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MANY INVESTORS; ONE VOICE
NZSA New Zealand Shareholders Association Inc.

NZSA AGM JULY 2009 IN WELLINGTON - HOSTED BY WELLINGTON BRANCH

Put Friday 24th July 2009 into your diaries now!

The 2009 Annual General Meeting of the NZ Shareholders Association will be held at the James Cook Grand Chancellor hotel in Wellington on Friday 24th July.

As in previous years there is no charge for members so this really is exceptional value.

The day kicks off with registration and morning tea from 9:00am to 9:45am.

The morning session runs from 9:45am to 12 noon with presentations from:

- **The Hon Simon Power** on Creating an Ownership Society. Simon is the Minister Commerce, Justice, SOEs, responsible for the Law Commission, Associate Minister of Finance and also Deputy Leader of the House.
- **Tim Brown** on Preserving Shareholder Value in Difficult Times. Tim specialises in financial structuring at Infratil. He is also a director of Wellington Airport and NZ Bus.

Just before lunch the National AGM will be held with **Bruce Sheppard** and members of the national executive.

Buffet lunch is provided between 12 noon and 12:45pm at Whitbys restaurant in the hotel.

The afternoon session runs from 12:45pm to 2:45pm with presentations from:

- **Oliver Saint** on Using Z Scores to Rate Companies. Oliver is a Chartered Accountant and a former merchant and investment banker. He now works from home as an equities fund manager.
- **Rodney Dickens** on Recessions and Investing in the Share Market. Rodney is Managing Director and Chief Research Officer of Strategic Risk Analysis Limited and has worked in the share broking industry for 12 years as an economist, strategist and head of research.

From 3pm to 5pm a Branch Conference will be held for branch delegates.

Parking is available in the James Cook for $12 per day as long as you are in before 9:30am, and across the road at the Council owned Clifton Terrace car park ($12 per day or $3 per hour). They do tend to fill up so it's best to be in by 9am.

Please register by Friday 10th July at the latest so we can confirm numbers for catering. In the meantime if you have any questions or want to find out more please email martin@dowsemurray.co.nz or phone 04 971-1500.

Martin Dowse Chairman
NZSA Wellington Branch

BUCE'S EDITORIAL - MORE CAPITAL RAISINGS AHEAD.

I have gone through the accounts of 47 listed companies with a banker mindset, to see who will need more capital in the near future. Before I give you the numbers, I will go through a few observations about these companies, in terms of presentation of financial statements and also highlight a couple of issues that have arisen out of these reviews.

For obvious reasons it is not appropriate to name the companies individually as until the companies have had an opportunity to comment that would be inappropriate. We are writing to them on the issues indentified, and in due course will publish the exchange of correspondence. The list of companies that should be on credit watch will be made available to members upon request and under confidentiality, send your request to Bruce, at bruce@gilshep.co.nz.

Firstly observations.
Companies websites don't always make the information easy to retrieve, and some actually hide the investor centre section of the website.
Some segment their annual reports so that you can just load the numbers not the pages of dross, and this is important if you are on a broadband limit, as most of the full annual reports complete with graphics are big files.
Some websites are dramatically slower than others indicating a lack of architecture and foresight, and interestingly, the slower websites also look like more pedestrian companies on other more tangible economic issues. If there is a lack of care on the front end of the business it might be seen a lead indicator of lack or performance elsewhere as well.

Despite the claims of systematic financial statement preparation by IFRS, there is no system in how the information is presented. Every set of financial statements is presented differently and thus it is actually quite hard to find the numbers you want.

Now to the hard numbers that are needed by bankers.
The first one is how much interest is companies paying. You would think that that would be an easy number to calculate, and that it would be broken down between bank interest, capital notes, and so on. A break down of interest by recipient is not disclosed anywhere. The interest number in the Income statement is often not right. It is often set off against interest income, and sometimes is further reduced by the company as it has elected to capitalise the interest to fixed assets. I addressed this issue earlier in my blog: Accounting 1.201 Accounting for fixed assets. The number I have used is gross total interest paid.

The next thing you want to extract is Earnings before interest tax and amortisation and you want to pick up Depreciation and amortisation separately so as to get EBIT.
From a bankers perspective, EBITDA or EBIT is recurring income, i.e. one off profits, extraordinary gains, income from discontinued business and so on should be excluded. Most Income statements wash all this sort of stuff into one number and the notes do not always make it easy to find the unusual or discontinued businesses impacts. The

EBITDA numbers I have used exclude one off gains or losses, but do not eliminate restructuring costs which most companies treat as unusual, albeit that they happen each year. (Why else would change management consultants have so much work?) I have also adjusted for the business units that were discontinued during the year as it is the continuing EBITDA that will service the residual debt.

Equity is pretty easy, it is the book equity, intangibles however are harder to break out as IFRS has created a new asset called Biological assets which a surprising number of companies appear to have, even though they have nothing to do with farming or the like. These don't always look like intangibles, but they are hardly tangible. The only intangible assets that I have not eliminated are software assets.

Amortisation is also not always straight forward. In addition to routine amortisation, companies will run an impairment test over assets, and if they consider them impaired, will take other write downs straight to the P and L account. These too need to be added back but included in amortisation to arrive at EBIT.

Some companies, in the fixed asset notes, show amortisation by asset class and also Capital expenditure by asset class. An interesting observation is that in most instances, Capex equals more or less Amortisation so in effect Deprecation is a cash expense, and EBIT is a better measure of servicing capacity than EBITDA.

Some companies also revalue assets; one even posted that to the revenue statement and treated it as EBITDA, this particular company, one of our leading darlings, looks like a dog when you take this out.

Getting to the bottom of debt is also difficult. Debt consist of all sorts of obligations some secured, some not, some in the parent company, some in subsidiaries, some in oblique instruments, so that it is hard to tell if they are a retail, wholesale, or bank product, some in multiple currencies, and some disclosed the break-out of this. Most who have foreign currency debt, indulge to a lesser or greater extent in hedging, but many don't, and the disclosures on hedging are mind numbingly complex.

Some even disclose debt covenants. And as a result I now add another covenant test, which is Net tangible asset cover to secured debt. The lowest covenant I saw was a requirement that debt should not exceed 90%of NetTangible Assets.

Now on the face of it, 9 of these companies are in default, and a further 11 look to be near default and this is based on an analysis of the 2008 published full year results. The reporting round coming up will likely result in further deteriorations for all of the 47 companies analysed. I picked these 47 based on the headline debt numbers in the 2007 year, as published in the NZ investment year book.

One other thing to remember is banks lend to companies not groups, but companies report on both a company and group basis. Many groups borrow in subsidiaries and in the parent, and thus the risk buckets of each bank involvement are different. So measuring bank covenants on a group basis is not a precise science, but we have no other way of doing it. Some of our listed companies own interests in other listed companies, and as a result when debts are consolidated there is an element of double counting. Some of our public companies report in foreign currency, e.g. GPG, and therefore aggregating numbers is difficult.
Suffice to say this has been a mammoth exercise.

Now to the numbers.
I have broken the numbers down into four groups of companies.
The first is trading companies that include finance activities in their business.
The second is utilities or similar.
The third is bare trading companies.
The fourth is trading companies underpinned by property assets.
I have not looked at the pure property investment vehicles.

The gross bank and Capital notes debt of these 47 companies is NZD$22.5b, on top of this there are finance payables of another $1.5b approx.

Here are the ratios

Category	Debt / EDITDA low= good, high= bad	Interest bearing Debt /equity low good, high bad	Debt/ (NTA plus Debt) low good, high bad.	Ebit/Interest High good, low bad.
Companies with finance company activity.	Risk of default =above 3 for trading companies and no more than 5 for utilities; not a relevant measure for Finance coys.	Risk of default =Above 1; above 2 for utilities; not a default risk for Property.	Risk of default =Above 90% for all companies; property companies with cash flow issues can survive if this ratio is below 60% when the asset is cannibalised.	Default risk =Below 3 for trading companies, below $1.25 for property companies, for utilities possible default issues below $2
Min	N/A	1.64	78%	$1.00
Max	N/A	7.18	99%	$4.27
Average	N/A	2.79	85%	$3.44
Utilities				
Min	0.27	0.11	11%	$1.38
Max	6.95	1.66	91%	$53.12
Average	2.53	0.51	78%	$3.39
Trading Companies				
Min	(6.40)	0.09	(201%)	($4.98)
Max	13.5	2.19	350%	$63.50
Average	2.35	0.72	60%	$3.81
Companies with Property assets				
Min	2.31	N/A	13%	$0.02
Max	82.55	N/A	28%	$3.69
Average	8.42	N/A	22%	$1.10

In the trading companies I included one company that is losing money. Why anyone would invest in it is beyond me, but it has some capital notes on issue. The negative results in column one are not a good result. The true measure of this loser, is that it has nearly $5 of interest going out for each dollar coming in, and it has $2 of debt for each dollar of tangible assets. Yet this company is still going, and has not advised the exchange of a covenant default. It's got me beat.

Of the companies with finance assets, at least one if not two look marginal. Of the utilities two look to be in difficulty. Of the property based companies, if anyone cared to have a look at the cash flow relative to debt, I am at a loss why anyone would buy their shares, yet buy them they do. Of the trading companies, excluding the basket case, there are a lot on the cusp, and all of this is before they report 2009.

Watch this year for the great corporate debt default, and resultant demands for recapitalisation.

Bruce Sheppard
Editor' note: The publication of Bruce's research stimulated significant debate. Firstly the letters to companies at risk were debated by board members and many of the details were fine tuned.
Then Mark Weldon sprang publicly to the defense of NZX, claiming
1. That it is not NZX's business to analyse the listed company's accounts. That is a job for the lender or the shareholder. So NZX listing rules would apparently only be brought to bear after a default - always too late.
2. There is also an invisible entity called Securities Commission which is supposed to do a bit of this. Where are they when an early warning is needed?
3.There are also people called investment advisers who now have help from a commissioner, but their work is kept under wraps for paying clients. So by implication - because of the confidentiality between lender and borrower, adviser and investor, the market will always be less informed than desirable.

NZSA's role to help investors with early warning is now more important than ever.

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THE Z SCORE – AN UPDATE

At one of the first AGMs of our Association I introduced to members my final analysis that would determine whether I should invest in a company, the z score. Over the years I have found this formula extremely useful as it puts on paper in a meaningful way whether I should take the final plunge and invest.

The Z Score formula was first devised by Professor Edward Altman, a financial economist at the Leonard N Stern School of Business at New York University and was intended to measure the financial health of a listed company and predict the likelihood of bankruptcy within two years. It has been developed and perfected over the years and the formula I set out 5 years ago to our members was one I had been using for around 20 years. The Z Score has been upgraded and amended over the years, and it is timely that I bring you up to date with these amendments. I hope they will give more meaningful results for you as investors. I have to say that the old formula has worked extremely well and has acted as a reminder to sell in situations where there is a decline in performance or, more usually, where debt has increased beyond the power of the company to sustain these borrowings. The present recession and financial troubles have shown that bankers do not always have the desire or the ability to ensure that debt is allocated as sensitively as situations may require. It has been a long held principle of investment that the buck stops with the owner, and if that owner is not financially competent then at least the means to ask sensible questions must be at his disposal.

By using this simple "Z" formula, which you can use for all listed companies, with the exception of property companies, banks and finance companies, you have the means to ask the questions of your broker, financial advisers or fund manager. One other question that is always useful is – why did you invest in this company on my behalf? Write down the answer to this query with the date alongside because there will come a time when you may need to review the response if the investment changes its spots.

A newsletter is not the best means of telling you how to go about filling in the spaces to arrive at the Score. It is better for me to engage you in person with examples so that you can be perfectly clear as to what you need to know. Also, our chairman, Bruce, has suggested that each Branch might set aside an evening to allow me to explain the new workings, starting with this year's AGM in Wellington. As usual, the address would be open to the public but non-members will be asked to pay for the cost of meetings. A recession is a critical time in the economic cycle to get investments right and every means possible should be taken to ensure investments are secure. I will prepare some up-to-date examples for the seminars to work through and hope the time spent will be rewarding. The branch timetable will be placed on our website and we recommend that you take the opportunity be attend and bring along a fellow investor and potential member.

Oliver Saint

BRANCH MEMBERSHIP COMPETITION

Dont forget - our Sign a New Member competition finishes 30 June - keep them coming in!
Patrick Flyn

THE TRUTH ABOUT CEO AND DIRECTOR REMUNERATION.

Editor's note: The following article was published in the May issue of the Institute of Director's journal, a strong piece of advocacy for the NZSA position.

Gregg Brogan, a 25 year veteran wrote in The Australian on October 20, 2008 accusing 'cowardly' boards of not standing up to pay demands of chief executives.He says Executive Pay Systems have risen far in excess of performance through the overuse of market-linked methodologies. The New Zealand Shareholders Association has been saying this for some time; about CEO packages as well as the method by which Director Fees are set.

Brogan says the solution does not lie with more regulations but in boards standing up to chief executives. As we all know when attending AGMs we are told by the chairperson they have received expert advice on what the directors and CEO should be paid. What they do not tell the shareholders is the 'mathematical idiocy' of the peer-ranked method, in which a board is advised the CEO should be better paid than the 'median' salary in that sector.

We often hear from boards that they have to compete globally for talent, thus justifying far higher salaries. What they do not mention is that performance measures are linked to local peers, which often have been set with softer performance hurdles. As Brogan stated in his article, 'basically it's nonsense (but) executives and CEOs didn't question it because they didn't want the gravy train to stop'.

Research carried out in New Zealand and overseas, indicates few listed stocks have performed in line with executive pay increases. For example Brogan says Qantas top five executives enjoyed a 200 per cent pay rise between 2002 and 2008, but the airline's return on capital employed (ROCE)-the most generous measure- grew only 84 per cent. The trends were the same with the ANZ Bank (pay up 65 per cent, ROCE (up 15 per cent), Lend Lease (250 per cent, ROCE up 100 per cent) and CSR (100 per cent,ROCE up 10%)- these were not the worst performers.

The Australian superannuation funds are demanding law changes to force boards of public listed companies to explain big increases in executive salaries and cash bonuses and put a dollar figure on potential golden parachute payments for senior managers. The Australian Council of Super Investors, whose members account for more than A$250 million (NZ$278 million) of investments, recently called for changes to remuneration structures, citing the fact some boards are still failing to clearly explain how executive pay is linked to performance. There are calls in Australia for companies to disclose the names of their remuneration consultants. What annoys me is that a number of local consultants are using the Australian data to push up remuneration packages for CEOs in New Zealand when it is obvious from the present feedback that the Investment industry is not happy with what is occurring. The same could be said when recommending Director Fees. The benchmark should be New Zealand for the vast majority of companies not Australia let alone 'global'.

In New Zealand we do have a number of companies whose performance falls way below that of the CEOs and Directors increases. Research has shown the median fixed pay of chief executives in the top 100 ASX-listed companies increased 96.4% between 2001 and 2007, compared with a 32.3% rise in average adult weekly earnings over the same period.

As Brogan commented he found his recommendations went down poorly with the remuneration committees. However Brogan now specialises in performance-based schemes for lower to middle management; ironically, he says, CEOs make no bones at all about imposing rigid performance criteria at the lower levels.

Data supplied by Strategic Pay Limited for New Zealand medium fixed pay of chief executives increased 34.6% from 2001 and 200, compared with a 26.1% rise for middle management. I have no numbers available for the rise in average adult weekly earnings over the same period.

The New Zealand Shareholders Association has been very critical of the method used when setting Director Fees and CEOs remuneration packages. We have urged boards to adopt performance indicators, especially those that can be easily measured, and then religiously adhere to them. To pay performance bonuses when targets have not been achieved is unacceptable. The remuneration committee of a listed company should be required to publish the precise policy with comparisons, which level of the market e.g. median or upper median or upper quartile. How much will be at risk and how that is earned, and how it is linked to shareholder value.

In setting CEO remuneration packages, I would like to see short term bonuses (12 months) that are no more than 30% of the total basic pay. For long term bonuses I have no actual dollar or percentage in mind so long as they have some relationship with what the employees may receive and shareholder returns. Long term bonuses should not be paid out until at least three years. I would like to see targets set for a three year period and the bonus paid on the average return for those three years. As one year ends another one gets added to maintain the same basis for rewarding the CEO to achieve his long term bonus.

Setting Directors fees

The issues involving CEO pay are not that different to those encountered when setting Director Fees. We need to get away from the situation where once again consultants quote what is occurring in Australia when we know things are not working that well over there, and the investment industry is asking for change.

All too often we are seeing recommendations for the doubling of director fees. In the case of Contact Energy Ltd it was only four years ago they were once again doubled so it is getting completely out of hand when they went for a similar increase again this year at their AGM when not tied to performance. I would like to see director fees reviewed based on the performance of the company and what it plans to achieve in the coming say two years, rather than comparing them with a similar size organisation which may be under achieving. At future AGM's the shareholders would then be voting on the new fees based on some solid facts rather than what is being now being recommended by the board as a result of a report from a consultant.

As Michael West who is a columnist for the Sydney Morning Herald wrote recently, its high time the notion of a paid remuneration consultant as ''independent expert'' is debunked for good.

The NZSA supports increasing director's fees for those companies which produce regular solid results.

Des Hunt

A PATH TO FAIR PAY

The Australian Prudential Regulation Authority (APRA) after contributing to the International Financial Stability Forum, which was endorsed by the recent G20 Summit, has published its principles for sound compensation practices for all banks and commercial organisations which take deposits from the public. I have summarised the proposals below with my observation in the right hand column. Where are our regulators and our Securities Commission, and our Reserve Bank in this? Surely this should be extended to all companies which raise capital from the public.

Effective governance of compensation

Principle 1	The firms board must actively oversea the compensation system's design and operation.	Usually done in NZ public companies
Principle 2	The firms board must monitor and review the compensation system to ensure that it operates as intended.	Usually done in NZ public companies
Principle 3	The staff engaged in financial and risk control must be independent, have appropriate authority and be compensated in a manner that is independent of the business areas they oversea,	Not yet mandatory in NZ, see submission by Chartered Institute of Secretaries

Alignment of Compensation with prudent risk taking.

Principle 4	Compensation must be adjusted for all types of risk	Not yet implemented in NZ
Principle 5	Compensation outcomes must be symmetric with Risk outcomes	Not yet widely practised in NZ
Principle 6.	Compensation payout must be sensitive to the time horizon of risks	Not yet observed in NZ
Principle 7	Mix of cash, equity and other forms must be consistent with risk alignment	Not yet widely practised in NZ

Effective supervisory oversight and engagement by stakeholders

Principle 8	Supervisory review of compensation must be rigorous and sustained and deficiencies addressed promptly	Honoured in the breach
Principle 9	Firms must disclose clear comprehensive and timely information about their compensation practices to facilitate constructive engagement by stakeholders.	No full remuneration report required in NZ

These general principles are all well and good, but by themselves they will not curb the excesses of executive remuneration particulary in USA, and Australia. It will take action by shareholders and strength of purpose by boards to do this. Still, to shed light on what is happening, would be a good start.

Kevin McCaffrey who has a background in remuneration consultancy says:

1. The firms Remuneration policies must be published – not their strategy and market position, or sensitive issues that competitors or headhunters would want.
2. The Remuneration committee must:
    a. Publish a Remuneration policy that clearly shows how pay is structured, how it is valued on a cost to company (shareholder) basis, how market comparisons are made, and when.
    b. Publish a timetable of their programme and process of reviews and when decisions are made.
    c. How rewards are structured, Cash, fixed remuneration, incentives in cash incentives in equity or any other incentives using a formulae (approved by their Auditors) in the policy above.
    d. Clearly show the links between company performance and the increase in annual rewards for nominated senior executives such as the CEO and all direct reports – they need to explain their rationale to Shareholders.
    e. They must also show how the rewards are distributed over time and the cumulative effect or cost to the company.
    f. Clearly show WHO they have sought advice from – which consultants, how much fees that consulting firm receives for ANY OTHER work.

Des Hunt, and NZSA board are keeping up with the pressure on Institute of Directors and the Task Force on Capital Markets on this issue.

Alan Best

AUSTRALIAN SA MEMBERS CAN PROSPER IN RECESSION

Close to 300 of the 8,000 member-Australian Shareholders' Association celebrated 50 years since it's formation by listening attentively to a series of high-quality presentations and workshops at the Association's 's 3rd national conference from 17-20 May at the Sydney Hilton.

ASA Board Chairperson Helen Dent, assisted by her 7 fellow directors, ran the conference like a military exercise, ensuring that plenary sessions started and finished at their scheduled times, thus allowing conference attendees from all States of Australia plenty of time to mix and mingle between sessions. I found them very welcoming and friendly.

Conference sponsors contributed not just financially but had staff in attendance at their company stands during the breaks to offer advice and practical analytical tools that would enable shareholders to make better and more informed decisions on what and when to buy, sell or hold. All of them contributed speakers to many of the 20 sessions (5 of them being breakout presentations) that were presented over the 4 days.

ASA CEO Stuart Wilson and his team of 4 National Office staff were on hand throughout to handle member enquiries at the ASA stand where copies of books on much-quoted Berkshire Hathaway guru Warren Buffett were for sale. I was able to speak with each of the ASA staff over the 4 days and Stuart hosted a very informative breakfast meeting with me during which we shared information about how the NZSA and ASA function, and the many common issues that are the focus of our attention as a largely volunteer-driven organisation in both countries.

Supported by slick Powerpoint presentations, principals from conference sponsors worked through their particular analytical approach to investing and speculating decisions using real numbers for a number of listed Australian companies, showing the varied ways in which company results and projections can be interpreted.

In addition, there were stimulating addresses from 2 economists (on one hand an optimist, on the other a pessimist), professional investors, financial commentators, governance heavyweights from the Australian Stock Exchange (ASX) and the Australian Securities and Investments Commission (ASIC), and the Minister for Superannuation and Corporate Law Nick Sherry, all serving to give conference attendees plenty to think about at this very critical time in the sharemarket cycle.

The final session was an optional analysis masterclass on listed Australian retail icon David Jones Limited followed by an executive presentation from it's Head of Stores and a guided tour of the flagship Elizabeth Street department store.

The key messages I took from the 2009 conference, which had the challenging theme "Prosper 09", were:

- This is a cycle – the sharemarket will recover as it has done after previous crashes (we just can't say when)
- Debt has been a major contributor to the current crisis – be very careful about investing in companies that have excessive debt
- Analyse – keep the emotions under control. Do your homework before making that buy, sell or hold decision. The tools and advice are available to help you make the right decision for you
- History does repeat itself – know where we are in the cycle
- Opportunities do exist – there are a number of Blue Chip stocks currently trading under their value
- The fundamentals never change – make sure these are covered in your analysis of share value
- Earnings versus yield – income stream is the key. Don't get caught in the yield % trap
- Shareholders at AGMs – recognize the power you have to vote for the most suitable directors for your company
- Respect – after 50 years in operation, the ASA is well regarded by Government and regulatory bodies, it has representatives on many influential advisory panels, and it's submissions on behalf of shareholders are welcomed

The costs of attending the conference were A$595 for ASA members, A$700 for non-members, with $100 reduction for early bird payment. Optional workshop sessions were A$80 each, conference dinner A$80, and a hard copy book of conference papers A$10 for those who wanted it in addition to the free memory stick provided.

The ASA website is www.asa.asn.au which includes a Members Centre requiring a sign-in email address and password.

Patrick Flynn

COMPANY REPORTS

L&M PETROLEUM AGM 28 APRIL

The AGM of L&M Petroleum (LMP) was surprisingly well-attended, with over 20 shareholders and a number of journalists and industry executives (including Pike River Coal's Gordon Ward) present.

The highlight of the AGM was discussion around the onshore Southland coal seam gas prospects. The two coal bearing measures contained within three fairways could potentially contain up to 300 billion cubic feet (roughly 300 PJ) of gas. LMP is still delineating the size of the available resource and is ideally hoping to find thick Beaumont formation coal seams with a high methane content – the target is 5-6 cubic metres of gas per tonne of coal. The next planned step after delineation is a 6-month pilot involving the drilling of 5 wells to certify reserves (if any). As a purely hypothetical and speculative example (my own), the trade sale of 200 PJ of undeveloped gas reserves for A$0.40/GJ would be worth approximately A$80 million or A$0.40 per share.

In my opinion, one likely outcome if the resource potential is fulfilled would be onsite power generation to supply electricity to the Bluff aluminium smelter and/or Southland dairy plants (or for export to Canterbury and the North Island, if state-owned national power grid monopoly Transpower ever get their act into gear). Project economics would be highly dependent on a high electricity contract price (and high cost of competitor coal and high aluminum and dairy prices so customers can afford to pay more for electricity), lots of gas (>200PJ), low government royalty and tax regime with accelerated depreciation, and buying cheap plant kit when the NZ dollar is strong against the US dollar.

If (another purely speculative example here) LMP were able to sell 20PJ pa of gas for 10 years to a hypothetical new 400MW third-party power plant for $3/GJ (implying a reasonable ~$60/MWh electricity contract price), gas revenues would be $60M pa, operating margin $40M pa after opex, and net profit after tax and royalties of say $25-$30M pa for 10 years. One would not want the development costs of the gas infrastructure (exploration, appraisal, production wells, pipes) to be more than $150M in total to be economic.

LMP is not just coal seam gas. It also has a 100% interest in the Whitestone oil prospect (potentially 30 million barrels of recoverable oil in the mid or P50 case, if oil is present) and a 50% interest in the Otahu prospect (potentially 120PJ of recoverable gas in the mid or P50 case, if gas is present). Both prospects are in Southland close to the coal seam gas prospects. It should be noted that conventional oil and gas prospects typically have only a 10-15% chance of being a successful discovery. LMP also has other exploration permits in onshore Taranaki, onshore Westland and offshore Southland close to Waitutu National Forest (i.e. not the Great Southern Basin stuff). The company will be looking to farm out its offshore Southland prospects which are expensive to drill – hopefully the cash-rich Chinese oil companies may one day be attracted down here!

LMP has a very internationally experienced and aligned Board. Chairman Geoff Louden is one of the largest shareholders, with an indirect third interest in Weaver Holdings International which has 75 million shares or 42.8% of LMP. He discovered the Lihir gold deposit in PNG and remains a foundation director of Lihir Gold (market cap A$7.5 billion). Non-executive Directors are Dr Doug Ellenor (ex-CEO of Shell Colombia), Greg Hogan (MD of the L&M Group), Charles Lutyens (ex-MD of Rio Tinto India) and Trevor Taylor (ex-Petrocorp and Fletcher Challenge Petroleum).

Management is also highly experienced in the NZ context. MD & CEO John Bay has held senior management positions at Mighty River Power, Spectrum Exploration, and Fletcher Challenge Energy. The LMP management team also includes Steve O'Connor as General Manager Exploration (ex-NZ Exploration Manager for Fletcher Challenge Energy) and Rod van Koughnet as Senior Geoscientist (ex-Senior Geophysicist for Swift Energy). Steve O'Connor is semi-retiring back to New Plymouth, but will be available to LMP as a consultant.

LMP debuted on the NZX and ASX in January 2007 as a speculative oil & gas exploration company. A$20 million was raised from the issue of 100 million new shares at an IPO price of A$0.20. LMP is still expected to have retained a third of the cash raised (~A$6.5M) at the end of 2009 as net operating overheads are relatively low in the industry (A$65,000 per month). The shares have fallen to ~A$0.10, in line with falls in the share prices of many oil & gas juniors, valuing the company at A$17.5 million (175 million shares).

Ashley Chan

NZ REFINING AGM – 23 APRIL

NZSA Proxies: 3,000 shares.
Given the venue (Marsden Point), a surprising number of shareholders attended the meeting. My estimate was in excess of 70 from a total number of 3,179 on 31 January. The chairman began by advising members that in future AGMs will be rotated between Marsden Point and Auckland (the previous rotation had included Wellington and Christchurch). The refinery at MP is impressive, with estimates of its value being $4-5 billion.

I was delighted to note from the chairman's address that I was not alone in noticing the provision of around $50 million taken to the Statement of Total Recognised Income and Expenses, relating to recognised losses in the pension scheme. My exchange of correspondence on this subject is now, with concurrence of the Company, shown under correspondence on our website. (Go to our NZSA home page, click on Advocacy and then when the sub-index appears go to Correspondence and use the search facility.) As a result of International Accounting rules, Defined Benefit Pension Schemes will be of particular interest to shareholders this year.

The CEO, Ken Rivers, impressed with a wide ranging unscripted talk about the company and its prospects. The variation in processing fees which one would imagine would be fairly constant have, since the beginning of this year, shown remarkable volatility and thus the table in the Chairman's address highlight the difficulties of forecasting.

There were many intelligent questions from shareholders and these queries were answered with honesty. In fact this group has earned a reputation for frankness that other listed companies might benefit from following. The meeting closed in time for a

break for tea and to allow for members to have a guided tour of the impressive site and a view of where the pipeline to Auckland starts its underground journey.

It was quite surprising how this pipeline to Wiri (near Auckland Airport) seemed just a simple, modest pipe going into the ground –especially considering it is the only way that Auckland receives the oil that keeps it moving! Since the dismantling of the holding tanks on the waterfront, it is not possible for oil to come into Auckland by ship. Down this one rather slim pipe goes the various oil based products – petrol, diesel, jet fuel – one after the other constantly throughout the year!

Oliver Saint

PROPERTY FOR INDUSTRY – 23 MAY

NZSA Proxies: 205,761 shares (5 in number.)
The proxy count was a considerable improvement on last year (3,000 shares) but I suspect could be increased if we all showed determination in completing these forms. Please remember that shareholders who have already sent in proxies may still attend and vote in person if plans change. All that happens is the proxy name is cancelled in this instance. So what we suggest is that you send in proxies even if there is only the remotest possibility that you may not be able to attend.

The Company acknowledged that gearing was the new focus this year. A graph was showed of the PFI share price compared with the property industry Index and the NZX50 Index and the increasing gap between the PFI share price and the benchmark indicators reflects the value placed on PFIs low risk approach and reputation for reliability. Not surprisingly the questions at this meeting related to gearing. Occupancy for the end of the first quarter was at 99.46%. The Company elected to retain $500,000 of the distributable profits for the year as a buffer for the future and against any possible further reduction in property values. This explains why the distribution is not 100% of net operating profits this year although the chairman stated that the previous policy of retaining a 100% distribution of net operating profits remains in place. At question time, the chairman advised that there was no current intention to seek further equity capital.

Oliver Saint

XERO SGM – 14 MAY

The Xero SGM was held in NZX's offices in Cable Street overlooking the waterfront starting at 4pm. About 100 people attended including a quite a number of Xero staff.

The purpose of the meeting was to approve the issue of 20 million new shares to MYOB founder Craig Winkler and associated parties. As this would give him more than 20% of the company (20 million shares out of 82 million) the issue needed to be approved by existing shareholders.

Chairman Phil Norman spoke first and introduced the rest of the board - Graham Shaw, Sam Morgan, Rod Drury and Guy Haddleton with apologies for co-founder Hamish Edwards who is in the UK.

Phil gave a rundown of the progress Xero has made since listing and then Rod Drury continued the theme. Essentially Xero have executed their initial strategy, met their targets to date and have a world class accounting platform that is mostly complete. Their challenge now is marketing rather than technology and the capital raising will fund this and an entry into the US market.

Craig Winkler then spoke. Craig has over 25 years experience in software for small businesses and founded and led the extremely successful MYOB group until it was recently bought by a private equity group. He has no involvement with MYOB now and was approached by Rod Drury to invest in Xero. Craig said he had been watching Xero from afar (Melbourne actually) and when Rod approached him he carried out due diligence on Xero and was impressed with what he found.

Resolution time. Phil Norman noted that if the motion was approved Craig would be asked to join the Xero board (and presumably he would accept). There were no questions from shareholders and the vote by a show of hands was unanimous – not a single hand was raised against the motion. Welcome aboard Craig.

The meeting wrapped up at about 4:45pm and was followed by light refreshments and a chance to talk to directors, Craig and Xero staff. All are true believers in the product and company and proud of what they have achieved so far. One concern is that the Xero story will become over-hyped and they won't meet the inflated expectations.

Martin Dowse

Post Script: Martin Ehrenstein wrote an interesting piece on the software developed by Xero, which is available to any member from the editor or martin.ehrenstein@gmail.com.
His conclusion: As past treasurer of Unlimited Potential, a network for ICT professionals, I have implemented Xero as the accounting solution, and was impressed how fault-free, and intuitive Xero is to use. I like Xero's development approach; and I'm not easy to please. While it would be nice to see them succeed spectacularly, the history of software development seems to show quite clearly that the best team often doesn't win. Then again, coming second wasn't so bad for Apple.

RENAISSANCE AGM 22 MAY

As reported earlier Renaissance is moving from being an importer and trader in computer hardware which accounted for 85% of EBITDA, to a more diverse service operation in which hardware accounts for only 35% of contributions. Apple introduced its own on line store in which prices were set for the world market in USA, and also took over Trans-Tasman supply to large retailers, thus depressing margins for the local agent. In response Renaissance took over Magnum Mac the largest Apple reseller, and acquired Natcoll Design College a specialist tertiary educator in CAD, animation, and web design, the former suffering depressed sales and margins from the recession, and the latter gaining in share and profitability. The company was forced by its debt levels to cease development of Txttunes and Renaissance Indemnity Ltd., incurring a $2m writedown. The company is currently tracking to "realistic" forecast, but as usual expects 85% of earnings to occur in the second half – a significant risk, which caused all dividend forecasts to be shelved.

Recent developments include:
website renewal with improved shareholder information,
new computer-aided learning programmes "Learning Seat"
new Magnum Mac store for Christchurch
new Natcoll branch is in Wellington.

Questions:

1. Why was the Apple name not used in the retail operation? Answer:not permitted by Apple's branding policy, but Apple assisted in merchandising format and display, to produce a format similar to London's or Sydney's.
2.What part of the banker's covenant was breached recently?
Banks emphasis on NTA meant that it eliminated the goodwill incurred with the purchase of Natcoll. However when the situation was explained clearly to the bank it accepted a new covenant enabling the prompt paydown of debt hopefully to be discharged by the end of this financial year – good cooperation exists between the bank and the executive.
3. Where are the expense reductions which appear to be much the same as net operating profit? These have been implemented all through the organisation as part of the operating budget.
4. How long will the company take to get "back on track" (in the Chairman's words?)
Diversification depends on absorption of existing new activities, repayment of debt, and availability of high earning businesses aligned with Renaissance skills, at reasonable prices.
With other questions about product offerings and market conditions, the meeting moved on to elect Colin Giffney (chair), and Rick Ellis (director), unopposed.

Alan Best

COMPANY VISIT RYMAN HEALTH AUCKLAND – 28 MAY

A sunny day welcomed 40 members to the impressive Edmund Hillary Retirement Village in Ellerslie for a presentation on Ryman Healthcare group (Ryman) by Gordon McLeod, Chief Financial Officer, and Chrissie Baker, Sales Advisor. Both speakers were open and transparent in answering the many questions from our members.
This month Ryman celebrates 10 years of being a listed company – and it has delivered quite an impressive sustained period of growth during that period. Properties are now well spread geographically throughout New Zealand and realised profits have grown steadily to $50 million.

Dividends have risen from 1.0 to 5.0 cps and shareholders equity has increased by $80 million to $400 million in the ten years.
Ryman receives strong recurring earnings more or less equally spread between:
Care fees – weekly fee for care service
New sales – development margin on initial sale
Resales – collect capital gain
Management Fee – 20% fee on new sales and resales of occupational rights
The growth drivers for Ryman have been and will continue to be the growing elderly population who demand long term care facilities and are accepting the concept of retirement villages. Ryman has proven it can develop unique new villages with 4 levels of care: independent living, assisted living, rest home and hospital care, and in some instances a secure dementia unit.

Building unique integrated villages has given Ryman a competitive advantage and a strong brand. Put this together with their experienced management team and Board of Directors and their strategy of doing everything themselves (from architect plans, procurement of supplies, sales etc) – and you have a proven and successful business model.

Ryman's debt to equity ratio is conservative at 35%, and none of their bank debt expires until October 2010. They enjoy terms and conditions in their banking relationship which reflects the strong credit quality of the company and their proven track record, and Ryman only incurs debt to fund new village developments.

Operating cash flows for 2009 were strong at $114m. These were lower than 2008 by $12m due to the reduction in new sales of occupation rights. New sales were lower because Ryman were deliberately conservative in the new build rate coming into a difficult year; and the previous year was an exceptional year with the opening of 4 new villages.

Resales stock was very low with only 39 units out of 2200 in the portfolio available at 31 March 2009 – another sign that Ryman have traded well in a difficult environment.

The realised profits are the most meaningful measure of Ryman's performance and reflect the trading performance of the company, along with the ability to pay dividends. By the time the final dividend is paid for the 2009 year in June, they will have paid $132M of dividends to shareholders over the ten years.

Since listing Ryman has grown a very significant portfolio by pure organic growth, without any fresh capital from shareholders. Only $25m was raised at listing, and throughout the ten years they have been conservatively geared.

Our members benefited very much from visiting with this company. They learned more about the Ryman business model, where the fees are generated, and gained confidence in the financial performance.

Jacquie Staley

COMPANY VISIT TRUST POWER – 24 APRIL

Tauranga Branch kindly invited Waikato Branch to join it on a visit to Trustpower on 24 April. What immediately struck me was the small number of operational staff. Out of a total staff of about 380 only 80 were involved directly (10 of these were meter readers) in the operation of their extensive assets, which include 36 small to medium hydro generating stations and 1 large windfarm.

After being shown the generational facilities at Ruahihi we later proceeded to Te Manga (close to the Bay Park Stadium) where Trustpower have their head office. Here we were shown around, where the balance of the staff were beavering away in less than palatial conditions (some of the group commented, "inadequate"). The location is on the site of the old Power Board depot and seems to work very well, having good commuter access and located centrally within the region. Management stated that larger premises will be required in the near future but I was impressed that they are not looking to re-locate to some fancy town location but will extend on site.
The CEO Keith Tempest and CFO Robert Farrron addressed us. They both seemed relaxed and open to our questions and proud of Trustpower being the most profitable power company in New Zealand. I was interested to learn that they will not be purchasing any New Zealand manufactured wind turbines in any future power generation expansion. Our thanks go to Bay of Plenty for inviting us on an enlightening and enjoyable visit.

Robert Foster

PROVENCO CADMUS SGM 27 MAY

Over a hundred concerned members of the company gathered to question the sale of Vantex a POS hardware trading operation, working through 8000 resellers in NZ, Australia, Singapore, and Malaysia., and comprising about 73% of the holding company's total sales. After 10 years of lack-lustre performance, shareholders in both companies were sceptical about the prospects for survival. It was clear that the main reason for the sale was the burgeoning debt and bank pressure.
Noone was happy with the price at $22.5m which is only a third of the company's debt, (when Goodwill attached to Vantex at last balance date was $40m,)but shareholders accepted that the business was mature, currently cashfow negative, with little intellectual property of its own, and up against very large players of which the buyer Ingram Micro, is one.

The questions centred on the difficulty of expanding the residual Point of Sale solutions business which include the service station forecourt eftpos (formerly Production Engineering of Marton,) and a complete relaunch of the restructured enterprise, with a significant capital raising, and perhaps a white-knight partnership with a larger player in the field. A big ask!

Privately, shareholders were mollified by the knowledge that the key shareholders, Peter Maire (13m shares)and Todd Technologies (27m shares) were keeping the bank at bay, and had too much at stake to let go.

The sale of Vantex was passed without dissent by a show of hands, and the NZSA proxies were not needed.

Alan Best

BRANCH REPORTS

AUCKLAND

1. Branch Meeting – 22 April 2009
   Goldman Sachs JB Were representatives, Mark Fowler and Chris Glackin, gave a presentation on investing in bonds. They discussed how they worked, buying and selling, rates and yields and tax implications.

   Unfortunately, while they obviously understood the subject thoroughly, they pitched the presentation at a higher level than was required by the gathering, using alot of industry jargon that resulted in their message not really getting through.

   It was an opportunity missed as the subject was an important one and we are sure that many members were keen to understand.
   The Committee understands that the "Investing" course run by the branch does cover this topic in considerable detail. Those members who are keen to learn should take advantage of this.(See the newsflash in this Scrip).

2. Education
   After much anticipation, the first in-house education course was held on 9 May at the Chartered Secretaries NZ boardroom in Anzac Avenue, Auckland Central.

The topic was 'Investing' and 13 people attended the course that was originally intended for only 12. We are pleased to report that the course was extremely successful with very good feedback received from the participants, who all thought the course was good value. John Hawkins and Alan Best were the presenters.

The second course on 'Sharemarket Basics' was also successful though only 8 of 12 enrolments were in attendance. Some others paid their fees but became 'no shows' on the day. This was particularly disappointing as 17 people had been placed on a waiting list because the course was full. Jacquie Staley and Noel Thompson conducted the course and again, good feedback was received from those in attendance.

After the completion of the first two courses, John Hawkins was able to report that the Auckland Branch had more than covered costs and the prospects for future courses was very positive.

NEWSFLASH – AUCKLAND EDUCATION COURSES

We have just received confirmation that Glenfield College will be running both "Investing" and "Sharemarket Basics" as part of their CE (night school) programme in term 3. Provisional dates are:

INVESTING – Wednesday 5th and 12th August. 7-9pm 2 two hour sessions. Price to be advised

SHAREMARKET BASICS – Wednesday 1st and 8th September. 7-9pm 2 two hour sessions. Price to be advised.

Anyone interested should contact John Hawkins (jhawkins@internet.co.nz) or 478 3198 for confirmed information and enrolment details as soon as they becomes available. People who missed out on the previous courses will be automatically contacted.

3. Company Visits
Joe Turnbull and Jacquie Staley arranged a company visit with Ryman Healthcare, with the Chief Financial Officer, Gordon McLeod, coming up from Christchurch. It was held at the new and impressive Edmund Hillary Retirement Village.
Joe Turnbull reports that company visits have been more difficult to arrange in recent times and this has been put down to the fact that many companies may be more concerned with dealing with the current business downturn.

4. Membership Drive Update
The competition to attract new members appears to be working well in the Auckland region with a significant increase in membership applications being received so far (thanks in part to Bruce's blog!).

5. Scheduled Meetings
The next Branch meeting will be held at the Alexandra Park Function Centre on 24 June with a guest speakers from Rakon Limited.

6. July 24 is the AGM in Wellington with many interesting speakers.

Ken Cook. – Chairman.

WAIKATO

On 28 April we held a discussion night, the topic loosely being Investments and Strategies for the current Economic Climate. The twenty plus attending, spoke in turn outlining their types of investment, how they came to be investing and their current investment thoughts. Although most seemed to directly hold shares in listed companies as their majority investment; some favoured bonds and fixed investment; others ETFs and Index Funds.

There was a strong feeling that fund managers and or investment advisors underperformed, and that if money was to be lost then the individual could do this just as effectively. One of the local brokers Jon Tanner got good mentions.
Most seemed to have held their shares through the downturn and were not going to realise their losses. Some see the present situation as an opportunity.

An interesting evening where it was felt most got something out of it.

On 26 May, Chris Gudgeon from Kiwi Income Properties Trust addressed us. He gave an outline of KIP through a power point presentation. The management of the company (Colonial First State Global Asset Management) is part of and ultimately controlled by Commonwealth Bank of Australia.

The trust appears conservative and well managed. Debt levels have been reduced to a prudent level of 31%, refinancing is not required until 2012 and occupancy is at 99%. KIP has large exposure to the retail sector, with Sylvia Park at $454m comprising a good chunk of the $1.8b total portfolio. This must have been a leap of faith, belying the conservative tag. Shopping malls would seem to be their area of expertise with malls also in Christchurch, Poirua, Palmerston North and in Hamilton. The mall in Palmerston North is currently being redeveloped and expanded. Questions from the floor highlighted the fact that the Hamilton CBD (Downtown and Centreplace Plaza) is suffering in the downturn and also from the opening of the Base at Te Rapa. Chris was very aware of this and has been working hard with the City Council to re-invigorate the heart of the City. Chris saw the RMA and Council zonings as large barriers for anyone to overcome in establishing new shopping malls. The numerous questions were indicative of the interest in Chris's informative presentation.

I am sure we can appreciate Bruce Sheppard's recent comments regarding company capital raisings and rights issues. All shareholders should have equal access to contribute on the same price and terms. We may also appreciate management endeavours to preserve share price values, by pragmatically offering preferential deals to large stakeholders. Ironically this can work to (very?) small shareholders advantage if they participate in the limited rights or share purchase plans offered in appeasement. Some shareholders will also be adversely affected by any scale back in these offerings. It would all seem to relate as to where on the food chain each shareholder sees himself?

Robert Foster

Waikato Branch Financial Literacy Courses.

We held these over four weeks in May. Our co-coordinator/lecturer Robert Foster gained the backing and full co-operation of Hillcrest High School for the use of their facilities. They even did advertising for us through their evening class local paper coverage. Full use was made of these facilities including power point projector: even setting it up for our use on the first evening. The courses ran from 7pm till 9pm each evening and we were grateful for the good gas heating on those cold Waikato nights! Ten attended the first two week course on Investing Basics. This seemed a good number which enabled Robert to handle the numerous questions and discussions that arose and to make reasonable contact with each member of the class. The questioning kept Robert on his toes and showed that the course material had got them thinking. Unfortunately only six attended the second course on Share market Basics and was mainly made up of those who had attended the first.

On phoning round afterwards, over an incorrect date given, we got good feedback. The most encouraging remarks came from a retired judge who said "he liked Graham Wilson's low key, no nonsense, non commercial presentation and felt it went down well."

Roger Jennings

BAY OF PLENTY
TrustPower visit April

My power bill states that I'm paying 23.18 c per kwh; so the two 10 Megawatt generating sets at the Ruahihi Power Station when running at capacity produce $4600 worth of electricity per hour at the retail tariff. There is not really all that much to see at a power station – big pieces of metal- humming away. In April, ten Waikato members joined 46 Western Bay of Plenty members for a company visit to TrustPower. Feeding the station is an impressive 1.6km canal to the small but pretty Lake McLaren. Several safety features along the way are a reminder of the disaster in 1981 when a good bit of the channel collapsed and thousands of tons of earth ended up in the Tauranga harbour. Fortunately, there was no personal injury associated with that incident but it is a reminder that there are risks associated with investing which might not be very apparent. We are all presently risk-shell-shocked so we need not dwell on this aspect.

We travelled in convoy from Ruahihi to the Company's head office in suburban Tauranga; there we were efficiently parked under the watchful eye of the generation manager – Mike Kedian. Should he have been better employed doing something else? This is what makes company visits worth while – you can get a feel for what makes this organisation tick. TrustPower ethos is down to earth, friendly and efficient. Karen Boyte, the HR chief, quietly and quickly shepherded us around the complex. The telemarketers; call centre operators and debt collectors were hard at work – yes bad debt will be up. One part of the building had been set aside for a team from Oracle. TrustPower is in a major eighteen month IT upgrade – this team did not seem quite so busy, and we hope TrustPower has a fixed price. Oracle knows how to sail boats, and so they should be okay. IT majors are risky, we shareholders don't like them.

Keith Tempest the chief executive gave us his usual polished presentation. The Company will increase gross profits by some 20% in the year to 31st March, and not many companies can boast a performance like this in these troubled times. Marketing and generating conditions were generally kind. With the depletion of the Maui gas field, generators have been able to increase power price by 72% over the last eight years, the

general price index increase being 28% over the same period. Mr Tempest did not expect this marked out performance to persist going forward but there were more pluses that minuses, especially as the upcoming carbon footprint cost of power generation has yet to be brought to account.

TrustPower has a big pipe line of probable further renewable power generating propositions (over a billion dollars worth if all were to go ahead). There are many variables making these options viable but the West Coast Arnold River hydro proposal while relatively small at 48 MW has many favourable attributes, a rain fall in the mountain of the catchment area of seven metres pa being one of them; wind is increasingly becoming competitive and TrustPower has huge options in this field. Mr Tempest did say given everything being equal currently good geothermal is probably the most commercially viable resource. TrustPower does not have any interests in this field. This is a comfort for shareholders in Contact, (albeit that the company seems very adapt at shooting itself in the foot,) as it has quality additional geothermal options.
The visit was convened by our diligent chairman - Lloyd Christie. Lloyd's three year term expires at this year's AGM. There have been many highlights during his period of office: - continual growth in membership, a varied offering of activities both social and educational. The national AGM held in Tauranga a couple of years back was really a very slick affair and it was largely Lloyd's baby. Our thanks for your endeavours Lloyd; that you mostly enjoyed doing the duties of office is to your credit as well.

Howard Zingel

WELLINGTON
Wellington Branch has been working towards making this year's AGM at the James Cook Hotel on 24 July the most exciting event in the NZSA Calendar.

Martin Dowse - Chairman

CANTERBURY
The Branch AGM was held on 3rd June at the Fendalton Croquet Club. It was a short but efficient meeting lasting barely 20 minutes which accomplished the essential requirement of approving the previous minutes and annual accounts. The election saw the return of the previous committee members: Barbara Duff, Robin Harrison, Peter Heffernan, Pamela Hurst and Margaret Murray.

"Strategies for Survival"
Following the AGM members enjoyed an excellent presentation from My Johnny Cochrane (Director (Wealth Management), Murray & Company Investment Bankers) who gave his perspective on the current world recession with some pointers to strategies for surviving these troubled times. There were some excellent questions form members which brought forth thoughtful and insightful responses from My Cochrane. The evening was rounded off with light refreshments and the speaker thanked with a presentation of a bottle of fine Waipara Pinot Noir.

Robin Harrison - Chairman

BRANCH CONTACTS

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Bay of Plenty	Lloyd Christie	lloydchristie@clear.net.nz
Wellington	Martin Dowse	martin@dowsemurray.co.nz
Canterbury	Robin Harrison	robin.harrison@canterbury.ac.nz

MEMBER'S ISSUES

BRANCH EQUITY PORTFOLIO COMPETITION.

For new members it should be explained that a competition was established in May 2006 for the purpose of creating a long-term equity investment portfolio whose initial target is the accumulation of capital over a period of five years with the objective of exceeding the rate of inflation over the stated period by 33%. The rules of the competition may be found on our website. The competition provided for the introduction, on a notional basis, of $1,000 per month.

As it transpired, only two Branches participated in the competition, Auckland and Waikato. Results to date are as follows:

	Auckland Branch			Waikato Branch	
Portfolios at 31 March 2009					
Company	Shares	Value		Shares	Value
	Held			Held	
Auckland International Airport	725	1,240			
EBOS				2335	3,183
Fisher & Paykel Healthcare	2293	7,246		941	2,974
Infratil				1068	1,559
Kingfish	1493	1,060		665	472
Mainfreight	140	581			
Marlin - Options	6000	180			
Nuplex Industries	293	220		155	116
Northland Port				344	774
NZ Oil & Gas				2335	3,152
Opus	650	780			
Port of Tauranga				477	2,457
Pike River Coal				2461	2,215
Rakon Group	1351	1,635		1293	1,565
Sanford				555	3,136

Trust Power	132	1,030			
Vector	387	882			
Cash		13,946			3,083
Total portfolio values		28,800			21,686

Comments by the two Branches are appended below for the information of members.

Auckland

For the 6 months period we lost $3072, a reduction in value of about 10% for the period. The main loss was in small caps –Kingfish, - cyclicals – Mainfreight/ Opus/Rakon and debt related problems – Nuplex. In the export sector FPH showed gains. The remainder of the portfolio has been defensive and generally held up in value. Investment activity has been nil in the period. More activity has occurred since March 09.
Noel Thompson for the Branch

Waikato

Our portfolio continued to suffer further heavy losses to the end of March. Unfortunately we held holdings in companies that have been savaged in the last 6 months notably Nuplex and Pike River Coal and Rakon. Even stalwarts such as Port of Tauranga have suffered significant declines. Fortunately recent purchases Ebos, NZ Oil & Gas and Sanford have held up.

We culled out poor performers NZ Farming Systems, Mozy, Provenco and Kermadec. We had become disillusioned with our prospects for the 2 years before the competition ends; and so approached Oliver to allow us to invest in bonds, which he agreed to! Notwithstanding the market still throws up some good opportunities, and capital raisings which look likely to become more prevalent could be useful investing avenues.

Reviewer's comments

I should like to applaud the staying power of both branches. The competition was introduced towards the end of a period of continual growth in share prices. Few anticipated when the actual downturn would occur, although there were many who pondered the ability of the market to sustain such growth. However this is of no earthly benefit to an investor who, in the space of a few months, can lose out on substantial benefits if a decision were taken to quit the market at the wrong moment. This 'moment' only crystallises in hindsight. Both competitors have retained their core portfolios and this accords with the long-term strategy of the competition.

I would like to comment on the rule change that has allowed competitors to invest in fixed interest bonds, if required. This change of rule was made at a time when advice was being received from some brokers that deposit interest rates for overseas currencies had reduced to zero. It was clear that New Zealand currency was in the process of behaving in a similar fashion so any careful funds manager would look to find alternatives to holding funds at a bank earning no interest. Whilst the purchase of bonds for the short term introduces a market and timing risk that is not so prevalent with equities; nevertheless the special circumstances prevailing at present suggested that this as an alternative that should be available to the prudent investor. We therefore agreed to the rule amendment. I have also decided to reduce the call rate on funds from 7% to 5%. The reason was that the competition was created with the objective of being as close to the market as possible. I have retained the rate at 5% in the hope that both competitors

would consider the benefit of retaining cash, even at the low notional rate of 5%, to be preferable to the greater cost and risks attached to fixed interest bonds. So far this has been the case.

The results to date

Notional funds so far provided have been $35,000. The NZX 50 Index started on 1 April 2006 at 3795. It finished at 2590. This starkly represents a fall of nearly 32%. It should be remembered that the NZX 50 Index is a gross index. That is all dividends are brought into the fund gross. Our competitors bring in only the net rate. If portfolios were to mirror the NZX 50 Index then at 31 March 2009 both funds should show $24,798. It will be noted that Waikato are very close to this performance indicator and Auckland are firmly ahead at this stage. However there is more than enough time for Waikato to catch up with the benefit of what they have learned to date. It is an interesting race.

Oliver Saint

FDR TAX – ANOTHER WRINKLE

During the term of the past Labour administration there was a change made to the way taxes were levied on shareholdings in foreign companies. In short, if one held shares in companies in countries such as USA, Canada, UK etc and their combined value exceeded NZ $50,000 the new tax became applicable. Shares held in these countries from then on were classed as Non Exempt.

Much play was made by the Labour administration that most Australian registered companies would fall within the Exempt category as we had a special relationship - CER, they had a franking account and were registered on an approved ASX Index.

Therefore tax payers for the tax year 1st April 2007 to 31st March 2008 could generally assume that their investments in Listed Investment Companies - LICs - such as Argo Investments, Milton Corporation, Australian Foundation Investment Company and numerous others, would be in this Exempt category.

Bear in mind Australian Foundation Investment Company has over 8,000 New Zealand Shareholders.
On the 20th March 2008 Standard & Poors changed the index. This change had the effect of excluding all the LICs from any ASX Index as of that date.

This significant change has had an impact upon shareholders in LICs.
This then became a strange quirk in the legislation
In effect with the tax year commencing 1st April 2008 - 31st March 2009 this significant change had the effect of making all these listed LICs a Non Exempt entity; hence they are liable for this FDR tax.
It was announced on 2nd January 2009 that Standard & Poors had created a new index for the LICs that would be recognised and had approval from the ASX.

This announcement has had the following effect. The tax year 1st April 2009 - 31st March 2010 now places these LICs back in the exempt category.

You may ask why worry too much about the year 1st April 2008 - 31st March 2009? The reason is that many of these LICs incurred a reduction in the share price over that time. This may help with your tax position when the relevant forms are completed. Also with the FDR tax, dividends do not have to be included and this also may have a material impact that is to your advantage.

Allen Smith

Editor's note: This capricious piece of regulation, introduced without select committee discussion, has cost the government money over the past two years and will continue to cost it money approximately 1 year in 3. It also costs the taxpayer time and money in separating out the stocks which are not in the index at the beginning of the year or when they are bought during the year. The regulations are stupid, but we are not complaining too loudly, as we usually buy smaller stocks on forecast yields higher than 5% and therefore get some of that yield, tax free.

CONFLICT AND DILUTION IN TEAMTALK

The following outline came into Bruce by email

Araneo and founding shareholders entered into a shareholders' agreement, Sept 07, with TeamTalk Limited (NZX listed company – TTK) which provided TTK with a 34 % shareholding in exchange for a capital injection. Since then TeamTalk have contrived to increase their shareholding to 55 %. The most recent grab for shareholding arose as a result of an foreseen cash flow shortfall which Teamtalk has used to its advantage by forcing a discounted share issue that was not offered to all shareholders and not agreed to by the directors. Several alternative options for capital raising were proposed but these did not suit TTK. TTK has subsequently managed to obtain majority shareholder approval to a further share dilution offered only to themselves, through the quiescence of other shareholders. The writer would like to take TTK to task.

Bruce replied: The predatory practices of a public company, goes to the core of ethics. Team talk is part owned by Active Equities which may also bear some responsibility for the actions. The issues are

1. A public company has taken advantage of private company minority shareholders to the advantage of itself and its shareholders, it has done so in a sharp manner, and to the extent they profit from this, their shareholders are advantaged and that may include our members. Since Araneo is a private company, it is not an issue for the NZSA.

2. You may have remedies under the companies act and under common law, but you will need to seek professional advice on this.

FEATURES INDEX

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