we have had to repeat the process so soon; particularly for a company that has shown signs that it is becoming more attentive to shareholder needs. The change in presentation of the Annual Report this year deserves a prize for the quantum leap in approach. However from the comments I have received a Hall of Shame is a salutary way of getting across a message that shareholder expectations have changed in much the same way that directors' fees have changed. It is also a means of persuading or encouraging listed companies to remain aware of their shareholders and helps to shame where the sleepy powers of enforcement tend to ignore or even encourage inactivity. In summary it is a great disinfectant. The lesson is that the eye should never be taken off the ball.

The feature this month is the documentation following announcement by **EBOS Group Limited** on 3 November 2006 of a 1:3 renounceable rights issue to shareholders at $4 per share to provide $36.8 million for the purpose of reducing bank indebtedness and providing 'the Company with an increased ability to fund future acquisitions and other growth opportunities over the next 12-24 months'.

There are two separate matters each of which is unacceptable but in combination we have concluded that they deserve Hall of Shame status.

The stated objective of the rights issue is to reduce debt and to have funds for further acquisition. Both of these aims, in the EBOS context, are desirable. In our letter dated 24 October 2006 before the rights issue was announced and prior to the Annual meeting, we asked the Chairman to advise the optimum gearing of his group. This was the third year in a row that this request had been made. Our amazement can be imagined when not only had this critical information been left unanswered at the Annual Meeting but it is also avoided in the prospectus.

Our second complaint is that whilst the offer may be renouncable and thus brokers are able to sell the rights on the market for the benefit of shareholders there is usually a minimum brokerage fee of around $25 for this privilege. For a shareholder with a parcel of less than 7,500 shares the sale of rights comes with some expense. Here is the arithmetic. Some assumptions have been made. The brokerage rate for many clients is around 1%. The minimum brokerage on a transaction is $25.00 and the rights value (the difference between the market value of the share and the cost of the new share) is $1. These assumptions may be more or less for some but they will be adequate for this example. A holding of 7,500 shares will mean that the rights value is approximately $2,500 and the brokerage on this transaction is $25 which happens to be the minimum brokerage charge. Any holding of less than 7,500 shares will incur a minimum brokerage charge. The minimum parcel of shares for EBOS is 50 shares and the rights are valued at $16 which means that after brokerage they are valueless. The list of shareholders at the end of the EBOS annual report indicates that 2,374 shareholders out of 3,417 have a holding of 5,000 shares or less. Therefore we must assume that around 80% of all shareholders have 7,500 shares or less. Brokers and advisers throughout the world and indeed even some in New Zealand have, for this and other reasons, given shareholders a way out by agreeing to take all lapsed rights and selling them on the market for the benefit of those shareholders who for one reason or another are unable to sell their rights. This does add cost to the Company but it is a cost that most shareholders will find acceptable. It may be a bore for the broker but perhaps an increased client base may be found worthwhile. It gets worse. This prospectus is open to only New Zealand shareholders and thus the 86 shareholders with overseas addresses at 25 August 2006 are indeed having their holdings combined and sold on the market and the proceeds are being held for them in trust. So the procedure is being done in this case for some shareholders but not for others. For this reason the issue is a disappointment and does no credit to a company that had begun to show signs of growing up.
Oliver Saint

HALL OF SHAME
The 2006 Prospectus and Inv Statement of EBOS Group for the 1:3 rights issue.
Directors and Corporate Secretary of EBOS Limited, 324 Cashel St, Christchurch
Lead Manager and Organising Participant: Forsyth Barr Ltd, Private Bag 1999, Dunedin
Solicitor: Chapman Tripp, Christchurch
Underwriter: Forsyth Barr Group Limited, Dunedin

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

This is a subject that I have been trying to come to grips with for the last two years. It is not easy and the new standards change our idea of what should be in annual reports or rather the valuation of many assets and liabilities. After attending numerous seminars I have probably now got a reasonable appreciation of what is required. The present position is that it will be mandatory for all listed company annual reports to fully comply with IFRS for all accounts commencing on or after 1 January 2007. Therefore, for companies that have their year-end on 31 December each year, the first set of accounts that will have to comply will be those for 31 December 2007. For those companies with June year-ends, the first accounts will have to be for the 30 June 2008 year. For your information it is already mandatory reporting in Australia and probably the UK as well. It has been approved by the European Community albeit with some countries kicking and screaming (chiefly the banking community in France). The only exception is the United States. The USA decided not to comply and continue with their own generally accepted accounting principles (that bred the Enrons etc) which has rather put a spanner in the works. But we all knew that there was a chance that this would happen and the hope was that they would come around at the last moment. They did not. Little did we guess that there would be a stage 2.

Our friends at the UK Shareholders' Association warned us in late October that there were moves afoot to try to dilute the IFRS concept so that the USA might join the party.

The Federal Accounting Standards Board (FASB) has produced a Preliminary Views document called 'Concept Framework for Financial Reporting: Objectives of Financial Reporting and Qualitative Characteristics of Decision Useful Financial Reporting Information'. The paper is as boring as the title is long and I suggest that you might like to avoid reading it as there is an alternative. I only mention it for completeness.

I immediately read the various papers and concluded that whilst the Securities Commission, the Institute of Chartered Accountants of New Zealand, the Institute of Directors or any other organisation in New Zealand had failed to mention this move, we must prepare a submission. This we have done at very short notice because we considered we must be heard and put our view that a global reporting standard is obligatory. Among the papers that this step has produced is an explanatory statement that is tremendously readable and deals with the differences between the UK and USA standards and explains clearly why the USA really cannot accept IFRS at present unless they are prepared to challenge the various states, particularly Delaware, on reporting criteria. I promise that you are unlikely to be bored by this paper if you have any knowledge about accounting at all as a historical assessment it has few peers. This paper 'Divided by Common Language' is commissioned by the Institute of Chartered Accountants in England and Wales and is available for anybody to read.

The NZSA submission on 1 November 2006 is already posted on our website under 'correspondence' and the papers mentioned above are probably best found by a 'Google' search. Put in the search space the title of the paper and you will find one in fasb.org and the other in icaew.co.uk.

Finally, to complete the picture, I set out below a transcript of the communication we have received from the UKSA.

Oliver Saint

MEETING REPORTS

Air New Zealand AGM - 25 October

The meeting was held in a new location for these events at The Pavilion, Britomart. The site was not the best as there was considerable outside noise. The orderly protest by sections of the company's engineering division and a Radio New Zealand reporter were there to greet shareholders at the entrance. However the Chinese music playing for us on arrival made an appropriate back drop for the airline to mark the event as an appropriate introduction to their inaugural flight to Shanghai. As usual the chairman and CEO dwelt at length on the past results and all of what was said will, by the time you read this note, be on the company website. Question time covered various topics including the new uniforms, the engineering negotiations, whether direct routes would be scheduled for Canada, some further comments, praise and a brickbat or two. Your representative had attended the Auckland

International Airport meeting the same morning and made the point that both companies are now under court injunction to retain secrecy in relation to the new landing charges proposed for 2008 and onwards. I nevertheless sought confirmation that both companies had originally agreed to proceed with their negotiations in secrecy; this point was confirmed. After the meeting I was advised that there had been leaks during the discussion process and the company had sought a court order restraining both parties from discussing the topic in public.

At the start of the meeting the chairman advised that Sir Ron Carter would be unable to attend as he was ill. Unfortunately Sir Ron was up for re-election as a director. Your representative made the point that Sir Ron was now the sole surviving director of the Board when the unfortunate acquisition of Ansett Airlines was agreed. In spite of the high words of praise for this New Zealand business icon from the chair I was obliged to indicate that Board collective responsibility meant that I was unable to agree to his re-election for the discretionary proxies in my possession. Support was received for this move but at the final count of hands it was clear that the mood of the meeting was in favour of re-election and I did not call for a poll on this subject. Please also refer to my separate newsletter article headed The Duty of the Independent Director.
Oliver Saint

Auckland International Airport - 25 October
The chairman announced that voting on resolutions would be by poll. His address and that of the CEO are on the Airport website so this short note deals only with those questions that might be of interest to members unable to attend the meeting.

John Clearwater representing Greenpeace opened questions with an acknowledgement and thanks to the company for the completion of the steam plant for the disposal of industrial waste. There was a comment from a tourism representative that the bus space at the international terminal was now repositioned inconveniently. The CEO, whilst acknowledging that this was the case, advised that expansion of the airport had necessitated the move and the decision had not been taken lightly. Shareholders present gained the impression that this was unlikely to be changed in the near future and it was pointed out that there was cover all the way to the new area except in the most inclement weather.
Both directors up for reappointment addressed the meeting. John Maasland, the chairman elect, advised that he had given very careful consideration to his portfolio of directors including those that were pro bono. He was comfortable with the present arrangement. During the reappointment resolutions I took the opportunity of stressing that this matter was of utmost importance to shareholders in view of recent developments particularly with Feltex Carpets. In this connection I took the opportunity to praise the current chairman for his decision to stand down from the Airport Board after the announcement of his appointment as chairman of Telecom Corp of NZ. At the end of the Meeting Tony Frankham addressed the meeting and sought and obtained a vote of thanks to the chairman for his 10 years as a Board member.
Oliver Saint

Cavalier AGM
I attended the AGM as proxy for the NZSA, with 16 appointments from members together with his own shareholding in this stable and soundly managed company. While it hits peaks and valleys, these only reflect the general cyclical market trends. Within those trends, the company has always done well. Of particular note to shareholders was the comment, repeated a number of times by the Chairman that we seemed to be through the bottom of the cycle. When your correspondent put that comment together with the executive share rights plan being promoted at the AGM, the Chairman replied with (restrained) anger that he resented the implication that the plan was being put because it was the bottom of the cycle. His entitlement (if not duty) to be angry at that suggestion was matched by my entitlement to be cynical, but the key point for shareholders was that the timing of the plan and the comments about the cycle appeared to be matching, which was a strong signal to investors. If management can't pick the bottom of the cycle, we as mere owners will also have difficulty. (Disclaimer – this is not a "buy" recommendation – make your own mind up).

The overview of the company performance was frank and to the point, and made available to those shareholders who wanted it in writing, after the meeting. It has also been posted to the web site. Full marks for investor friendliness. The results themselves had trended down over the last 12 months, but were now starting to improve, in line with expectations that had been signalled months back.
There was considerable investor interest in the collapse of Feltex, and what it meant for Cavalier. The general reply was that Cavalier would pick up some market share, but basically there was not much overlap between the two operations, and for that reason no prospect of a purchase by Cavalier of Feltex assets. As any such purchase would have to be debt funded – why rush to repeat the Feltex error?
The next big topic was the Executive share plan. Comments were made about the lack of any evidence to support such plans having any incentivising effect, or of performance improving in light of such schemes. When tied to the scheme being promoted at the bottom of the cycle, such comments have real force.

In this case, when the scheme was reduced to a series of examples of how the plan worked, the figures showed shareholders had to have 3 year compounding return of 10% p.a. before the executives received anything, and shares would have to reach $10 per share before the capped upper limit of the plan would be reached. In those circumstances, it was not difficult to see this particular plan as a reasonable split of the spoils as between owners and management. The resolution passed by overwhelming majority.
The Chairman also made disclosure of the amendments to the company constitution in the last year, arising as a result of the auto pilot provision that the company has adopted. Members may recall that this provision allegedly allows the automatic incorporation of changes to the NZX listing rules into the constitution of the company. NZSA believes such is not legally effective, but the catastrophic case where that will be tested has yet to arise. Let us all hope it does not occur in any company we have invested in.
Ross Dillon

Delegat's Group AGM - 31 October
This AGM was perhaps awaited with great anticipation by shareholders, as it was their first opportunity to listen to and talk with Board members and assess their qualities. To their credit almost every Board member stayed to talk to shareholders throughout the wine tasting afterwards. It is also another company to add to the short list of those companies that have refused to bow to the NZX requirement that changes in listing rules be automatically approved in the constitution without any further shareholder approval. Clearly the independent director John Maasland must have had a hand in this decision. The Board are to be commended. The impression gained from this meeting is that at last we have another wine industry company that has the potential to keep New Zealand firmly on the map in the exporting of this product. The best news for shareholders was that the first quarter had exceeded expectations with revenues 53% up on the previous comparative period. Delegat's is the third largest wine producer in New Zealand. Questions included the effects to the company from global warming from which we were advised the Board was very conscious of the problem but there was no strategy in place at present – a truthful answer. A query on the Canadian export market was covered with the response that the New Zealand market share had risen from 25% to 33%. On the appointment of the auditors a query was raised about the tax advice given by the auditors. It is true to say that the company sees no disadvantage in using auditors for this discipline but the audit committee was continually monitoring the use of auditors. The impression gained from the meeting was that the chairman Robert Wilton was a careful and diligent leader with the managing director Jim Delegat and his sister, Rose, providing the force and vision to take shareholders on an exciting growth path. The market expectation is high for this company but it is delivering. The next two years will be watched with great interest – particularly by shareholders.
Oliver Saint

Ebos AGM
Chairman, Rick Christie acknowledged the presence of NZSA from the Chair and mentioned how pleased they were to receive the letter from Oliver Saint in praise of the improvement in the annual

report to shareholders. He quipped that it proved that they do indeed read correspondence from NZSA. This year a “Scorecard” was given to each attendee detailing the highlights of the year which was mainly Turnover up 7% to $300.5m, Profit Before Tax up 16.6% to $17.1m and Dividends Paid $6.07m to an increased number of shareholders now 3417 vs 3080 last year. Ebos is now in the top50 of NZ Companies.
A Cash Issue of 1 for 3 at $4.00 was announced so as to better balance the ratio of debt to equity.
The Company Headquarters will be moving next year to a new Head Office/Warehouse complex in Wrights Road, Addington.
Some dissent was expressed at the proposed 17% increase in director’s Fees after the 24 % increase granted to them at last year’s AGM. The comment was made from the floor that the Directors were getting a 17% pay rise whilst the shareholders only got an extra 5% on their dividends. On putting the motion the Chairman declared the vote was in favour. A show of hands was not called for which surprised the writer as there were a lot of “noes” voiced around him. However a perusal of the Proxy Summary showed that proxies were overwhelmingly in favour and little would be achieved by prolonging matters by calling for a show of hands. On the matter of Proxies it is somewhat confusing when the Proxy Holder is only advised of the YES/NO votes and not of the instructions to abstain or vote at Proxies Discretion. The Company should be requested to adopt the 4 Option Proxy Paper. It was pleasing however to see that 10 members had given their proxies to NZSA. I am sure that this number would be well in to 3 figures if all members exercised their proxies in our favour. Why do so many shareholders disenfranchise themselves when it is so easy to complete the proxy form in favour of NZSA. Instead of being able to argue from a position of strength on any contentious matters, it makes the NZSA look like an irrelevant non-entity. We had 54,580 Proxies out of a total of 6,349,928. That is less than 1% of proxies. What is wrong with you all? Are you just simply apathetic about your financial well being or do you not understand how the proxy system works? Please give us some feedback on what the perceived problem is.
It would appear that Ebos have outgrown Mancan House as a venue for their AGM. Every year, no matter how much we shift and shuffle, it is impossible to read the bottom quarter of slides being shown. With such a low ceiling in the room there is little that can be done to resolve this problem unless modern technology is able to have automatic scrolling on Power Point presentations.
It will be interesting to see just how much of a dilution effect the rights issue will have on shareholders returns over the next financial period.
Ritchie Mein

Freightways AGM
The chairman, Wayne Boyd, introduced the Board & senior executives, making much of the long term of employment with the company, of the latter. Given the results so far one could take the positive rather than negative view on that.
2006 NPAT was up 11% on a 10% revenue growth; a good performance in a slowing economy with erratic fuel prices. Dividend was again increased (to 17.25c).
During the year the company acquired Databank Australia, number 2 in document archiving, destruction & management in Australia. It was indicated that the purchase could be followed by others “out West”.
Dean Bracewell outlined the various businesses and emphasised the maintenance of different brands (acquired Kiwi Express will continue under its name).
Businesses-
Express package delivery (NZ Couriers, Post Haste, Castle Parcels, SUB60, Kiwi & Security Express),
Information storage & management (Archive Security, Document Destruction & Data Security),
Business mail (DX mail).

The business strategy is to maintain a strong core from which they can innovate & explore complimentary business opportunities.
Trading to September 30 (unaudited): Revenue +12%, NPAT + 3%
A slowing economy & cost increases have muted the result.

In answer to my question, they have minimised their effect on global warming by ensuring that their contractors have new & well maintained vehicles. That was the sole question & it was over to the goodies in 34 minutes.
Tony Sullivan

Michael Hill International AGM – 2 November
The venue for this meeting was Sky City. The initial introductory address by the Chairman was well up to his usual standard. Anticipating a query about the shortage of independent directors, the chairman took the plunge and ran through the qualities of each member of the Board. It was an impressive address and was no doubt deliberately timed to take full advantage of the fiasco that is Feltex Carpets where the independence of the directors was no help in the rapid destruction of that business. Thus his comment that Board members that are 'full on' and who know the business and can contribute positively are far more helpful than your independent with little knowledge of the jewellery business struck a positive chord. It was not the time to start a debate on this point. It is also worth commenting that this company has been operating for years with a similar arrangement and so far there have been no noticeable adverse effects.
Being aware that the chairman usually treats every question as an attack on the Company's integrity, I submitted a number of questions before the meeting to see what would happen. I am glad to say that every one was answered at the meeting by the CEO and one further question from another shareholder was also dealt with. The tactic worked; where some companies go through the process merely to be ready for what would be asked and have no intention of dealing with them unless raised at the meeting, this company along with other notable examples take great pains to respond with useful information. For the benefit of those shareholders unable to attend, I list below the questions I had raised and the response from the CEO. The response is not verbatim, my shorthand is not up to that, but the gist is clear.

1. *I note the group has now changed to International Financial Reporting standards but it is not clear how this change has affected the results for the year. Would you be able to explain to us in layman's terms what this change has meant to the results for the year? The 10 pages of notes of Note 32 manage to avoid this important point.*

   Mike Parcell indicated that the Company under the new standard had been required to restate previous year's results but was not required to calculate the affect on the current year and had not done so but very approximately, the profits had been reduced by roughly $500.000 in the current year. This was due to lay-by sales.

2. *In spite of the large increase in finished goods, the working capital requirements are not too much out of step with the historical requirements of the group. However it is noted that the additional requirement is being funded by a substantial increase in bank loans. In so far as expansion in Canada seems to be quickening in pace, I wonder if in your address you might comment on this factor. We note that for the first time in the existence of the group there has been a negative cash follow from operating activities.*

   In relation to the negative cash flow, 21 new stores had been opened during the year compared with the 13 previously. This had been a drag on cash (fitting out, new staff etc) and inevitably with additional stores it takes time for the sales to flow through to profits. In addition strategic changes to the range of goods to take Michael Hill away from the range of competitor jewellers and the introduction of own brand watches all had an effect on higher inventory levels.

3. *Finally a question that will probably be of greater interest to your staff who will see the problems with Feltex Carpets and note that the ANZ bank act as your banker. It also relates in part to the second question above since it seems clear that in the short-term reliance on increasing banking facilities may be needed. Has the Board ever reviewed its banking arrangements, vis a vis changing bankers? Is this not a good time to reconsider them?*
   The Company does regularly review the services provided by its bankers and had recently reviewed its banking arrangements. The ANZ came out ahead of its competitors. It is correct to say that ANZ had been the banker for many years and

Management were happy with the existing arrangement.

4. *Is the group intending to have its main listing in Australia? There is no contact phone number in New Zealand in the last page of the report.*

   The Company has no intention of changing the present position.

A further question dealt with the variation in the price of gold and whether it was possible to calculate the resulting change in profit on a US$10 change in gold price. Mr Purcell said that this was difficult to assess and became virtually impossible due to the incidence of the cost of diamonds in the company's stocks.

To close the meeting the Chairman gave a sneak preview of Board thinking and objectives for the future. Basically the group had very long term objectives and were uninterested in short term fluctuations. The time frame is around 20 years. The staff training system was second to none and all buying was now centralised from Brisbane. The diamond ring range is now awesome and much larger than the opposition with more money invested in this product. The Company was gearing up for a big Christmas and intended doubling the size of its head office. Whilst the world was in constant change they would never become complacent. 'Within 2 years we will be in USA or UK, probably the UK'. The big change in the present was the branding of their own watches – it is worth noting here that both Michael Hill and Mike Parsell were originally watchmakers by trade. The last words were – stay with us for the ride.
Oliver Saint

Nuplex Industries AGM – 3 November
The Chairman Fred Holland gave a précis of the 50 years since Floor Tiles & Parquet was incorporated. It has gone from one of 12 New Zealand importers of resins to a world wide manufacturer with sales of $NZ 1.3B.
Its purchase of the coating resins business of Akzo Nobel 2 years ago is now fully bedded down with one of their staff heading up the resins division.
2006 saw an increase in earnings per share & dividend .The latter increasing from 26.5c to 33.5c. , virtually double the 2002 rate.
Good performance has been recognised in share price movement & increased interest by Australian investors. A maiden profit was made in China.
2007-
The first quarter result is similar to last year but a lift is anticipated during the last half of the year. EBITDA is forecast between $103M & 108M for the full year vs 103M for 2006. Petrochemical cost increases & a slowdown in New Zealand are the main constraints. Petrochemical prices are still rising despite the crude oil price drop. The two are often not in synch. Coating resins makes up 80% of the turnover & the division has three broad strategies- -Geographical diversity of manufacturing & markets,- Technology & innovation -Cost efficiency.
A new Innovation Centre has been opened in Holland close to a university.
Major capital expenditure is almost complete .It's main aim has been to boost production & reduce environmental impacts (eg by replacing some solvent resins with water based ones).
In the election of Directors, Fred Holland & Michael Winter were re-elected & Rob Aitkin & David Jackson elected
The Constitution was amended to allow the appointment of additional directors during the year.
Answers to questions-
When Akzo Nobel resins business was bought there was a $32m liability for the "defined benefit "superannuation.
This has since been taken over by another organisation, & the liability extinguished & recorded as "other income".
There was an apparent inconsistency between the $39m increase on working capital in the balance sheet & $5M in the cash flow analysis.
The decrease in the $NZ caused the bulk of the balance sheet growth (not reflected in the cash flow statement (note 29).

The meeting closed with appreciation of the fine performance of the board & senior management in surviving 50 years whilst converting a local company to a successful international one.
The quality of the annual report was also acknowledged.
Tony Sullivan

PGG Wrightson – 30 October
Held at the Christchurch Convention Centre, this was a well chaired meeting, very well prepared and in most respects very informative. The Chairman, Bill Baylis was both efficient and forthcoming in his role as Chairman and to be congratulated.

There was an attendance of about 200 which was acceptable but probably smaller than it should have been when considered Canterbury is one of the company's stronger areas.
Barry Brooks, CEO gave a fully informative report,(with one exception) on all aspects of the company's performance over the past twelve months, the most relevant aspect of which was the merger between the two entities that now form the company. This process, while not without some difficulties was largely successful and the benefits of this will be seen in the coming year. In short there has been a saving of over 40% in overheads, reductions in staff of 12%, lower store operational costs due to reduced outlets and synergistic and logistical advantages because of the greater overall mass.
While the last year and early economic indications so far this year such as the high dollar and a very uncooperative weather pattern over the winter and early spring have not heralded the beginning of a bumper year there are signs all is not bad and he imparted a quiet air of contained confidence.
Detailed reports from all aspects of the company's revenue streams were advised along with future prospects being indicated. Barry Brooks report has been widely reported and does not need repetition here. However, he did studiously avoid any comment on the status of the four months trading so far in the New Year stating it would be more appropriately made at the half year report. This suggested they had something to say but perceived some advantage in waiting. This could be either good or bad but one got the impression it was more likely to be good.
The board is to be reduced in the next twelve months from 12 to 8 and this seems to have more than a little commonsense associated with it. Several board members are there more by inheritance than by design and a reduction that leaves the cream can only be applauded.
The re-election of three directors, Craig Norgate, Keith Smith and Bill Thomas was unanimous.
Question time was unexciting with the possible exception of one question which asked why it was that the goodwill content of the annual accounts was such a high percentage of the reported accounts. The answer was a general one explaining that largely, the goodwill was inherited as a result of the amalgamation between Wrightsons and Williams & Kettle followed by the Pyne Gould Guiness/ Wrightsons merger.
The Chairman Bill Baylis effectively concluded the meeting with a view of the future which intimate caution on a number of issues such as the persistently high dollar and the Australian drought but essentially saw a steady but unspectacular growth forward generated by what must be an inevitable easing in the dollar, steady commodity prices with some prospects of improvement, the accrued benefit of the amalgamation, the reward from innovative investment in particular in farm financing and Uruguay and the results of a well managed interface with over 90% of the New Zealand farming community.
In a short conversation after the meeting he agreed PGG Wrightsons had a very good future but made it clear the board was not "cocky about it"
As the Association's representative, I introduced myself to the Chairman Bill Baylis and congratulated him on a well run meeting and wished them well for the future. I had 168700 proxy votes representing 16 shareholders. We need to actively solicit more support and encourage our members and any other shareholders for that matter to nominate the association as the proxy representative at AGMs such as this. Our presence did not go unnoticed.
Max Smith

Sky City Entertainment Group AGM – 27 October
A short 5 minute video clip commemorating the tenth anniversary of the company preceded the entry of the directors to the meeting. It became clear that the Board and management had not lived up to the suggestion on page 1 of the annual report that '*The greatest performances are always tightly*

choreographed and carefully managed'. They had not re-read the minutes of the meeting last year where the chairman promised that two items of information would be shared with investors. One question – how successful was the convention centre - could not be answered last year as it had only recently been opened. Whilst it was partially answered in the annual report in a short sentence the further comment from the CEO was that it had exceeded expectations. However with IFRS now in place it would be impossible to believe that this centre was not a separate reporting entity. A more pointed query is necessary next year. The second query that remained unanswered from last year was the cost of the three remuneration reports or comfort letters that were enclosed with the Notice of Meeting in 2005. This also was not dealt with by the chairman. The theme of the chairman's address this year was host responsibility, also covered extensively in the annual report. A disappointment for shareholders was the decision by the managing director not to deal with targets and objectives for the current year. Perhaps this was due to the profit downgrade that had been announced to the NZX before the meeting. Many present had hoped this would be a permanent feature of these meetings. The constitution changes were passed without dissention but I did indicate to the Board that next year we all expected to see a much improved proxy form distributed before the meeting so that proxy holders would be able to vote taking account of what was said at the meeting. This year as in previous years if a shareholder completed a proxy form and left voting blank then the form would be disregarded for the purpose of counting votes. What the meeting lacked in information was more than made up for in the quality of the food afterwards. However this, as one shareholder reminded me before we entered the meeting, is why so many people attend this meeting. Such is democracy!
Oliver Saint

Toll NZ AGM – 27 October
I must admit that the major reason for attending this meeting was the opportunity presented to possibly meet and chat with one of the founders of the Australian parent company Toll Holdings. The group at balance date still had over 1,700 shareholders so there will be a few members, possibly railway buffs, who retain their holding. In fact the questions were largely from railway supporters and there was no shortage of interesting questions. A major question centred on how the company could keep the logging traffic off the roads surrounding Whangarei. The level crossing accident rate was also mentioned and the chairman, Mark Rowsthorn, raised the 'police in cab scheme' in efforts to reduce fatalities. I could not resist indicating my surprise that a management team that had challenged and overcome the experts at Patrick could have got it so wrong with the NZ Rail acquisition and misread not only the current governments apparent total ambivalence of the importance of rail as a substitute for road transport but the National opposition party's equal disregard for any effort to maintain and assist rail traffic. The response was lengthy and polite but at the end of the reply my understanding of the reason for purchase other than one of being required to provide a complete service for the New Zealand operations, still left me puzzled. I did manage to talk to Mr Rowsthorn who was considerably more impressive off the cuff than when he was chairing the meeting. If shareholders are waiting for a dividend I suspect that it will be some time before their hopes are answered. I cannot help remembering the decades of unchanged dividends that minority shareholders of the Mercantile Bank had to suffer at the hands of Hong Kong & Shanghai Banking Corporation when that company took control of the Mercantile. The erosion of wealth due to an unchanged dividend over a couple or so decades adds up in the end to poverty. I trust Toll NZ shareholders will fare somewhat better but those of a betting disposition should read about the latest acquisition of Patrick before placing any bets.
Oliver Saint

The Warehouse AGM – 24 November
Chairman Keith Smith opened a sparsely attended meeting alone on the stage while a 5 minute video was shown extolling the company's fine products. He then gave an initial address covering the record profit before the Australian write-off, dividend increase from 14.5 cents to 16 cents, and the sound financial position despite large capital expenditure. First quarter sales in the current year were up 1.6 percent but were 'patchy'. He was not prepared to give a profit forecast for the full year until Q2 figures were available, which would include the Xmas period.
With regard to ownership, the board had allowed due diligence to take place without a firm proposal being received as they considered this was in the best interests of shareholders. Since then the board

had done nothing, as Mr Tindall had indicated on 30 October that he was still considering his options. Amendments to the employee incentive share scheme were also put on hold because of this.
The other directors then came on stage and the CEOs of The Warehouse and Warehouse Stationery gave their account of developments, covering mainly supply chain efficiencies, store layouts and expanded product range. A graph of the share price movements was displayed during this, with progressive increases obviously due to the Foodstuffs purchase, Tindall announcement and the Woolworths purchase. There were no questions from the floor on the accounts. Three directors were duly re-elected and directors fees were increased from $489,000 to $650,000.
In general business I asked that, seeing we had Mr Tindall in attendance, could he give an indication as to how his deliberations were going. He gave a non-committal reply.
Bill Jamieson

THE BRANCH EQUITY PORTFOLIO COMPETITION

This competition began following a request made at our first Branch Officers Conference held in Auckland on 14 March 2006. There was enthusiasm among branch officials for such a competition and the objectives and the rules were ironed out and the competition began on 1 May 2006 with the first notional allocation of $1,000. Unfortunately when reality set in, some branches found that they were unable to find volunteers to organise the detail or for other reasons three of the branches decided to opt out of entering. The Auckland and Waikato branches are the only ones to have provided returns for the first period of the competition – to 30 September 2006 and they have both performed with distinction. I have noticed that both competitors have fallen into a brokerage trap. Whilst they have calculated brokerage and used the minimum rate of $25 as required, both have treated the brokerage as being obtained out of thin air. In other words the $1,000 notionally provided each month has been used to buy $1,025 of shares. As both competitors have made the same assumption I have ignored this small hiccup. However in future I hope this will be corrected. The initial period provided $5,000 for investment.
The results are as follows:
Auckland Branch Cost $5,125 Closing Market Value $5,684 Gain 10.9%
Waikato Branch Cost $5,048 Closing Market Value $5,995 Gain 18.7%
The NZX 50 Index on 1 May 2006 was 3795 and on 30 September 2006 was 3589 resulting in an overall deficit of 5.4%. Well done but there is a long way to go until 2011!
Oliver Saint

LETTERS AND COMMENTS FROM MEMBERS

We have received an email from Ken Edwards, a member from Waiheke Island, relating to the Feltex fiasco saying that the Tuesday 5 December issue of the Sydney Morning Herald contained an article 'Reasons to be wary of the private equity wave'.
All on the newspapers website.
He suggested it might be compulsory reading for all investors. Amen to that!

"IF YOU RECEIVE THIS BY POST ....

With all the work that has been done on Feltex and other matters recently, it has become increasingly obvious that speed of communication is essential. The internet provides this and also reduces our ever increasing printing and postage costs considerably.

Also, when something important happens we can keep you informed so much faster if we have email addresses.

If you receive this Scrip by mail and have an email address can you send an email to us at rusorjudy@paradise.net.nz
so we can add you to our email list. Also include your name and postal address so we can make sure we are updating the correct member record!

BRANCHES

Auckland

On 18 October, members visited the head office complex and distribution centre of Pumpkin Patch, where they were hosted by the CFO and other senior executives. After a brief overview of the company, we toured the premises, and then had a detailed presentation of the company – its history, its present position and its plans for the future both in NZ and offshore. The company's performance has been stunning, to say the least, since its establishment in 1990. We realised the importance of a sound pricing policy, excellent promotional material and marketing, backed by an strong management team. Expansion will continue with the opening of a further 36 retail outlets during 2007 both in NZ and offshore.

Also on 18 October, Rodney Deacon, an analyst with Goldman Sachs J B Were, addressed a well-attended branch meeting on the process of Valuation of companies in order to achieve a fair value and current worth. Five of the most common valuation methods were discussed, including Discounted Cash Flow, Comparative Value (with other similar companies), Earnings Multiple, and Market to Market. He used a number of companies as examples of how the process works and comprehensive notes were also provided.

On 29 November, John Key, the new leader of the National Party, addressed a meeting of over 170 members and visitors, who were most appreciative that John was able to keep his commitment to this meeting despite his elevation to the leadership of the party during the previous week. John kept to his prepared topics of Capital Gains Tax on overseas investments, the Select Committee process for hearing submissions, and the changes the Government has made to the rules, and added an entertaining political commentary. He made it clear that he was opposed to a capital gains tax as in his opinion it didn't work well in other countries.

The issues surrounding the residential housing market as a preferred investment choice were discussed, as well as the high level of borrowing from banks. He believed that the property cycle would correct itself over time, and that this was better than artificially directing more investment away from property.

Other topics covered ranged from the proposed Kiwi Saver scheme to the general levels of savings and superannuation.

Noel Thompson and Joe Turnbull

Bay of Plenty

This month's Discussion Group was well attended. The members were given the choice of two subjects out of the four subjects on offer. The subjects were Sources of Information, Portfolio Review, Criteria to apply when (a) buying or (b) selling shares and The Upcoming Telstra Float.

Bruce Anderson reported that the Port of Tauranga AGM for year ending June 06 had a good turnout of shareholders including members of our association. We had a manned table for promotional literature and to answer questions and recruit new members. One of our members asked that next years proxy form have a box to be ticked for proxy`s discretion.

Profit was $31m ($33.6m) down 7.8%. Revenue $122.4m ($145.6m).Dividend 20c (20c). EPS 23.2c (25.1c). The company has a strong balance sheet and well controlled operating costs. When a lower NZ/US $ exchange rate occurs an improved performance from the forestry sector is expected.

The Christmas Luncheon saw a good turn out. Those present were treated to an interesting address and visual presentation on the Great Taupo Eruption by Prof John McCraw.

The committee meeting, after tidying up the year's work, progressed naturally into a discussion of initiatives for 2007 and that is looking good. Membership inquiry is strong.

There is strong support for the Assn's actions regarding Feltex. This fiasco illustrates the need for our Assn to be strong and get the message into the boardrooms that the shareholders are the owners are of the company and are not cannon fodder for boardroom games or directors greed.

Lloyd Christie

Canterbury

Well, haven't we done well with our membership drive? Membership in the South Island has nearly doubled in the last two months or so. A very warm welcome to those who have just recently joined the ranks. I look forward to meeting you at one of our meetings next year. In the meantime if you have any questions about the organisation or what we are up to then contact either myself or our Branch Secretary, Max Smith.

What a botch up with the Tower Australia Rights Issue Letters. Apparently posted in Australia on 30 November and here we are on the closing day for sale of the rights and they have still not been delivered. Makes one wonder how long it will take to deliver the cheque back for those who wish to take up their rights.

In October Canterbury members enjoyed a most interesting talk from Alan Robb, Senior Lecturer in Accounting at Canterbury University. Alan spoke on some of the interesting things to look at in Company Reports and held his audience in awe despite the distraction of noise from another function next door. November saw us manage to pin down Peter Montgomery of Mooring Systems Ltd. who fascinated us with his Corporate Governance ethics and the progress of his brainwave and ground breaking invention for berthing ships. No number eight wire technology in this project but world beating engineering, research and development. We shall be following the progress of this company with interest.

Coming up next year is going to be a Company visit to Scott Technology, probably in February but date still to be finalised. Having seen a preview of what the Company does at the recent AGM, this is something not to be missed. This is another Company leading the world in its specific area of technology. We are also still looking to run the seminar on Computer Software available for tracking you share portfolios, probably sometime in March now. Then it will be time to get Graham Wilson to journey south for some more of his Education Days.

At our last Committee Meeting, we reflected back on what had been achieved over the year and all felt that it had been a good year with lots of interesting speakers and company visits, including one to the Feltex Factory in Christchurch.

On behalf of the Branch Committee, I wish all members a Merry Christmas and a Happy and Prosperous New Year.

Ritchie Mein, Chairman

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Waikato

Reviewing the year for the Waikato branch brings to mind one word – success. The branch membership has grown from 60 to 100. Some of this growth has come from the national board approaching Feltex shareholders, who have responded by joining the association. We sincerely hope that these new members will appreciate the work that our national board put in on our behalf. The board are a team and everyone of them gives time and expertise to NZSA's various causes. So we are all grateful to Bruce Sheppard, Chris Curlett, Ross Dillon, Oliver Saint, Des Hunt and Graham Wilson. Good luck with your pursuit of the Feltex Board. Have a good Christmas – you deserve it.

With our growth in membership comes the need for our committee to provide meetings that members appreciate. One disappointment has been the response to our organisation for attendance of company AGMs. Waikato is not strong in listed companies. So we go to Auckland and Tauranga to attend company meetings. This is one of the problems – distance, but also time available. A feature of the older members of our association is that they go away from time to time: to seek sun; to look after grandchildren; to escape.

We had a successful meeting in October when three members spoke for ten minutes or so about their investments and their philosophy of investment. All three presentations were very good and a measure of the success of the venture was that many attendees stayed to chat and discuss matters raised, and other features of investment. This type of meeting has a great value for many members and will be repeated on a regular basis. The group involved in the Portfolio Competition is growing and enjoying the meetings, not only because they can spend money they do not possess, but because they recognise and value the experience, expertise and wisdom of their colleagues.

The programme for next year has been discussed and is well on the way to being established. The committee asked members in a questionnaire for their interest in, and knowledge of, computers related to the use of computers in investment. The responses indicated there was an interest and a whole range of capabilities amongst our members. Computing is part of all aspects of life today and the committee are still thinking of what we can organise for the benefit of the members who want to use a computer to help them with their investments. Most likely we shall organise one or two 'cottage groups' of members, mixing experience and an interest in using computers for investment processes.

Why change a winning formula? Brian Gaynor has been our guest speaker for our last three Christmas Gatherings. The function has taken the form of a social meeting, open to members and friends, with a good meal, and an address. Brian has never disappointed us – he is always knowledgeable, informative, challenging and predictive and endlessly patient in answering questions. I truly saw the eyes of more than one member light up when I announced at the October meeting that Brian Gaynor was to be our guest speaker at this year's Christmas Gathering. Having attended the gathering last evening it was the success that we anticipated. 71 people attended the function, far more than previous years, and our efforts to attract new non-members to the function paid off with some signings on the night. Brian was in his usual good form analysing the saving and investment abilities of New Zealanders. As always he presented a balanced view and left us all in a mood whereas shareholders, we could look forward to Christmas and beyond.
Alex Eames Chairman

Wellington
The Wellington Branch held its last meeting for the year in October. The guest speaker was Ray Jack who presented an investment strategy for generating above average returns in the Australasian equity markets. The regional stock game also was highlight with members enjoying the debate over stock selections.

The Committee met in November and has planned next year's meetings. The intention is to a hold a meeting every month from February to November. Guest speaker topics will include investment taxation, Kiwi Saver, stock selection. The Committee is also exploring the possibility of holding a movie night featuring investment movies such as "Wall Street" and "Enron".
Our Chairman Matthew Underwood over the last few months has been busy attending the NZSA National body meeting in Auckland, the Tower Bondholders SGM, the Tower EGM and the Teamtalk AGM.

We would like to thank everyone for contributing to the success of the Wellington Branch of the New Zealand Shareholders Association, and wish everyone a very Merry Christmas and a prosperous New Year.
Wellington Committee