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

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BRUCE'S EDITORIAL – UNSUNG ACHIEVEMENTS OF NZSA

The NZSA is coming up for its 10 year birthday and it seems opportune to look back at some of the more notable achievements that shareholders in general are enjoying as a result of our existence.

Relationship with the board.
Ten Years ago, it was impossible for shareholders to practically nominate a person for a board position, now it is possible to nominate, but still virtually impossible to succeed. More individuals have stood for the board against incumbents in the last two years than ever before. Regardless of success or failure it does galvanise debate on the issues confronting the business.
Ten years ago, boards can and did pay themselves whatever they liked regardless of the resolution of shareholders. Now shareholders votes on directors fees have meaning. (the Tower fees debacle)
Ten years ago directors drew retirement allowances; they are now gone.
Boards are now aware of shareholders and actually consider when making decisions what the reaction of the NZSA and shareholders will be. The recent Nuplex letter on our website says this quite clearly.

Meetings and voting.
Boards understand that a shareholders meeting is just that, a meeting of shareholders. We have altered the agenda of meetings to facilitate a debate on what shareholders want to talk about. For Example, Contact's directors' fees last year became our issue.
Shareholders are now more confident to speak as they know now that they have support amongst members inside and outside the meeting.
The quality of debate and questions has increased, and Directors nominated speak to shareholders about their proposed board activities before the vote.
We now attend most public company AGMs and act as proxies for shareholders who cannot attend. This is very important as in the past the usual choice for small shareholders was the Chairman of the meeting with the obvious conflicts that this involved.

We have had the proxy form changed. In the past the only choice was "yes" or "no", and if you left it blank the chairman could vote your shares for you.
In particular he could do this on major transactions that the board floated making opposition futile. The big win was at Fletcher Forests against all odds, including board controlled proxies obtained for the occasion by the manipulative use of American Depository Receipts (ADRs) - now also gone from the landscape.
Now the proxy form has four boxes: for, against, proxy holder discretion, and abstain. If they are blank, it is deemed to be an abstention, and so only shareholders who consciously apply their minds get a say - just as it should be.

Undirected proxies can no longer be voted on transactions by directors without a deliberate authority from the shareholder.

Regulatory framework.
Minority buy out rights have been improved, though the trigger to activate the right remains a problem.

Boards know that we are on the lookout for illegal Insider trading and sometimes at least, it is prosecuted. The Securities commission has demonstrated the power of its teeth, with the Ritchwhite/Tranzrail case, upon our complaint. Shame they don't do it more often. Serious questions remain over the position of NZX, but it has at least given up the 20 minute delay, (see our previous newsletter,) providing you register through the website.

Tax policy.
The FIF regime would be much more odious than it is, if it were not for the political activities of the NZSA in partnership with Tony Gibbs of GPG. Sure he pulled out early once he got his 5 year exemption, but to his credit he helped us continue to the fight behind the scenes.

Shareholders themselves.
They are smarter now than they were 10 years ago. In 2002 question time was occupied by a shareholder at telecom asking why the Wellington White pages were not in alphabetical order. This went on for over 10 minutes. You don't get this any more, shareholder questions, and not just ours, are considerably more insightful and concerning to boards. Some companies now circulate shareholders with the AGM notice asking for questions.

Perhaps we have contributed to this by our example at meetings. We hope the provision of NZSA education courses and those provided by FLOW will continue to improve the knowledge and capacity of investors.

The enduring legacy.
Boards now treat shareholders as owners, not dumb, powerless, limited- recourse bankers, and actually care what shareholders think.

And those who have helped us.
The NZSA would be nowhere if it were not for the support of the Media. Without them the power of public humiliation would not exist. This said the media are now getting testy, as they want to find fault where there is none, and don't like it when we tell them this.

A number of enlightened board members and institutional shareholders and others have helped considerably over the years to further the goals of the NZSA. They have helped with mentoring, they have helped with information, and they have helped by simply being a willing ear and lobbyist for our cause in many ways. They include, in no particular order, Brian Gaynor, Sandy Maier, Tony Gibbs, Gary Paykel, Wayne Boyd, Carmel Fisher, Stephen Tyndall, Mark Verbiest, Simon Botherway, Linda Cox, Peter Masfen, Michael Staisney Gareth Vaughan, Lloyd Morrison, Grant Diggle, Rob Cameron, Rob Mcleod, Roderick Deane, Bill Falconer, Trevor James, Ralph Walters, Don Braid, Dean Bracewell, Rick Fala, David Kerr, Simon Challies, Andrew Couch, and believe it or not even Mark Weldon.

The best part of the relationships with these people is that we can each speak our minds freely and while often disagreeing still respect each other. We have considerably improved the connectivity between shareholders and key decision makers and this will improve the performance of companies over time.

Bruce Sheppard

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SPRING IS HERE – GROW YOUR OWN ASSOCIATION

Since joining the NZSA a year ago, I've been impressed by the number of articulate intelligent investors we have in our ranks. The truth is we need more in order to expand our influence and make our voice heard at company AGMs and beyond. To that end, I invite you to email or write to me for some membership brochures which I'm happy to post to you so that you can shoulder-tap your friends and business acquaintances who are not yet NZSA members and tell them what a great organisation it is, and why they should join immediately in order to enjoy the benefits that you can readily vouch for. Remember, personal recommendation is the most powerful form of influence by far on a person making a decision to purchase something or join an association. Let's all do our bit!

Patrick Flynn

EMPHASIS OF MATTER MAY MEAN QUALIFIED AUDIT

There have been several references in the papers recently about who audits the auditor and whether the profession is doing its job properly. This is a question that is often asked and whilst case law (the Kingston Cotton Mills case as long ago as 1896) suggested that the auditor should be a watchdog and not a bloodhound, it is my own view that the passage of time might well suggest that the watchdog these days should start barking a little more loudly. In any event, I am not sure that the simile is necessarily appropriate in that the bloodhound is not a particularly savage beast, its duties being largely to smell out and find the pursued. We really need auditors to be bloodhounds.

Perhaps it is best to start with the 1993 Companies Act. Until the introduction of that Act, there was a standard requirement for the auditor to give an opinion as to the correctness of the records and whether the accounts showed a true and fair view of the state of affairs of the company. The Companies Act 1993 changed this quite significantly, as I will explain. With the introduction of the Act, all that is required is for the audit report to comply with the matters referred to in the Financial Reporting Act 1993. So now we need to look at the Financial Reporting Act for guidance. This new Act however is more prescriptive and sets out a number of matters that previously had not been stated. In addition the audit report explains that the accounts are the responsibility of the directors. Finally, where the auditor is of the opinion that the requirements of the Act have not been complied with, then certain steps must be taken including sending within 7 working days a copy of the opinion to the Registrar of Companies who shall then forward a copy to the Securities Commission and to the Accounting Standards Review Board. Unfortunately it is this final matter that has persuaded the Accountancy profession to ensure that ALL audit opinions are stamped with the words 'unqualified report'[1]. This is the stumbling block for you and me. It is also why you should always look very carefully at the audit report because an unqualified audit report does not always mean that everything is fine. The most serious qualification in any audit report relates to the going concern proviso. That is, whether a company can continue as a going concern due to an inability to pay debts as they become due. The statement in effect suggests, if the company is in trouble, that serious provisions might be required if the company in question is unable to pay its debts, and cannot obtain additional funds from shareholders or obtain banking facilities to keep the business going. This sort of statement in the audit report should be read most carefully and the necessary Balance Sheet Note also read. Changes in audit report format, in so far as this is possible given statutory limitations, seem to have their origins in the USA or Europe and we are now seeing for the first time headings such as 'Emphasis of Matter' being introduced to describe serious transactions or situations which the auditor wishes to draw to the attention of shareholders. The latest example of this was introduced recently into the audit report of Fisher and Paykel Appliances Limited, when the auditor felt obliged to cover the position should the company fall foul of more stringent banking arrangements. As this raised the question of the going concern proviso, the auditor was quick to stress that the report was not qualified. I can imagine the discussion between the auditor, board, and management about the inclusion of this wording since the next paragraph stated the, now customary, Unqualified Opinion. This really is the dilemma of the present regulations. In order to avoid the trouble of sending copies of annual reports to the appropriate regulators stimulating a separate report in each case, the Accountancy profession has neatly circumvented the rule by incorporating all qualifications in a paragraph immediately before the words 'Unqualified Opinion'. The message to all shareholders is to turn to the audit report and look for the heading 'Emphasis of Matter'. Be warned!

Footnote: [1] The first and, to my knowledge, the only qualified audit report has been that of Savoy Equities (still listed, by the way). Presumably the required reports were submitted to the authorities but they remain anonymous.

Oliver Saint

BOARD REPORT FOR SEPTEMBER

The board always reviews financial, management, and Scrip and Corporate liaison reports, but the following points are noted for the general interest of members.

1. Branch attendance: At the August Branch Conference it was resolved to give branches the opportunity to participate in Board meetings on a roster. Margaret Murray of Christchurch worked on some protocols for this in conjunction with regional committee members, and the first participant, John Davies of Waikato attended in September. He

was able to update us on financial, organizational, and communication issues facing Waikato and potentially other branches.

2. Funding for FLOW. This separate educational trust has secured funding from the Tyndall Foundation on condition that equivalent funding was secured from another charitable organization. The Chairman announced that he had commitments from KordaMentha for the parallel contribution to Flow, and also a further general sponsorship of the NZSA activities. This will enable FLOW to repay the initial seeding provided by NZSA members.

3. Submissions to government: John Hawkins reported on our alliances with other professional bodies who are supporting us in our submissions on the position of NZX, and the functioning of our capital markets.

4. Clashes of AGM dates: Jacquie Staley has been in touch with boards so that clashes of meeting dates (eg those on 29th October) can be avoided, and that shareholders with diverse portfolios have the maximum opportunity to attend.

A PERSONAL RECORD OF MATTERS PERTAINING TO MY ESTATE

The Bay of Plenty branch has recently published a booklet with the above title and is now available, for $5.00 per copy postage paid.

This twenty one page booklet is a source of information for those who require access to your personal records in times of distress. Once it is filled in, it will be a comprehensive record of details covering all aspects that your family, friends, legal representative, accountant and funeral director will require when the estate is wound up.
The details that you enter will cover all aspects of your affairs from birth certificates, marriage certificates, wills, and life insurance, to bank accounts, investments, property ownership, trusts and much more.

Each branch throughout New Zealand has received samples sufficient for every committee member. Contact branch committee members to view the booklet.
They can be obtained from the Bay of Plenty branch by contacting

Allen Smith
Box 8004
Cherrywood
Tauranga 3145.

Please send your cheque and return address to Allen and your copy will be mailed to you promptly.

A NEW FRAMEWORK FOR FINANCIAL REPORTING

The NZ Accounting Standards Review Board and the Ministry of Economic Development have prepared a joint discussion document on the above subject which may be read on the website of either organisation. Although the document embraces reporting requirements for private companies, Maori trusts and charities, it does include a section reviewing the requirements for overseas companies, and NZ listed companies.
The objectives of the review are to produce a reporting system that is

- Underpinned by coherent financial principles
- Weighs the benefits against the cost of compliance
- Is consistent
- Is clear with unambiguous obligations
- Facilitates harmonised standards with Australia
-

The discussion document recognises the problem faced by many shareholders, that current financial reports are produced by accountants for accountants, and so it is important that NZSA has a say on behalf of the non-accountant shareholder who is trying to understand what is going on.

The deadline for submissions is Friday 29th January, 2010. Members who are keen to raise general issues over our listed company reports should first get an idea of the outline of the review and the issues suggested by the authors on page 7, and then email the Editor so that a submission can be prepared.

Alan Best

CANADIAN SHAREHOLDERS GOAL FOR HIGH PERFORMANACE BOARDS

The Canadian Coalition for Good Governance, is a not-for-profit corporation of pension fund managers whose members look after approximately C$1.2 trillion in assets. The coalition recently prepared a discussion paper on what it expects from a high-performance board. Each part of the following summary is examined in depth in the discussion paper, and we thought the headlines were worth including:

A high performance board represents its shareholders
GUIDELINE 1: Facilitate shareholder democracy
GUIDELINE 2: Ensure at least ⅔ of directors are independent
GUIDELINE 3: Separate Chair and Chief Executive Officer

A high performance board has experienced, knowledgeable and effective directors and committees
GUIDELINE 4: Ensure the board has competent and knowledgeable directors
GUIDELINE5: Establish mandates and independence of board committees
GUIDELINE6: Establish reasonable director compensation and share ownership guidelines
GUIDELINE 7: Evaluate board, committee and individual director performance

A high performance board has clear roles and responsibilities
GUIDELINE 8: Provide oversight in strategic planning, risk management and hiring and evaluating management
GUIDELINE 9: Assess the Chief Executive Officer and plan for succession
GUIDELINE 10: Develop and oversee executive compensation plans
A high performance board engages its shareholders
GUIDELINE 11: Report governance policies and initiatives to shareholders
GUIDELINE 12: Engage with shareholders outside the annual meeting

In the same document, the CCGG included their summary principles for remuneration of senior executives. Each of these is explained in depth in a separate paper already accepted by members and published on the CCGG website.

CCGG 2009 Executive compensation principles:

PRINCIPLE 1: "Pay for performance" should be a large component of executive compensation
PRINCIPLE 2: "Performance" should be based on measurable risk adjusted criteria, matched to the time horizon needed to ensure the criteria have been met
PRINCIPLE 3: Compensation should be simplified to focus on key measures of corporate performance
PRINCIPLE 4: Executives should build equity in their company to align their interests with shareholders
PRINCIPLE 5: Companies should limit pensions, benefits, and severance and change of control entitlements
PRINCIPLE 6: Effective succession planning reduces paying for Retention
The CCGG believes that both governance and remuneration policy evolve with community values and shareholder awareness, and need to be revised and updated regularly.

Kevin McCaffrey

GUNN SILENCED AT LAST

One of New Zealand's earliest and best known champions for the rights of minority shareholders has fired his last salvo. Alexander Maxwell Gunn, accountant, trust manager, and a thorn in the side of recalcitrant public listed companies for three decades, died aged 94. The New Zealand Herald reported that NZSA Chairman Bruce Sheppard said of Gunn:" He was an interesting guy, he had no fear and would say exactly what he meant. He would tell it as he saw it. He was one of the first small shareholders to stand his ground and paved the way for others to do so at a time when few would. He was simply a vocal advocate prepared to stand up and challenge others."

Patrick Flynn

RELISTINGS – KATMANDU MEYERS ETC

Prior to investing in any "initial public offering" that is in fact a company 'relisted' by a private equity firm that purchased the original company, investors should analyse the offer carefully.
Focus particularly on the debt levels the relisted company will carry, the details behind any growth strategy, and the percentage shareholding retained by the private equity firm. If the relisted company has above average growth prospects and low debt, then that retained shareholding should be substantial.
As Terry Hall pointed out back in 2004; private equity funds buy distressed companies cheaply, usually in a downturn, give them a shake-up, cut staff numbers, sell surplus land and lease back premises, and then flog them off to investors in the next upturn. Members should remember the Feltex debacle.

Jacquie Staley

CAN THERE BE A BRANCH IN HAWKES BAY?

Are there members in Hawkes Bay who would like to belong to a local branch of the Association? Bay of Plenty Branch have for a number of years successfully run activities more suited to members who live outside the major cities and would like to share that knowledge and experience with members in Hawkes Bay. If you want to know more contact the Bay of Plenty Branch chair, Allen Smith 07 5767087 or email allen.smith@wave.co.nz

Allen Smith

GOVERNMENT DEPOSIT GUARANTEE SCHEME

We summarised this Scheme in our December 2008 newsletter. The Treasury announced on 25 August 2009 that the scheme is being extended to 31 December 2011 with some changes to the terms and conditions. (see www.treasury.govt.nz) The changes that take place after 10 October 2010 are:

- Eligible deposits will be covered up to a maximum of $500,000 per depositor per institution.
- Depositors who are presently covered by the scheme will only have their guarantee covered if the bank agrees to continue with the new scheme. This proviso is important for those with finance company deposits.

Oliver Saint

CONTACT ENERGY – CORPORATE LIAISON REPORT

Editor : Contact, after losing a reported 20,000 customers, has finally appointed new, strong, independent director, Sue Sheldon of Christchurch. Des, met with Sue, and CEO David Baldwin, who are both on record as wishing to restore Contact's reputation with shareholders.

We discussed the importance of the role of Independent Directors and I am prepared to accept at this point in time that Sue Sheldon will carry out this responsibility in a professional manner. Time will tell and I recommend we now as an association sit back and monitor the results over the next few months. I suggested one other independent director would be welcomed as the NZSA as many investors do not see Phil Pryke acting as a director in that role.

I am satisfied Contact Energy has a very experienced board of directors and CEO and are therefore well placed to grow their business in line with forecasts. We discussed the issue of bonuses for the CEO and I explained we would like to see short term bonuses no more than 30% of the basic pay but a higher percentage being set for long term results. KPI`s should have some bearing on shareholders' returns and may be linked to EPS, share price growth, etc. As a guide the CEO would then be measured on the average achieved over three to five year rolling periods. Each new year you drop the first one and then add another.

I did cover the fact that CEO basic pay throughout NZ and Australia has crept up faster than both the average salary and shareholder returns. Twenty years ago it was closer to 15-20 times the average salary whereas the latest research shows it now has gone as high as 150 times, typically reflecting greed more than company performance in our opinion. I explained we are not promoting more government regulation but expect directors to take heed and be more responsible with their recommendations to shareholders. David did explain that their reward system does extend down to many of the other senior executives, which we do support. The cash component of David Baldwin's remuneration ($1.1m) was 14 times Contact's average cash remuneration last year - and his total potential remuneration (assuming 100% payout of cash and equity incentive compensation) is 17x the Contact average total remuneration (again - assuming 100% of incentive compensation is paid out to all employees).

Sue has a good understanding of the many issues we discussed. So hopefully we will see policy being introduced that we can support. I did point out bonuses set based on comparing Contact's results with other NZ companies is not the way to go. Why should a CEO receive a bonus if the performance achieved is an unacceptable return, even if it is better than some other local companies? All bonuses should only be paid if satisfactory results are being achieved in both an absolute and relative sense.

I did give David and Sue a promise I would be the only one communicating with the company and the media going forward until we advise them differently. David and Sue are keen to make it a regular event to meet throughout the year.

Des Hunt

COMPANY AGMs AND PROXIES

INFRATIL AGM 17TH AUGUST

The meeting introduced Marko Bogoievski who took over as CEO when Lloyd Morrison went on extended medical leave. Marko was elected as a director, alongside the re-election of David Newman as Chairman and Anthony Muh.

The meeting was asked to vote on the continuation of Infratil's infrastructure bond programme.

It is this point that I wish to address in these notes, because there may well be NZSA members who hold Infratil Perpetual Convertible Infrastructure Bonds (PiiBs).

The PiiBs have performed extremely poorly over the last couple of years and I raised the issue at the meeting in view of the resolution to continue with the bond programme. In his address the Chairman seemed rather pleased at the money that was raised cheaply by Infratil through their bond programme, keeping it clear of the credit constraints facing the banks, a big plus for shareholders. He did not seem to concern himself with the extreme capital loss to bondholders of PiiBs.

In answer to my question, the Chairman was quick to say that Infratil would not be issuing Piibs – they just wanted shareholders approval for the bonds programme as in previous years.

The reason given for the poor performance of the PiiBs are the following:
Infratil PiiBs have 2 key features: 1. a low credit margin of 1.5% and 2. an annual coupon reset.

These 2 factors have conspired to lower their market value, as explained below:

1. Credit margins on borrowing have increased markedly since 2006 in response to the credit crises. It would be probable that PiiBs issued today might have a credit margin of about 4%......commensurate with the relevant risk.

2. A second key problem with the PiiB (and other securities with coupon rates reset annually) is the shape of the yield curve. The long term government rate is 3.0% higher than the short term government rate. The RBNZ has lowered short term interest rates in response to the recession. Anyone with a deposit or bond with rates reset from short term yields will feel the consequences. This is unusual for NZ as commonly short term rates here are high.

In terms of any recovery in the price of the PiiBs, the best that can be said is that as the secondary market has been impacted by the widening credit spreads and low short interest rates - there is no reason to believe both negative influences will continue forever. In fact both factors can be expected to recover over time. There is every likelihood that one year rates will rise again in 2010 and the PiiB coupon will return to the historic average which has been around 9%. When that happens, even if the credit spreads remain wide, it is reasonable to expect the PiiB market price to return to 75-80 (from the present price of 60-65).

There may be some smart investors who will now trade/buy the PiiBs at 60-65 - aiming for the capital gain if they reach 75-80. If this is such an buy opportunity - and if you are an existing holder in PiiBs - on the other side of that trade, it is probably worth considering holding on to them and not selling them to hand the buyer that type of return. At the very least you may want to think through the options carefully.

Investors invest in the debt markets for regular income and stability of their capital. They do not want volatility or a loss of capital. They do not mind a bond with an annual reset if the quality of the company is there. Bonds are the stable end of their portfolio.

Perpetuals, by their very name with no set maturity date, do not offer this stability.

Jacquie Staley

Editors note:*This applies more to Infratil's bonds than the various banking perpetuals, although they are all tarred with the same brush, and the banking ones have the additional problem that they are promoted without any information for the investor, or any commitment to future reset margins by the banks - see BNZ investment statement – saying simply, “Trust us, because we are a bank.”*

GENEVA FINANCE AGM - 29th SEPTEMBER

Some 40 or so mainly elderly (as is the feature of most AGM's) were in attendance to hear a reasoned measured and (in view of past circumstances) somewhat cheering account of the year under review. The company had emerged from a situation perilously close to receivership into one of some hope of survival and recovery.

A new Chairman had been elected; debentures had become, in part, shares and the rest debentures which were being repaid. The company was far from out of the woods but if current economic conditions do not again go into decline there are grounds for optimism that investors will recover their investment.

A new Chairman, (a former hapless investor,) a rejuvenated Board and a hard working staff has seen the company going forward - in the words of the Chairman " not outstanding but on the way". The company still "carries" a lot of drag such as rent on office space leases that had been abandoned in their economy drive and on which rent still had to be paid. They had slashed their operating costs; were repositioning themselves in the loan market and moving away from loans to car buyers in the south Auckland area. A loss of $7000 in the first six months of the year became a tax paid profit of $704,000 in the second half. The company had supportive bankers and 24 months of reasonable overall economic conditions should see the company "out of the woods".

A markedly more cheerful group of investor/shareholders left the meeting than ,I understand, was the case at the AGM of 2008, and a battered old investor who sat alongside your humble reporter observed " I'm glad that they kept away from those Receivers ; there is never any money left for the little investor after those hungry **** have taken their cut." He almost had a smile on his face.

Joe Turnbull

FISHER AND PAYKEL APPLIANCES AGM – 17TH AUGUST

NZSA Proxies 760,591
This company had been caught in a downturn, with high borrowings and stock in several countries, a declining NZ $, in the middle of a large scale plant rationalisation, and the resulting capital raising had cost shareholders dearly. We wanted to challenge the board representation of the new cornerstone shareholder, Haier, the amortisation of debt under the banking covenant, the plans for board rejuvenation, and the existence of the finance company in the group.

A chat with Gary Paykel and Ralph Waters before the meeting to brief them on our possible line of questioning suggested that there would be several announcements relating to our concerns and that we should hold fire until the meeting was well advanced. The Chairman’s address highlighted that the Global Manufacturing Strategy commenced in 2005 was now well advanced with cost targets being met in Thailand, Mexico, and Italy and plant closures in Dunedin and Australia completed. While markets were poor in USA, slugglish in NZ (-11%), Australia (-7.7%) and the Common Market, significant opportunities were opening with the partnerships with Haier in China, and through the Elbe network in Italy. The programme of stock reduction $76m down to $20m, and debt reduction under the amortisation covenant was on track. Gary Paykel also promoted the Finance subsidiary as a successful earner under current conditions, in its avoidance of property and high risk personal lending, continuing a A1 rating, and improving reinvestment rates.

John Bongard (MD) in his address pointed to the most difficult trading conditions in the company’s 75 year history, including a 15-20% decline in the North American market, and restricted stock lines in the Australian market as production was shifted to Thailand, where laundry products were now tracking ahead of target, and refrigeration production had now commenced, in spite of the 15% cut in indirect staffing.

However, both speakers emphasised the prospects of the Haier alliance, a big brother of 60,000 employees and 14 times the sales of F&P – potential for outsourcing of manufacture in some products for the Chinese and European markets, learning from Haier expertise in front-loading washers, shortening the development cycle, by technical cooperation, joint raw material buying ($3m savings forecast), brand extensions through the Italian market, Haier brand roll-outs in NZ and Australia through F&P dealerships, and F&P up-market brand roll-outs in China through new centres in 4 Chinese cities. Lower cost manufacture in Mexico for the US market would be assisted by knowledge gained from Haier. We had the impression that every cent of the capital raising and the bank facililty would be put to good use in the near future with shareholder rewards for 2011 onwards.

Questions over the reports centred on the rate of debt amortisation $45m due 30/09/2009, and $120m due 31/12/2009. We were assured that profit forecasts and debt paydown commitments were on track. (*This has recently proved not to be the case)*
Members were also concerned that the reduced salary packages of executive staff would remain until dividends had been restored, and that no extraordinary retirement packages would be implemented. I sensed prevarication over this, and with the impending retirement of Ralph Waters, and other announcements this became clear later.
Oliver Saint expressed doubt that the unqualified report of the auditors would not hold much water if the bank covenants were not met, and the "going concern" assumption would soon change if asset sales had to be made. The assurance of the PWC auditor that all accounting conventions had been followed did little to nullify this point.
Bruce Sheppard questioned other fees paid to the auditors, which were for due diligence on F&P Finance when that business was offered for sale. Bruce also questioned the transparency of reporting, and conflicts of interest arising from transactions between Haier and F&P Appliances, particularly for the future, and was assured that all transactions would be treated as "arms length" with "best practice" protocols applied.
Bruce asked what lessons management had learned from the recent difficulties. John Bongard ruefully admitted he would never like to experience the critical timing difficulties again, and that sales collapse, combined with high debt, declining NZ$, and plant relocation was a severe test of management.

Turning to the election of directors, we questioned the right of cornerstone shareholders to appoint staff to the board. Appointment should be made on ability and merit rather than shareholding. Shareholders, nevertheless supported the new board members, almost embarrassed that it required a large Chinese company to lead the way in appointing a youthful woman, and a key marketing executive to this ageing group. Bruce Sheppard delivered a clear message to Haier representatives, that shareholders would not appreciate high-handed choices of independent directors or influence over their recommendations as has happened in Contact Energy. With the withdrawl of Norman Geary, and potentially Ralph Waters, the reelection of John Gilks was predictable, but some shareholders questioned this on the grounds that the only continuing director in an unsuccessful board should be voted down on principle.

Two other announcements took centre stage:

a. The appointment of Simon Botherway as a new director to be confirmed at the next AGM, questioned by some shareholders because they would have preferred to vote on his appointment at this years meeting. Apparently the time was too short.

b. The retirement of MD John Bongard after 35 years service due to prostate cancer.

As a result the board had prevailed upon Ralph Waters to delay his withdrawl until, a new CEO could be appointed.

This was an eventful meeting in which shareholders fears of board and executive instability, and the depressed market conditions were not allayed, but in which we could see an honest attempt was being made to keep this iconic manufacturer on track.

Alan Best

BABCOCK AND BROWN LTD NOTEHOLDERS MEETING - 24TH AUGUST

BBL issued nearly $700million in $A and $NZ notes some 3 ½ years ago at a time when clouds were just over the horizon. Since then BBL has gone bust with a substantial negative equity.

Note holders were offered 1/10 cent in the $1 last year.
This meeting was called so that the administrators could report on their preliminary investigation and to vote on putting BBL into liquidation.

David Lombie representing the administrators chaired the Sydney meeting (which we heard).

The administrators believe that there are grounds for bringing damages claims on the directors & auditors (who have insurance). In 2008 for example when the company was sliding downhill fast the directors-
-Paid out a $100 mill div to shareholders,
-Paid $240 million to buy back shares (to bolster the sagging share price)
-paid to buy a company with connections to directors.

Additionally they feel that the auditors signed off accounts with overvalued investments.
In 12 months to March 2009 some $5 billion was written off investments.
If investment were seriously overvalued when the above transactions took place, the company might have been guilty of trading whilst insolvent. That would open a huge tin of worms.

The next step is to determine the means of funding the cost of public examination of officers & auditors having obtained documents and witness affidavits-costing $600,000.
Either the note holders can contribute $400 to a fighting fund or “litigation funders’ can be employed, and they take 30-50% of the damages.

A huge damages recovery is necessary for even a small return-
The maths is as follows-
Note holders - $700mill approx
Say $250mill is recovered & the funder takes 40%. That leaves only $150 million net or 21cents in the $1.
The note holders’ trustee voted to put BBL into liquidation & wind it up.

Tony Sullivan

FISHER AND PAYKEL HEALTHCARE HOLDINGS AGM – 21ST AUGUST

NZSA Proxies: 59 totalling 658,772 shares.

My first comment is to thank all members - and possibly non-members too - for their diligence in returning proxy forms and empowering us with their votes at this meeting. The two Fisher and Paykel meeting yielded the highest proxy count we have ever received – most encouraging.

We received one e-mail from a member prior to our attending the meeting and we always welcome this feedback. (For those who peruse annual reports and do have concerns please direct your queries to patrick.flynn@nzshareholders.co.nz). Whilst we may not always seek answers from the queries raised, we do consider them carefully before the meeting. The mild criticism related to the rate of growth margins in the last 5 years. It is true to say that whilst the group may not have provided the perceived expectations that were felt available after the reorganisation in 2002, there has nevertheless been sound growth. However, the query was answered by the CEO during his address when he stated that the budgeted results for the current year accompanied, of course, by the usual provisos, was for after tax profits in the region of $75 to $80 million. With no specific instructions from our Board, I decided that there were a number of other factors suggesting that a favourable tone was warranted for this meeting. The Healthcare Board is part way through being revamped and whilst possibly there may not yet be a strategy for succession planning of Board members, there has been improvement recently with the appointments of Roger France and Arthur Morris. Also, Simon Botherway was introduced to shareholders and he will replace Colin Maiden before the next AGM. As there were some excellent questions during the meeting, I decided that silence was justified.

One of our members sought comment from the Chairman about production being started in Mexico since, from her experience some years ago, quality control would need to be of major importance. Mr Daniell advised that there was an excellent manufacturing facility in the Tijuana area under a team led by a USA employee, Larry Gibbons. The target debt to equity ratio mentioned as a result of one shareholder seeking comment on gearing was confirmed at 35%. Another member sought comment about whether the company had a new strategy for the home care market, given some of the products on display. The CEO responded this would be a continuing and encouraging market for their new products.

The re-appointment of directors was an agenda item many shareholders were waiting for. However, the chairman asked each director to address shareholders and Colin Maiden took the wind out of most sails by stating that he would ordinarily not be seeking re-election at this meeting but he had been asked by the chairman to stand for a few more months so that a new director could be found. Furthermore, he gave a most interesting address to shareholders reviewing his period with the group and giving examples of companies that had survived only after an initial ten years of difficulties. He posed a challenge to the meeting by wondering whether future executives and investors would have the patience for this? As it seemed likely that Sir Colin would not be on the podium at the next meeting, I offered our thanks for his contribution.
This was a good meeting with interesting questions.

Oliver Saint

RAKON AGM – 14TH AUGUST

NZSA Proxies: 80,000

A modest group of about 120 shareholders attended the Waipuna Hotel Conference centre. NZSA was allowed to set up a table and stand outside the meeting room and had a steady trickle of people asking questions and taking brochures.

Chairman Bryan Mogridge outlined the disappointing results with earnings dropping 20%, EBITDA 27% and net profit a whopping 59%. The reason given was the financial collapse in the second half of 2008 which greatly impacted the demand for components the company makes for such items as navigation devices and cellphones. The other main area of business is infrastructure such as cell phone bases and this was not as badly affected, with some markets showing sales growth of up to 30%. Increased competition with Japanese suppliers selling at less than cost was also an issue.
Fortunately the company carries almost no debt (less than $10m at balance date) and this helped it avoid the sort of meltdown experienced by some other manufacturers.

Both the Chairman and the CEO Brent Robinson talked about Rakons strategy of being 2 years ahead of the opposition, and stressed the global nature of the company with manufacturing operations in 5 locations. These now include Indian and Chinese plants to service the high volume end of the market although they are being ramped up more slowly than initially intended due to the market situation.

Looking forward, the company reports that sales volumes have picked up significantly off the lows experienced earlier although they were unwilling to be drawn on to what extent this would flow to the bottom line in 2010.

Overall the company's strategy continues to be a technical leader with a view to obtaining a premium price for its products.

There were only 3 questions-all from NZSA members.

- Was the company satisfied that its current strategy was appropriate given that EBIT and nett profit after tax has steadily declined as a percentage of sales ever since the company listed? In other words, prices being achieved are declining at a faster rate than sales are increasing.
  A. Yes they think the strategy is the correct one and believe this will show once the market settles back to a more normal level.
- The questioner expressed disappointment that Director Peter Maire was absent (he was in Wellington receiving his Knighthood) and asked: Did the company intend to pay a dividend in the near future?
  A. No. The company policy has been to reinvest in itself. This was signalled in the prospectus and remains the policy.
- (This was the sting in the tail-delivered by Oliver Saint). Companies that invest in themselves do so because they are on a growth path that will be reflected in increasing profits and an increasing share price. Since Rakons profits have declined and the share price is weak, how long can the company expect shareholders to consider it a "growth stock" before they lose patience? And if substantial growth cannot be demonstrated in the next couple of years, will it not be time to give the shareholders some reward by instituting the payment of dividends?

A. Well, that is a fair point. Yes, if we cannot get the sort of growth we hope to achieve then the board will look seriously at that proposal in two years time.

- To which Oliver replied – I shall diary that for the 2011 meeting!

This exchange was actually slightly different from what was reported in the media. They said that Rakon had stated they would start paying dividends in two years, but Chairman Mogridge did not make that absolute committment.

John Hawkins

GOODMAN PROPERTY TRUST AGM – 5TH AUGUST

When I attend a meeting of a property trust, I am always reminded of the deficiencies of this type of structure to unit holders. There is no voting, no accountability of board to shareholders. In the last 5 years GMT has increased its asset base by $589m, with 49 new buildings and 518000 m2 of leased space, but unit holders have benefited only by increased income, now to be set a 90% of distributable earnings, (nice for a retiree!) The capital gain has gone largely to the management company Goodman NZ Ltd in fees of 0.5% of assets ($1.5b) and into dilution of unit holders share as the manager reinvests its performance bonus (10% of the above average return) in more units. Macquarie, the classic architects of this type of structure, is involved in the management company (the best place to be,) and James Hodgkinson a Macquaire executive sits on the board of the Trust.

The professional trustees required in these structures also claim a small share (over $1m) for doing very little. In this reporting year they were involved in refinancing contracts which are now spread safely over several banks including recently Kiwibank. They also confirmed the replacement chair (almost inevitably Keith Smith) after the resignation of Hon Jim Mclay who is now representing New Zealand at the UN. Why would you want a trustee except to satisfy the regulations?

Questions exposed some of the niggling doubts about this successful and enterprising business. The property valuations dropped by $172m, when they are largely new buildings fully leased on longer terms than before, - the basis of a dcf valuation. There were few adjacent sales by which to judge a mark-to-market valuation, and I noticed Phyl Pryke, the chair of the valuation committee did not stay long to talk to unit holders. Noel Thomson could not get an estimate of current valuation from the chair, but this had obviously been a vexed subject in assembling the IFRS compliant accounts.
Uli Sperber was unable to gain further information on the trading halt exercised only that day by the ASX-listed manager.

Other questioners wished for more disclosure: a trend statement (which would show up the lack of capital growth to unitholders,) a remuneration report for directors and senior management, and a clearer exposition of the transactions and shared ownership deals between the manger and the trust. The chairman pointed out that GMT disclosed more than was required by regulation. The suggestion by one elderly unit holder that Gary Paykel be appointed the new chair was greeted with stifled mirth after his recent governance of Fisher and Paykel Appliances. The possibility of a bond issue as a diversification of credit sources was also being investigated by the manager. I wondered why you would buy a bond when the units performed in much the same way. Oh well I suppose it's better than a bank deposit these days.
Alan Best

AIR NEW ZEALAND AGM – 23RD SEPTEMBER

NZSA PROXIES – 91,909 VOTES
Three committee members of the Canterbury Branch of the New Zealand Shareholders' Association attended the AGM at the Wigram Airbase Museum – an inspired choice of venue: Robin Harrison, Margaret Murray and Tim Kerr. Tim Kerr acted as the Association's proxy.

Chairman John Palmer's Report:
The Chairman John Palmer, in his opening address stated the company's normalised earnings were $145 million, a 26% decrease on the previous year. Although this was good by airline standards, it was not a good return for shareholders. "Despite this we had a 22% ($1.6b) net cash position at the end of the year – the best in the region."

"We move quicker now." he claimed, pointing out that the company has adapted to recent fuel price increases, the world-wide economic downturn and decline in the number of travellers. He stated that the company is concentrating on "widening our income sources," – non airline revenue - citing third party engineering work and the acquisition of two Australian Engineering businesses, and the companies "in-house" interior design business which has become - or promises to become - a supplier to other airlines.

On executive remuneration, and here John Palmer made some reference to the excesses and poor performance of various organisations, he explained that the Air NZ CEO's package is one of the largest remuneration packages in the country. He claimed that the package is a balance of reward and performance – with a substantial part at risk that takes cognisance of performance both for the short and long term. He stated that the board and executive have to be "agile" – that the industry will remain turbulent with increasing fuel prices and declining revenue it will be hard to achieve the same level of profit as in the previous year.

Rob Fyfe, CEO's report:

Rob, a former apprentice aircraft mechanic at Wigram said the company "was prepared to make some tough decisions…optimising networks… aligning supply to demand,… refreshing product offerings – meals and long-haul product development for the forthcoming B777-300ER… and maintaining the airline's environmental leadership position with the B777-300ER to come on line next year… We have re-designed the interior for these aircraft and expect to be a leader in the industry."
Rob emphasised environmental aspects of New Zealand, people's perceptions of NZ as clean and green and how "70% of inward passengers are visitors expecting a clean green New Zealand." He talked about progress Air NZ has made in developing bio-fuels and the installation of winglets on the Boeing 767. Another environmental adaptation is zonal driers across the 767 fleet, lowering the fuel bill.

He described the "Customer led" focus the company is adopting: for example, remote check-in, loyalty points and the frequent flier scheme to be upgraded, and also "new media" marketing with the "We have nothing to hide" campaign of the body-painted employees . Apparently 10m viewers searched this out on YouTube.
The reduction in passenger capacity has meant a reduction of staff, but the implementation of more flexible work options, such as part-time, casual, and re-deployment – has reduced compulsory redundancy.

In summary, the company's agility and speed to adapt remain crucial. Investment in fleet, product and services, New Zealand needs to remain a top destination, Kiwi spirit and attitudes plays a key role. And Air New Zealand was voted "second best long-haul fleet operator in the world" by Conde Nast Travellers magazine

Questions from shareholders:

Prolific letter writer to The Press, Mr Ray Spring raised a question about income over the past year from derivatives, with the ironic question. "With the income from derivatives surpassing that of running an airline, why does the company run an airline?"

Tim Kerr, as proxy for the Shareholders' Association, asked the following questions:
1: I had initially wondered how the group could possibly have come out of the current year making a profit and thus was pleasantly surprised. However, having sighted the annual Report it is quite clear that they have managed to do this through the benefit of a turnaround on foreign exchange results in the magnitude of around $500 million. (Profit in the current year of $366 million against losses of $128 million last year.) The question posed is who is in charge of forex and who advises the group? I am sure we would all like to know!

Air NZ's responed at the meeting and subsequently that it applies a conservative and consistent approach to hedging as set out in their Hedging Policy. This Policy is approved and monitored by the Board and reviewed regularly. Their Treasury Risk Management committee, including the CEO, CFO, GM Corporate Finance and the Treasurer, take the internal responsibility.

In looking at the impact of hedging on the 2009 result they look at all hedging not just foreign exchange hedging. Jet fuel hedging losses for the year totalled $239m compared to a $136m gain the previous year, a turnaround of $375m. Accordingly, the impact of hedging on the 2009 normalised earnings can be summarised as follows: FX Hedging $366m; FX Hedging forward point costs -$59m; Jet fuel hedging -$239m; resulting in net hedging of $68m. So, hedging positively contributed to the result but certainly not to the extent suggested in the question.

They stated that they do not speculate in foreign currency or jet fuel hedging, but hedge known foreign currency and jet fuel exposures with the objective to bring certainty in the near term, giving the business time to adjust to changing input costs through operational measures such as price, capacity or cost movements in the longer term.

2: In so far as one could describe the as a windfall profit the next question I, "Have management benefited from this windfall?" Presumably the projected profits did not budget for this item. Question, is the target profit for the year on which the bonuses are based before or after foreign exchange gains and losses?
Based on their answer to the previous question it, Air NZ did not consider it correct to describe the outcome as a windfall profit. They explained that performance incentive pay targets are set at the beginning of the year are net targets, so they include the impacts of foreign exchange hedges and fuel hedges. The hedging approach is applied consistently and is a business as usual that has both positive and negative effects both on financial performance and employee incentive performance pay targets over the years. It is important to remember that if gains are made on the hedges during the year the underlying cost of the hedged item also increases.

3: Retirement benefits. I note that there was an unrecognised actuarial loss on the defined benefits scheme(s) of $21 million. Why has this loss not been recognised? Is it because the defined contribution plan shows a $28 million surplus and thus there is no net loss? If the answer is yes then I ask if this is proper treatment by the company. Perhaps this is a query for the auditor.

Air NZ explained that in terms of the deficit reported in Note 26 in the 2009 Annual Report, under the International Financial Reporting Standards (IFRS) the company applies the corridor method to recognising actuarial gains or losses of defined benefit schemes. This means that actuarial gains or losses which exceed the greater of 10% of the present value of the defined benefit obligation or 10% of the fair value of the plan assets are amortised over the scheme members expected average remaining working lives. The Company was therefore not required to recognise the $21m deficit in the 2009 financial statements. Since 30 June 2009 with the rebound in the equity markets the deficit has already been significantly reduced.

4: Derivatives. This is a subject about which most of the shareholders in the meeting have no knowledge. We would be interested to know, given the significance of this item in the accounts, which directors have knowledge of this business and an understanding of the procedures.

Air NZ explained that all Board members are required to have conceptual knowledge of the area. Directors with particular knowledge include: -
Roger France- Deputy Chairman and Chairman of the Audit Committee. He has extensive experience in the use of and effects of derivatives. He was a partner at Price Waterhouse Cooper and its predecessor, Coopers & Lybrand, for
over 15 years and was the Chief Financial Officer of two listed companies for 10 years.
John Palmer- has considerable experience in the use of derivatives through years of experience in export in the agricultural sector and in the finance sector. He has led the Board since 2001 and was named Company Chairman of the year in 2007. Mr Palmer also serves as a director on Solid Energy New Zealand Limited, AMP Limited, AMP Life Limited, Rabobank Australia Limited and Rabobank NZ Limited.

John McDonald- has had a notable career spanning 30 years in senior finance, management and board positions at Fletcher Challenge Limited, including Group Treasurer. He has considerable international experience in management, in corporate governance best practice and has been a director and member of corporate governance and audit committees of the Canadian publicly listed Fletcher Challenge Canada Limited. Mr McDonald holds a Bachelor of Commerce degree from Auckland University, a Bachelor or Commerce and Administration (Honours) degree in Economics from the Victoria University of Wellington and is a graduate from the Advanced Management Programme at Harvard University Business School.

Resolutions:

Resolutions confirming the re-election of current board members and a change in the constitution were all passed unanimously by a show of hands. The Chairman pointed out that there was no resolution regarding re-appointment of an auditor because the Govt holds 75.5% of Air New Zealand shares. And the auditor, Deloittes, was appointed by the Auditor General.

Questions from the Floor:

Questions from the floor were interesting insofar as those asking the questions had been long-term shareholders and current or ex-employees of Air New Zealand.
Tim Kerr, as proxy holder asked: You may have noticed that on many internal flights to and from the main cities there are several front seats that are vacant when one embarks. Please tell us if these seats are reserved for cabinet ministers or other government officials and is there a charge for this service?
Rob Fyfe responded, "No. There is greater space in the front seats and they are reserved for Gold Class full-fare passengers. The fares paid by government ministers and officials are subject to a negotiated contract"
At the conclusion of the meeting shareholders inspected the scale model of the "stunning " new departure lounge planned for Christchurch, and sampled local fine wines.

Tim Kerr

Editors note: This report has been edited. Shareholders who need a full account should email Canterbury Branch.

SYFT TECHNOLOGIES AGM – 14TH SEPTEMBER

Syft makes machines, called Voice200, which detect gases. At the meeting in September 2008 a rosy picture of sales had been painted. However in the annual report for 2009 the statement by the chairman, Miss Ruth Richardson, referred to sales falling well short of what had been counted on in the 08/09 budget, and stated that "The Board is leaving no stone unturned to ensure we stay in the game." Two directors have resigned. The CEO's position had been disestablished and the CEO is suing the company. How did they get here from there? Perhaps the company never was in the place it claimed to be in last year.

The prospectus for a rights issue in December 2008 included the statement "During FY09, the Company has established that it can track its sales of Voice200® against budget and by the mid point of this year it had shipped 9 units against a budget of 20 for the full year." At this year's meeting, as a representative of the shareholders association, I asked how many units had been sold during the year and was told that 6 had been sold. I then asked whether the statement in the prospectus that 9 had been shipped in first half of the year was false. Miss Richardson replied that there was a distinction between "sales" and "shipped". Mr Michael Hawkins, the acting Managing Director, said that he thought that some of these units were leased to buy. I had interpreted the statement quoted above to mean that 9 units had been sold and shipped. Do I misread the statement or is the statement misleading? Is not the "budget of 20" a sales budget? If 9 have been shipped against a sales budget doesn't that mean 9 have been sold?
One motion put to the meeting was that Syft should delist from the Unlisted trading platform. It was intended that, instead, buyers and sellers be matched by a separate company. Various reasons for delisting were given in the notice of meeting. However the reason given the most emphasis at the meeting had not been mentioned in the notice of meeting, namely that potential customers might look at the Unlisted website and see the share price (3 cents at the time) and be put off. The shareholders association opposed the motion and a voice vote was inconclusive. Then one shareholder proposed amending the motion to explicitly mention the system for matching buyers and sellers. The meeting, having amended the motion, then passed the motion although nobody else had objected to the alternative system not being mentioned in the motion.

One of the reasons given for the new system was to that it would better reflect the value of the shares. In proposing the amendment Mr Hawkins spoke of being able to hold the share price up a bit. Some investors might regard this as manipulation, and prefer a more transparent system. Is quarantining the share trading from potential new buyers likely to raise the share price?

Another motion put to the meeting was that approval be granted for the company to enter into an agreement relating to a loan convertible into ordinary shares. It was stated in the notice of meeting that the company urgently requires further working capital for the operation of its business. Lenders were to receive 20% p.a. interest. One shareholder said that the 20% interest rate says “junk, junk, junk”. However the motion was passed with little opposition.

In the annual report Miss Richardson wrote that the Board was driven by the need to transform Syft’s performance, and that the company needed to “be not so much about the science as about the sales”. Board member, Michael Hawkins has “stepped up to the plate” as the transitional Managing Director. At the meeting Miss Richardson said that the company was in the process of employing a sales-oriented person to replace the CEO. Syft has raised a lot of cash from investors and has just about burned it all. It seems that the Board is fighting a rearguard action in the hope of making some sales before Syft runs out of cash. Their strategy is to concentrate on sales and to narrow their focus to two areas of application, fumigation of the holds of ships, and oil and gas exploration. Mr Hawkins said that the company needs to sell 19 or 20 units to break even and so far this year had sold 6 or 7. Repeat sales have been made to Australian and Canadian customs, and it is hoped that these will lead to other sales for ship fumigation. The oil services company Baker Hughes, who were mentioned at last year’s meeting, is still showing interest in machines.

Peter Heffernan

BRANCH REPORTS

AUCKLAND

1.Committee Reorganisation: With the resignation of Ken Cook, John Hawkins has made a strong appeal for Auckland Branch committee members. We have great meetings, excellent company visits, and cooperation from most local companies. The job is easy but it just needs more hands.

2. Branch meeting 26th August.
Johnathan Ling BE MBA, impressed us with his ability to articulate the positive in his Company in the middle of a serious recession. The residential building stats in his markets look terrible: NZ down 40%, Australia down 19%, USA down 34%, England –49%, Spain -62% in one year to June 09, from what was anyway, a low base.
Given this scenario, Fletchers has focussed on cashflow, (up to $533m) releasing cash from stock and debtors, securing asset sales, raising $523 of new equity, and restricting capital expenditure, which is now budgeted to be below the level of depreciation. This and prompt action to reduce staff and close underperforming plants will ensure that the firm survives in good shape to take advantage of the eventual recovery.
Of particular interest in this centennial year was Johnathan’s summary of his company culture. What is the Fletcher DNA? – Firstly the pioneering spirit of James Fletcher who built his first house in Dunedin 100 years ago. Secondly, never bet the farm- ie make sure significant capital expenditure does not jeopardise the successful base operation.

Thirdly, make sure you are equipped to take advantage of the expansion opportunities in an upturn.

Questions ranged from the personal, (the appointment of ex CEO, Ralph Waters as chairman), to head office location, (which since the NZ Government is the biggest customer is likely to remain in New Zealand), to financial (and the world wide reduction in credit availability from the banking system which will restrict housing starts), to the technical (in which Fletchers was revealed as Australia's largest importer of Pink Batts as well as being a large producer.) This was a positive presentation by an accomplished CEO.

3.Company visit: Renaissance Corporation.

There was an embarrassingly small turnout for a very interesting visit to Natcol, the latest acquisition by Renaissance Corporation to its stable of computer companies. Paul Johnson CEO of Renaissance pointed out that 80% of the computers used for graphic design world wide are Apple, and that design graduates of Natcol after intensive use of Renaissance's MagnumMac-supplied machines were enthusiastic specifiers of this hardware. Natcol, based in Auckland, Wellington and the headoffice location,Christchurch, delivers educational courses in digital media from the foundation course of 15 weeks to the advanced degree-level course in 3d graphics and Diploma of digital media. We were taken through a series of cad (computer-aided-design) labs where students were absorbed in a world of paper-mache models, robots and monsters. The applications for the learning are more numerous than we believed, being: careers in printing, advertising, newspapers, web development, computer games and entertainment, animation, cartoon production, and design. A highly skilled and youthful staff maintains contact with past students and industry to keep up with the latest demand. The fully equipped labs accommodating 15-20 students, the NZQA approved courses, and professional in-house publication of manuals make this establishment difficult for competitors to emulate, and attractive to overseas students which form up to 20% of the intake. It is a classic service marketing operation whose success is all in the service delivery, and results in excellent cash flow, with a high proportion of recruitments from word-of-mouth referrals.

4. Next Visit: SANFORD LTD(sustainable seafood) 22 JELLICOE ST, Freemans Bay (West of America's Cup Village) to be hosted by Sanford CEO Eric Barratt
Parking: Pay & Display in Jellicoe or neighbouring streets or public car park behind Sanford complex (1st hour free)

Members who subscribed to Joe Turnbull's company visit contact list, may already have been contacted by him at time of print - all others wishing to attend may contact Joe by phone (AKL 631 5071) or email to rjyturnbull@xtra.co.nz & while Joe is unavailable (15 - 23 October 09) you may alternatively contact Uli Sperber uksper@gmail.com.

WAIKATO

1. Committee:The first Waikato Committee meeting of the new financial year convened on 6 August. Alex Eames who thought he was retiring from the Chairman's position has kindly agreed to serve another year. John Davies has taken over the Treasurer's position from Steve Lindsay and the new role of Deputy Chairman. Gary Cave was reappointed as Secretary; Helen Glyde, Jim Haisman, Roger Jennings and Robert Foster resumed their current respective positions of Membership, Assistant Activities, Publicity and Educaton. Tony Begbie has taken on the Activities Coordinator role.

2. August meeting: Mark Lister recapped from his September 2007 address. At that time Mark had a cautious stance and clearly pointed out his concerns about debt and derivatives in the US. If only we had known the full extent of the problems they would cause! Currently, paying down debt was seen as the solution but will take time.
Mark advocated the value of a balanced portfolio – equities, cash, and a laddered portfolio of bonds; with a small allocation to gold and other commodities. We were impressed with the performance graph of an "investment silver bullet" - Fairfield Sentry Hedge Fund until we learnt that this was Bernie Madoff's fund. No return above the Risk Fee Rate (ie Govt Bonds) is risk free. However not investing, is not an option; Bank Deposits underperform inflation. Mark outlined various equity investment themes and concluded by taking questions.

3. Mainfreight Visit: In September we visited the Hamilton branch of Mainfreight at Te Rapa. I was expecting to be impressed by this company and wasn't disappointed. Don Braid the Managing Director met us at the door and introduced himself individually, and invited us to partake in the provided refreshments. The initial and overall impression of this company is one of efficiency and immaculate presentation, from the trucks to the MD. This perception is no doubt very important when entrusting your valuable consignment to be delivered in timely and safe manner. Don stressed that they are global logistics provider rather than a trucking firm. The Mainfreight philosophy is based on truck-driver ethos ie. they are all family and have no "staff." No one has a private office. Everyone eats together in the canteen and breaks are used for discussion time. Various productivity and profit driver charts line the canteen wall. Don explained that bonuses are paid relating to profits and successes achieved. The company is very profit driven. Promotion is from within the company and the company has many long serving employees. Buildings and depots are owned rather than leased partly because of their docking system that requires a pit for the trucks to drive through and also because they like to have control of their assets.
Don was very critical of Toll still receiving discounts on its freight forwarding business with Kiwi Rail. The Kiwi Rail Board should not be made up of political appointees but instead should follow the Air New Zealand example which has a commercial board of capable individuals. In response to questions Don didn't have a preference for either Auckland or Tauranga Port (or wasn't saying) but embraced the concept and just hoped a decision would soon be made. Richard Prebble was considered a hard working and good Board member.
In conclusion, I think that the saying; "it fell off the back of a truck," does not apply here.

4. Next Meeting: On 13th October Richard Clarke, senior private banker from The National Bank will speak to us on "Investing for Income and Growth" covering bonds and cash investments.

Robert Foster

BAY OF PLENTY

The past two months have been quite productive with very good attendances at our functions. Numbers attending our monthly meetings are consistently above 35.
During July Mr John Calder, Chairman of Wakefield Health provided an excellent presentation of his company and its position in the New Zealand health system. He spoke about the future and possible changes and advances Wakefield Health were contemplating. Don Malpas spoke briefly about the recent TrustPower AGM. Members were reminded of the impending visit of Australian Foundation Investment Co and their presentation during late November at the Sebel hotel in Tauranga.

On the 27th August the branch conducted its AGM. Over 50 attended the evening function. Our guest speaker was Cameron Watson from Craigs Investment Partners. His presentation was wide ranging with several interesting comments relating to the future. Some of his investment ideas provided during the evening covered

1. Look for companies with consistent dividends
2. Those with consistent dividend are perhaps less volatile
3. Imputation credits are also important especially at tax time.
4. Make sure there is good dividend track record and that the dividend is well covered.
5. Sell those problem stocks especially if profit warnings are indicated.
6. Make sure ones portfolio is well diversified
7. Ensure that a portion of one portfolio is held off shore.

Our chairman Lloyd Christie was thanked for his services over the past three years. The committee was re-elected for the ensuing year with the decision to nominate a chairperson at the following committee meeting.
The September members meeting was address by Mr. Oliver Saint who provided an interesting presentation pertaining to Z Scores. He provided several examples of the methodology used and how to arrive at a satisfactory outcome. A number of company examples were shown that provided stimulating discussion and comment. Kerry Drumm followed with several comments about the taxation working group who are assessing potential changes at present. Distribution of the booklet "A Personal Record Of Matters Pertaining To My Estate." was commenced to members.

Allen Smith

WELLINGTON

It's been a busy year and it's not over yet! The highlight was undoubtedly the National AGM in Wellington. Thanks everyone for the great support you all gave in attending and/or helping organise it and to our sponsors First NZ Capital and Sharesight (www.sharesight.co.nz). Also a big thank you to Barry Lindsay and FNZC for their ongoing support in hosting our monthly meetings.
We have run seven branch meetings so far this year and have had great turnouts for all or them. At our last branch meeting Stephen Franks came along and briefed us on the activities of the Capital Markets Task Force and Tax Working Group and we are looking at how we can have input into these groups. Next week we have Tower's head of NZ Equities Paul Robertshawe to talk to us about investment strategies.
For our final meeting this year on the 10th November we head off to Times Cinema in Lyall Bay for our branch end of year function.

Martin Dowse - Chairman

CANTERBURY

1. Activities: The Branch has been busy with the annual round of company AGMs (Syft Technologies, Air NZ, Ryman Healthcare, Smiths City Market). We had one site visit to Lyttelton Port Company which is detailed below.
   Branch committee member Margaret Murray has been contacting clusters of members in the South Island in an attempt to enhance communication between those outside the Canterbury region and encourage those members to be more involved in NZSA and form local groups.

   We have organised Kevin McCaffrey to visit from Auckland on 12th October, firstly, to address post-graduate students taking Finance at Canterbury University on company governance issues and later late evening to give a talk to local NZSA members.

2. Visit to Lyttleton Port Company 12th August.
   Working 24 hrs per day, employing about 400 mostly stevedoring workers and moving 250,000 TEU's per annum (20 foot container equivalents). Lyttelton is the third largest port in New Zealand – after Auckland and Tauranga. Although it is a listed company, 78.2% of the shares are owned by CCHL – Christchurch City Holdings. CCHL were unable to make a full take-over because Port of Otago holds 15.3% of the stock leaving 6.5% held mainly in small parcels by private investors.

Its performance compared with its larger, northern competitors provides a measure of economic activity in Canterbury. "Container movements are a good sign of economic activity'" stated Peter Davie. "While Auckland has had a big drop in container movements, Christchurch hasn't. Southern ports are up, northern ports down. Auckland is in severe depression." He added, "Cargo has grown from a number of areas: improved sheep meat production, grains, seeds and milk products. Where we used to import more than we were exporting, Lyttelton is getting close to a 50-50 import export ratio."

Current development is concentrated on expanding the coal storage and processing facilities along the base of the hills outside the Lyttelton harbour basin. Sweeping his hand over the area on a large wall-mounted aerial photo displayed in the boardroom, Peter Davie pointed out that unlike the harbour basin, which is in the centre of the town's commercial and residential area, the coal processing area is free of residential dwellings. Kiwi Rail has made a commitment to increase trains from 26 wagons to trains of 45 wagons. The Port Company is seeking to reclaim an additional 10 hectares and has signed a supply contract with Solid Energy to 2026.

The longer-term strategy is to continue the breastwork development to cater for larger vessels until the major port activities are virtually outside the traditional harbour basin. When asked what would happen to the basin, Peter pointed out that the current "finger wharves" within the basin are becoming increasingly redundant. The finger wharves were built to allow rail access for manual loading and unloading. By contrast, with containerisation, a large area is required for stacking containers for mechanical loading and unloading. In summary, in the long run, Port development will be outside the traditional basin. The basin, which currently has restricted public access, will become a leisure port – like Marseilles, Wellington or the Viaduct basin in Auckland… Only much more attractive!
In summary:

- Since Peter Davie was appointed CEO six years ago there has been a full review of the port infrastructure assets, and a programme of catch-up maintenance has been completed. Dividends were reduced through the period to pay for these increased costs. Equity to debt ratio is now 56% and Kathy Meads, CFO, emphasised that the Port had good funding lines with Westpac.
- Currently dredged to a depth of 12.4 metres consent applications are being submitted for an eventual 16.5 metre depth.
- Hubbing. While the debate over which port or ports are going to be the distribution hub in New Zealand, the reality Peter explained, is that the real hubbing centre for the Australasian region is Singapore. And while Australia may be seen as an obvious hub, all Australian ports have a poor record for costs and productivity.
- Labour relations. While the union is still powerful, the labour force is skilled and largely permanent, they earn a premium over similar occupations in return for shift work and short-notice call-outs.

- “The task for us at the Port is to double our container throughput in the next ten years. Most other ports cannot grow this fast.”
- In terms of Governance, Peter stated, “We don’t get interference from the Christchurch City Council, we have a very strong and good board, all the directors are independent.”

Reporter – Tim Kerr

Robin Harrison - Chairman

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MEMBER’S ISSUES

Kerry Drumm wrote on Capital Gains Tax:
The government appointed Tax Working Group has published contributions to and deliberations from sessions one and two on the web site
http://www.victoria.ac.nz/sacl/CAGTR/taxworkinggroup/index.aspx
The Group has scheduled three further sessions and then a conference in December.

The two sessions have, among many other matters identified that current tax types are unlikely to promote growth and there are distortions in the tax system that produces undesirable results.
Capital gain tax has been briefly mentioned by the Group but been give more prominence by the media. Housing brings its own tax problems including a severe distortion of over investment in comparison with more growth-oriented investment. Having worked in a tax system with a capital gains tax I know the compliance cost to the taxpayer is very high. And it taxes success! I dislike Capital Gains Taxes.

Given the need for change to the tax base I propose an Investment Asset Tax. Taxing only investment assets mainly investment properties (and maybe second homes), and equity or equity equivalent investments.
Valuations at tax date are readily available for listed equities, unlisted equity valuations would come from financial statements. Properties would use Rateable Values or other external valuations.

All investment assets will be taxed on the same basis removing the bias to select investments that give favourable tax savings.

To the extent that the taxable amount would be calculated as a percentage of the capital value this looks very much like a revisit to the Foreign Investment Fund – Fair Dividend Rate tax, that tax needs revision. A broad based Investment Asset Tax will do that.
An asset tax on equities will allow for the abolition of the Imputation Credit regime and a consequent lowering of the company tax rate. That will stimulate growth.

Editors’ note: This is not NZSA policy, but is certainly a simpler option than Capital Gains depending on the rate. Australia has a rate of 15% on gain, and presumably a flat rate on *capital could be very much lower than that. The deemed rate of return at 5% has become too complicated by the exclusion of Listed Trusts and non- index shares from the rule.*

Oliver's Book Review: 'Brussels laid bare' by Marta Andreasen
I read about this book several months ago and decided to obtain a copy. It was worth the impressive cost (obtained from the USA Amazon website)
Marta is a whistleblower of tremendous courage. She became the first professionally qualified Chief Accountant of the European Union and was responsible for the whole of the EU budget. Her story defies belief and the corruption is worse than any novelist could conjure up. I promise you that the Maldoff debacle pales into insignificance compared with this saga – which probably continues unabated in the EU.
Editor's note: This book is really relevant, because it shows the ease with which corruption can enter our lives, and be endorsed by those in power. Oliver has decided to import a few copies for members, at less than $20 each depending on landed cost. Be in quick to order directly with him at Judenol@orcon.net.nz.

Letter from our proxy to Pumpkin Patch AGM

Dear Sir
I wish to raise a matter that I have been considering for some time relating to the re-appointment of the Chairman of the above Company, Mr Greg Muir; Mr Muir is an executive director of Pumpkin Patch Limited.

At the AGM held in Auckland on 23 November 2004, a resolution was passed re-electing Greg Muir as a director of the Company for a term not exceeding five years. The reason that the appointment was for a period longer than the listing rule requirement of three years was because Mr Muir was an executive director. The resolution, passed at the time, does not preclude the chairman from being re-appointed at the conclusion of the term of five years. Therefore the reappointment of Mr Greg Muir must be considered at the 2009 AGM.

If Mr Muir is seeking re-election as a director of the Company I have decided that I intend to vote my shares against the resolution to re-elect the Chairman. There are two reasons for my decision:

- I am strongly of the view that the position of chairman should not be an executive appointment. Most listed Boards that conduct good corporate governance now agree that the positions of chairman and executive are incompatible and that it is better to separate the twin functions.

- Mr Muir has, at least for the greater term of his appointment with Pumpkin Patch, also been chairman of Hanover Finance Limited, the New Zealand Group that has frozen $584 million of depositor funds since July last year. I believe it is inappropriate for a director in charge of the running, supervision and direction of Pumpkin Patch to be involved in what can only be described as a tragically managed company. The other directors, shareholders, management and staff of Pumpkin Patch deserve better than this.

My purpose in writing this letter to you is twofold. It is my custom to offer myself as a representative of the Association and member shareholders who give the association their voting rights to present the views of the Association at listed company meetings. Whilst I am always happy to represent proxy holders who are members, in view of my decision, I would ask that the Association consider whether I should be the appropriate person to represent them at the forthcoming meeting.

Finally I believe all shareholders should take Board representation very seriously and I urge all Pumpkin Patch shareholders to consider such resolutions very carefully before voting.

Editor's reply: Mr Greg Muir Received the NZSA Glob Award for 2008. He is known to have sold his "brand" as chairman to a Finance Company which posed as a secure investment to debenture holders, pocketed the money, and then allowed that company freeze most of the depositors funds. There is sufficient evidence from NZSA sources to support the action you propose taking, and we have no hesitation in recommending that you continue to exercise the NZSA Proxies.

FEATURES INDEX

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