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

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BRUCE'S EDITORIAL – TIME TO GO ON THE ATTACK

Last year was not a good year to kick dogs while they were down. In tough times the team has to all pull together and shooting people or throwing them out of the boat is never a strategy for survival in any arena, let alone business.

Now that the worst is past, (I am not convinced, but the consensus is against me), it is time to ensure that the down cycle is not turned into a one way trip up for some on the gravy train at the expense of the rest of us who have ridden the wave down.

Real care needs to be taken to ensure that bottom priced option plans are not promoted to shareholders when companies can pay well in cash. Care needs to be taken that performance pay is based on a appropriate long term matrixes, not determined by recovery from recessional lows and so on.

In the past, the NZSA has received its fair share of publicity based on commenting about the actions of others. The problem with this is that our comments are reactive to the agenda of issues set by others. This year should be about us setting our own agenda and gaining headlines through our own actions rather than being the by-line on others actions or malfeasances.

So this year we intend to be the makers of news. We will attempt to remove offending directors from companies whose directors are either offensive to shareholders, or the board is in need of rejuvenation generally. This may be by virtue of extended longevity or other matters that look to us as if the board is becoming stale. Or it could be in companies that are either greatly underperforming, distressed or dysfunctional in our view.

If we propose a motion to remove a director, it does behove us to consider who should replace him. Normally this would be done by the board itself, but if we have to act it will be because in our view the board has failed. We expect Boards to draw widely to find new talent so that the leadership and succession pool is expanded. So rather than us simply touching people on the shoulder who we currently know and respect, we are going to advertise for expressions of interest for nomination by us to the boards of particular companies.

We have three companies on our prospect list currently and you are welcome to add to the list of directors who you would seek to be removed. We are actively engaged with all three companies. One in particular to their credit wishes to achieve a collaborative solution. Another is defending to the death the indefensible, in our view, Contact Energy and Phil Pryke.

In addition we are going to review critically management performance reward plans and move motions for full remuneration reports to be circulated to shareholders. This is the

Australian model that forces companies to explain their remuneration policies. Where they have and we disagree with it, we will be proposing resolutions to amend such regimes. For example, Telecom's team reward which is based on Earnings includes in its participants the CFO and the internal audit team This is completely unacceptable. The gate keeper to the hurdles that trigger the payment should never participate in such plans. To Telecom Chairman Wayne Boyd's credit he is conducting some international research on the point to help the board determine the issue. In our view, regardless of what the research says, the moral hazard is too great to allow this to subsist.

These will all be newsworthy on our terms. So rather than being reactive, this year will be about creating some news on key and important issues, like fixing dysfunction and underperformance, rejuvenating boards, clearly explaining reward plans and dealing to excess and unfairness in such plans.

Bruce Sheppard

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JOINING THE DOTS.

If we were to look at a Google Map of where NZSA members live throughout New Zealand (there is not such a map available today but who knows, there may be one in the not-too-distant future), we would see clusters of dots – large groups in the cities where our 5 Branches are centred, smaller groups in the towns, and individual dots spread throughout the rural areas.

Our opportunity today is to join those dots so that we can communicate easily and quickly with our members, and they in turn with each other if they so choose. The younger generation has adopted social networks such as Facebook and Twitter as the preferred means of staying in touch with friends and family. Even the older generation, raised on writing letters and making the occasional phone call on important occasions, is now taking to the Internet as the vehicle of choice for staying in touch.

Currently 82% of our members have access to the Internet and email - this percentage is steadily growing as almost all of our new members already have this capability. With the implementation of the Government's Ultra Fast Broadband Strategy now under way, there will be more and more dial-up customers opting for broadband, and even some of those who have not bothered so far may be tempted to install a computer and join the worldwide Internet.

Our 5 Branches are based in the major cities of their regions – Auckland, Waikato (Hamilton), Bay of Plenty (Tauranga), Wellington and Canterbury (Christchurch). Branch activities include regular meetings at which all NZSA members are welcome, and generally include presentations from guest speakers on topics of interest to shareholders followed by questions from the floor; company visits giving NZSA members the opportunity to get inside the company and hear from its executive team (an opportunity not afforded to most shareholders); and from time to time social activities, giving an opportunity for members to meet in a more relaxed setting.

It may not be possible for you to attend all or any of these events and activities for geographical reasons, or due to a clash of dates with your other interests, but the main thing is to know you are more than welcome to attend and participate whenever you can. You will also be kept informed of these events and activities, either by Branch newsletter or via the Branches page of the NZSA website www.nzshareholders.co.nz

In the case of company visits, it is a requirement that you confirm your intention to participate with the organising Committee member, as numbers are often limited by the hosting company. A small charge is usually payable at Branch meetings to cover meeting costs.

The NZSA is now acknowledged as the only valid organisation to represent shareholders' interests at public company and Government level. Let's make sure that by joining the dots, it can also become the best-connected national organisation in the country.

Patrick Flynn

A PLEA FOR THE TRUE AND FAIR VIEW

At the Rome Olympics in September 1962, a "crippled Kiwi" broke the 5000 metre field in the tenth lap, held the lead and received the gold medal from his fellow New Zealand Olympian, Lord Porritt, and cemented his place in Olympic history. That result was absolutely true and fair. In 1947 the "true and fair" phrase entered the English business vernacular, intended for use in public company audits, with the meaning to be in accordance with standard, conventional dictionary meanings.

One of the biggest challenges to me, today, is dealing with the erosion of this phrase, to a stage where the majority of readers of a company's annual financial report, not being accountants have little hope of understanding either most of the words or most of the figures. I seek respect for the language and this goes with the qualities of honesty, fairness and care.

I am happy to thank Mainfreight for its fair and proper explanatory notes and its share growth over the past decade, but I am unhappy with Northland Port's lack of comment over the long overdue rail link between Port Whangarei (Marsden Point) and the main trunk line. I understand that only a minor quantity of the land required has been purchased. Similarly it is reasonable to expect West Australian Newspapers Ltd, formed around 1850 and now the dominant media group in that huge state, to tell its shareholders (including the Kiwis) how its activities mesh with those of the overall state economy, covering as it does a third of the ore-rich continent. That significantly-sized company needs to cater for shareholders living beyond Perth.

Please, can we see simple and clear financial reports, so that Sales less Cost of Goods sold equals profit before ancillaries, with simple supporting notes? If companies made an effort to reduce the gobbledegook, shareholders would not have to struggle for over and hour to grasp the fundamentals. I believe that all companies can achieve equal standards of clarity which is surely part of the integrity expected of them.

We should not accept that accounting reports must be complex to comply with accounting standards. The late Havard Professor, John Kenneth Galbraith talked of a permanent inventory of undiscovered embezzlement in American business and coined the term "bezzle" to describe it. He emphasised that the large modern corporation was manipulated by "financial craftsmen" to become "so complex that it was almost beyond monitoring". "These new entities" (witness, Enron) "have grown out of control by the stockholders into nearly absolute control by the management and those recruited by them. This latter group has set its own compensation either in the form of salaries which can get to fantastic levels, or stock options."

Among the crumbs of comfort, Galbraith said that corporate larceny had by and large, not infected older, established companies – and if Enron and its ilk were bad, the accounting industry was worse still. His observations on feckless book keeping included this gem: "Recessions catch what the auditors miss."

Since Galbraith's death in 1996, we have experienced the largest bankruptcy in US history, while the Lehman Bros affair is still to run its course. His message was that honest dealing and fair reporting will transcend the bezzle. It is said that citizens get the government they deserve, and so we might conclude that shareholders, who are silent, conservative and humble at annual general meetings, get the financial reporting that they deserve.

A damning report released by Anton Valukas, the US court appointed examiner, found that Lehmans had used accounting jiggery pokery to inflate balance sheet figures and reduce disclosed risk. According to The Sunday Star Times, Valukas juiciest finding was account Repo 105, the off balance sheet account into which managers stuffed securities, secured against short term borrowings, which they aimed to pay back in a few days. The accounts showed the cash, but did not show the short term liability the transaction set up. Valukas saw that by parking suspect assets into Repo 105, up to $50billion of them, near balance date, Lehmans gave the impression that the balance sheet was smaller, more cash rich, and less risky than it really was. Although Lehman's was full of toxic assets which nobody else was prepared to buy, it allayed the fears of lenders by pawning good assets, into Repo 105,and understating borrowings and interest obligations, and they did it with the approval of Linklaters (legal) and Ernst and Young (audit.)

It seems as if sanity has become a scarce resource, and the value of truth is escalating. From Lehman Brothers to Hanover Finance, and we move to the builders of leaky homes who claim they "only complied with the architect's plans. Remember Adolf Eichmann captured in 1960? His defense was that he only arranged the train timetables!

It is surely time for us to stop being lambs led to a slaughter and consider where the financial reporting paths are leading us.

Bryan Pippen

Editor: Bryan is a public accountant, and reviewer of the NZSA accounts.

BOARD REPORT FOR DECEMBER- JANUARY

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

1. Branch attendance: Waikato Branch's Robert Foster and Roger Jennings attended the meeting.

2. The board approved the development of a "members only" section of the NZSA website. This is to be developed in conjunction with the on-line subscription payment system, so that members have access to the details of their own accounts, access to newsletters, and a new research section which will summarise company accounts and calculate ratios from the latest annual accounts.

3. Other advocacy issues discussed are outlined in Bruce's editorial and contributions from other board members.

Alan Best

BRICKBATS AND BOUQUETS – THE BEACON AND THE GLOB

Each year since 2002 the Association has run an awards programme as part of our drive to encourage better governance .Following nominations by members, the national committee awards The Beacon trophy to a person who has made a significant contribution to shareholder welfare. Villains received the Glob as a reminder that self interest is belittling. Past recipients have been.

	Beacon Award	Glob
2009	Michael Hill	Rick Christie (Provenco)
2008	Bruce Plested (Mainfreight)	Greg Muir (Hanover Chr.)
2007	Tony Gibbs (GPG)	ANZ Bank (Ing etc)
2006	Brian Gaynor	no villain
2005	Simon Botherway (Brook Asset)	Tim Saunders (Feltex)
2004	Ralph Waters (Fletcher Bldg)	George Gould – me first
2003	Kevin O'Connor (Infratil Chr.)	Ron Brierley (GPG)
2002	Rod Deane (Telecom)	Phil Pryke (Contact)

No woman yet! Come on ladies; send your nominations to howardz@xtra.co.nz or Joe Turnbull (09) 631 5071. No woman villains either of course. It seems strange that in 2006 we could not find a real baddie; unfortunately we have been spoilt for choice since. Greg Muir has the honour to represent all the rogues in the Finance Industry. No doubt there will be several nominations from this sector again this year and they certainly deserve our ridicule and wrath. From a Bay of Plenty perspective it is hard to believed that someone who is trying to destroy our billion dollar kiwifruit industry was once seen as a goodie; but we did early on see that the other GPG fellow is a bit dodgy. Nearer the AGM you will be reminded to make your nominations.

Howard Zingel

FROM THE NZX ANNUAL REPORT

NZX recently summarised its market supervision activities for 2009 – one would have thought, in a recession, a busier year than usual.

- It processed 15395 announcements, and found that the accuracy rate for these was 99.9%.
  We wonder how they judged the accuracy.
- It processed 226 waiver and ruling applications within the protocols and timeframes laid down.
  No information was given as to how many were rejected.
- It processed 33 complaints, but gave no information on how these were judged or resolved.
  We wonder whether they were processed into the round filing cabinet on the floor.
- It implemented 70 trading halts.
- It referred 23 matters to the Securities Commission of which the Commission followed up 13, and took no further action on 10 of these.
  We wonder if you always have a 77% chance of getting away with something if a complaint is laid against you.
- It referred 6 matters to the NZ Markets Disciplinary Tribunal.
  That's less than half the serious ones that went to the Securities Commission.
  We wonder if we have the best behaved sharemarket in the world, or whether the fact that NZX decides whether these lesser offences are referred has any effect!

John Hawkins
Editor: For more NZX problems see Bruce's email in members' issues.

DIRECTORS AND CEO REMUNERATION

It has concerned me over the last few years to find Senior Executive pay going up many times faster than the average salary paid to the other employees in the company or having any bearing to shareholder returns. Board of directors have been conned by management consultants who have convinced them by various means to approve these excessive packages or else the risk of losing key executives. Unfortunately shareholders attending AGM`s have been guilty of approving the board's resolutions without really considering the long term effects on the companies performance or their returns. I have found no research data which shows those companies which have paid excessive remuneration packages have either improved the company's performance or at the same time rewarded shareholders to the same extent. However there is plenty of evidence of the opposite, where excessive pay to senior executives has resulted in companys' longer term performance suffering. To build a successful long term company you need to achieve a number of key objectives.

a) To look after your customers so they will want to continue to do business with you again and again.
b) To have an experience board of directors who fully understand the business the company is servicing.
c) A Managing Director who is respected by the board, employees and customers.
d) Policies which are the same for all employees.

e) Remuneration pay which has some relationship to other company employees depending on their duties and responsibilities.
f) An active employee development plan to encourage promotion within the company where possible.
g) Reward shareholders with a reasonable return on their capital, either by dividends received or an increase in the share price or both.

To evaluate the effectiveness of management we need at least five years of the following data.

1. Actual earnings per share.
2. Return on shareholders funds.
3. Return on total funds employed.
4. We need to measure the cash flow generated by the business after cost of capital has been subtracted over this period. Since the financial meltdown this measure "Economic value added" has become more fashionable, because it takes into account the cost of debt.
5. Dividends paid.
6. Bonuses, Fringe Benefits, Basic Salary, Director Fees for each year.
7. Any Options, Bonuses granted over this period? At what price.
8. Average Share price each year over this period.
9. What bench marking has taken place within the industry or other market segment to compare with past and current salary payments.

We cannot do much to influence contractual obligations which have existed between board and management in the past, but we should also know about the commitments which are being set up for the current year, and the future.

a) What Bonuses and Fringe Benefits are currently being paid?
b) Are there any Golden Parachutes, Redundancy packages in place?
c) Are there any other Benefits etc. which are not included in the above list?

The following payments are not in line with NZSA previous policy and representations:

Options.

I am not in favor of large option packages unless it is a start up operation or something similar, where cash restrictions may prevent a company attracting the right employees. This could also apply to Directors in a start up company.

Where options are being recommended, it is important to set the right strike price supported by key management performance indicators. They should not be capable of being exercised until at least three years after their issue.

Fringe Benefits.

These in my opinion should be restricted to the bare minimum. In the past they often get abused and seem unfair to those other employees who are excluded.

Golden Handshakes:

There is no place today for deals such as Golden parachutes including those around share options and share issues. Payments to directors and staff should be on the basis of payment for labour, and reward for special success.

Incentives for completion of takeovers or mergers:

There should be no incentive (or bribe) for an executive or director to complete a merger or takeover deal, whether from his own employer or the offering company.

The CEO's pay

Basic Salary:

A CEO's wage assuming the company has been performing well, should be competitive but have some relationship to other employee's wages within that company. A range of between 5 to 15 times the average salaries within the company should be a reasonable guide.

At risk (bonus) pay:

This should have clear "key performance indicators" (KPI). The bonus can vary from very small to very large. I would be concerned if it went over 100% of the base salary unless the salary was set way below the average. Where cash bonuses are being paid, I would like to see some commitment from the person receiving the bonus, using all or part of the money to buy shares in the company. This would be at around market price at the time of receiving the cash bonus. They should not be capable of being exercised until at least three years after their purchase. In most companies A Remuneration Trust should purchase shares on market, and these are then issued in tranches as Performance Rights to an executive after the achievement of Performance hurdles (KPI).

Profit Share Schemes:
I favour such schemes as they provide a reward only when the company's profit or returns on investment targets are achieved. The level of payment would depend on the targets set. Where results being achieved are well over what is expected each year and far superior to the other companies being benched marked then I have no difficulty seeing the CEO well rewarded
In setting a CEO's package we see him being evaluated on some or all the following KPI. Each would get a rating out of say 100. Some would score higher than others depending on the stage of the company. Benchmarks comparing performance with other companies, should be set and modified by the remuneration committee of the board, and published for evaluation by shareholders.
Short term KPI`s (1 Year).
Return On Shareholders Funds.
Before any bonus is calculated the company should be returning either a minimum of 10% on shareholders funds or at least 3% plus above the cost of capital. Only occasionally will bonus start below this figure, as when the company has been performing poorly and the new CEO is hired to improve returns. An additional key performance indicator is the management of the total funds employed including long term borrowings.
We would expect a minimum growth factor of not less than 3% excluding distributions.
Other KPIs to take in to consideration when setting the level of bonus would be as follows.
Stock Turn Over.
Staff Turnover.
Sales per employee.
Gross Margins
New Products or Services.
Other productivity K P I which can be measured.
Environmental record.

Longer term KPI`s
Return on shareholders funds.
Return on total funds employed.

Any other productivity KPI`s which can be measured, eg a certain percentage growth in a particular product or market.

Non Executives Director Fees.
A basic fee should be paid to directors which is in line with the size of the company.
There should be no retirement allowances or any other benefit entitlements other than reimbursement of expenses incurred in carrying out their directors duties.
We support a value added incentive scheme by the way of shares purchased at current market value.
Two main performance measures are used:
External: The Total Security Holder Return, (ie share price and dividend) as compared with the appropriate index over a period of three years.
Internal : The Economic Value Added over three years.
Economic Value added is the amount by which the actual return (profit) exceeds the weighted average cost of capital.
It is important that these internal and external KPI are achieved within the framework of the listing rules, scrutinized by independent directors, and in a situation where the board is providing for renewals and retirements.

Des Hunt

COMPANY AGMs AND PROXIES

Editor:For special comments on, NZ Refining, and GPG see Oliver's articles in Members Issues, and also NZX's disclosure.

GENEVA – A NO BRAINER

Some members may have seen an article in the Herald where the NZSA came out strongly in favour of the Geneva moratorium extension. This was newsworthy as we have previously promoted receivership for crippled finance companies
There were several reasons for our change of heart in this case – none of which the Herald chose to publish.

Firstly, Chairman Phillip Bell, CEO David O'Connell and the refreshed Geneva board have a clear strategy which they believe will allow the company to trade its way back to health. This has resulted in a complete change in the way the company conducts its business. To date this has been executed with both skill and success despite the extreme world financial events and difficult trading conditions.

Secondly, Director Peter Francis, the largest shareholder in Geneva has his interests aligned with the company's shareholders. If it fails, he loses more than anyone.

Thirdly, Geneva has so far made every payment and it continues to pay interest on all debentures and notes at rates from 11% to 13%. Compare that with the rogues at Hanover. At the time of the extension vote, 50% of the total outstanding to investors had been paid back. A further 5% was due for distribution. This would not be paid to investors in the event of receivership – it would go to the bank.

Geneva had a very good relationship with Bank of Scotland. However, the ownership of BOS passed to Lloyds Bank who then reviewed every exposure. The arrangement finally reached sees BOS sharing the risk pro rata with the Geneva investors. Essentially if they

don't get paid, neither does BOS. The downside is that BOS now requires a more rapid pay back of its funding compared to the original proposal which anticipated a roll-over of the facility. Consequently, the moratorium needed to be extended by 2 years to allow sufficient cashflow to meet the new schedule. Geneva has also agreed a $1m fee for the new deal, but this is not payable until after the investors are repaid in full.
The cashflow projections that Geneva has made appear to be carefully researched and conservative. They make no allowance for any pick-up in business activity. Even so, there are acknowledged "tight" spots in about 18 months time, and a small injection of funds will still be required at some point. This is commendable realism compared to most finance companies pie in the sky approach.

So, the moratorium extension really was a "no-brainer" for investors, and it is notable that 96% of debenture holders and 100% of note holders agreed when the matter was put to them. As to the question of whether Geneva can survive and ultimately return shareholders some value, that remains to be seen. Having talked with the Geneva board I can say that it certainly won't be for a lack of effort, skill and determination.

John Hawkins

DELEGATS GROUP AGM - 2ND DECEMBER 2009

Proxies held 45,907 (6 shareholders)
No doubt the after-meeting drinks invitation ensured a good attendance was guaranteed at this AGM; certainly the thirst was encouraged by lengthy addresses from the chairman and CEO. Admittedly, the results did provide much to crow about but it must be assumed members have read the annual report. If not, then they are not interested and any commentary is unnecessary. Results again showed a very healthy increase compared with the previous year. However, the duplication of commentary on past results could have saved 30 minutes of chat that added nothing to information already available.

Looking back over my review of the annual results each year, I note the fully taxed P/E falling from 43 to 18 to 10 to 8 over these last four years. This shows a fall of staggering consistency and will most certainly have prompted the first questioner to ask why the share price is so low in relation to the increasing performance? The chairman quite rightly pointed out that the Board could not be expected to comment on the vagaries of the share price and was bold enough to suggest that if there was a broker or analyst in the meeting then all would welcome some thought on the reason for such a poor display. As I suspect the chairman knew, the temptation of such a challenge was too much for me and I sought to respond to this 'old chestnut'. Admitting that I was there under false pretences, being merely a small time funds' manager, I did suggest there were a number of reasons for a perennially low share price. One of the most common was unwillingness, for one reason or another, to disclose information to the investing public. I acceded that a step in the right direction was the introduction, before the IFRS mandated timetable, of Segment Reporting; the Company was to be praised for this move. However I also suggested that shareholders deserved more information on this topic. The group markets several varieties of wines and the maturity dates of each variety can vary by several months even a year. (An indicator here is the inventory level at year end now exceeds 40% of annual turnover; this incidentally is quite common in a wine producer. I recall Montana Wines, in the days when it was quoted, reporting 75% inventory/turnover.) It would be helpful for investors to know the profitability of each variety of wine produced. Jim Delegat, responding to my suggestion, indicated that there were indeed wines like Sauvignan Blanc that enjoyed a higher selling margin than other varieties that needed aging in oak flasks with some varieties requiring maturity before being ready for the market. Mr Delegat said that individual profit margins for every type of wine variety were known to management. (This raises another question in relation to segment reporting which can keep until the next AGM).

In support of my argument, I list a number of other items that would benefit from being discussed:

- Growth is clearly limited by the quality and quantity of harvest available to the Company each year; it is also, to an extent, capable of increase through new plantings for the future. We were advised that there was no surplus of wine at present and we must assume, in view of the indication that profits will remain steady for the current year, that maximum utilisation has been reached unless the group buys wine from other growers. No figures or commentary are available. Is there a plan for further cultivation of vines?

- We heard no comment on whether advantage was being taken in the strong USA market by using roadshows in various parts of the country to encourage product sales and investment, as has been done in the past.

- Succession planning (Boardroom) - see below.

- It is good to see all employees listed on the back page of the annual report but have shareholders been advised lately who are the key management personnel? I think not; the prospectus four years ago was the last listing of senior management.

- The shareholder base of 2,400 members is pathetic for this Company. There are a couple of shareholder benefit mail outs each year but I suggest that a newsletter to staff, shareholders and available to investors and customers at, say, quarterly intervals might begin to convince us that your Company is also serious about the local market. This form of communication can introduce us to your senior staff (see above).

I may not have covered all factors contributing to the poor share price but my experience indicates that if the information gaps are addressed then we may see a slow return to better P/E's.

On the succession plan for directors, raised by a member, the chairman indicated that there had indeed been discussions with the CEO and this matter would be dealt with very shortly. It will be remembered that there has been no change in Board representation since the Company listed. The Board should be aware that the time spent in repeating current performance seriously inhibited the number of questions at this AGM. Questions about future capital expenditure, the contingent liabilities and asset that seem to hang over this group every year are but two such queries.

Oliver Saint

The Interim Results on 26 February followed my review of the proceedings at the AGM on 2 December last year, has introduced an additional query. Reported results are 20% below the same period last year. Thus the Board forecast for the current year to 30 June has been slashed by some 30 - 40% short of the results for 2009. The announcement of the drop was unexpected and has been blamed on lower grape prices. More significant is the announcement of the increased provision for a doubtful debt of some $1.7 million. My list of comments covering the lack of information disclosed to shareholders now includes a query on the internal controls in place relating to risk assessment of trade debtors and the need for a possible general provision for doubtful debts for which at present there appears to be nothing.

PYNE GOULD CORPORATION SGM - 4TH MARCH

Pyne Gould Corporation called a special general meeting with the purpose of ratifying the new Board for PGC and to present the boards of Marac and Perpetual Group.

I was appointed as the NZSA proxy representative. This report needs to be set within the background of the NZSA representations at the Annual General Meeting last October. NZSA was not impressed with PGC performance – and I refer readers and members to The Scrip December 2009 issue and the report by former committee member Margaret Murray.

Thanks toNoel McDonald who volunteered to help. As proxy, my primary job is simply to record the NZSA's members' votes with the share registry representatives. My secondary job is to ask of members of the Board any questions raised by the proxy voters I represent. Noel McDonald's role is to record the replies to those questions. I held only around 250,000 proxies for NZSA, of which roughly one third had voted in favour of the appointment of George's Kerr and Gould to the PGC Board. None of the proxy voters had any questions to ask of the Board at the meeting. I cannot say I was stunned by the lack of proxies or questions. The shareholders were surprisingly complacent at the AGM where they had seen their shares sink from roughly $3.00 and dividends, to roughly 40 cents and no dividends….

During the meeting I drafted up a couple of questions of my own that I thought would be a little provocative. However, the retiring Chairman, Sam Maling, conducted the meeting very effectively. He invited shareholders to ask questions of the summary of the past six months' performance of PGC and its subsidiaries, then he invited us to ask any questions of "procedural nature" about the remits before the meeting. Then he closed the meeting and began the ballot. No opportunity was allowed to question the Board appointments. So, that was it. I was finished, and Noel McDonald's role was effectively "unemployed"!

Chairman Sam Maling is retiring at the end of March. The current Boards are looking to appoint a couple of extra members with specific skills and to one question raised from the floor during the "procedural matters" question period, Sam Maling indicated that the company would attempt to return dividends in the future, if all went well….

I can report that PGC divisions showed solid recovery (Marac) and satisfactory recovery (PGC) but still pretty confusing results from Perpetual Group. Perpetual seems to be carrying the can for Marac's impaired loans and all problem property finances seem to have been shoved into George Kerr's "Torchlight" to clear up the various balance sheets within the group. This of course helps to clear Marac's desk so it can proceed with registering as a bank. According to Sam Maling, the banking registration is a long process and depends to a large degree on the investment grade rating. He stated that the earliest PGC and Marac are likely to see an investment grade rating is August 2010.

My wry observation is that the banking registration will be a long process from then – if Marac gains a respectable investment grade rating.

Frankly, I see the appointment of George Gould – a man with business interests that require a lot of capital – having a conflict of interest. He needs capital and PGC owns – or hopes to own – a bank! George Kerr – a man with relatively little board governance experience runs “Torchlight” – whatever that is, helps out his mate in South Canterbury Finance and has a large personal holding in PGC. I think he is unsuited to the task of representing shareholders. But then, I don’t have any shares in PGC…. And those who do are not complaining!

Tim Kerr

Editor’ note: It seems as if the governance problems in PGC will persist in spite of the commendable efforts to set up expert boards in each of the operating areas. We are surprised that noone asked questions of the current accounts in which the words “Torchlight Fund” are noteably absent. We wonder whether it is an off-balance sheet entitiy a la Enron or Lehman, or whether it is part of Perpetual Asset Management. There was no question over the $7.8million of goodwill paid to George Kerr over a little known company EPAM. There was no question over the reduction of impairments from $34million to $12million.There was no question over the influential shareholding which PGC holds in PGG Wrightson, also plagued by governance problems.

KIRKALDIE AND STAINS AGM – 16TH FEBRUARY

Martin Dowse and I attended the AGM of iconic Wellington retailer Kirkcaldie & Stains (“Kirks”). The meeting was well-attended and a string of thoughtful questions were asked by shareholders.

Kirks is, for all intents and purposes, a property business and a retail store combined. There are 10 million shares on issue, and the largest shareholders are LQ Investments (19.9%), H & G Limited (5%), Dublin Nominees (5%) and ACC (4.6%). The shareholders of H & G Limited are Sir Selwyn Cushing and other family members, while the shareholders of Dublin Nominees are former stockbroker Murray Doyle and another family member.

The Harbour City Centre property was valued in August 2009 by CB Richard Ellis to be $42.2 million (land is leased with 21 years remaining and a right to renew for a further 40 years). Bank debt of $12.0 million is secured against this. So the net asset value of the property business is around $3.00 per share. The cash yield of the property (gross rent less cash costs) is 9.4% before corporate costs and tax.

After netting off receivables and payables, net working capital is mostly inventories of about $7 million or $0.70 per share. Fixtures and fittings (which appear to be related to the Kirks retail store) are about $5 million or $0.50 per share. The Kirks retail store was loss-making at an operational level in 2009 with a negative ($0.2 million) EBIT compared to a positive $1.1 million EBIT in 2008. I’ll leave the reader to decide whether there is any extra value to the retail business over and above the inventories and fixed assets.

Unallocated costs were $0.9 million in 2009 compared to $0.3 million 2008 – it is unclear why the increase. Capitalising these costs in perpetuity works out to be a rough negative value of $4 million to $15 million, or negative ($0.40) to ($1.50) per share, so we should ask next time which are ongoing and which are one-off costs.

Maybe one way of looking at Kirks perhaps is that property and retail as standalone businesses would not have scale and would be weighed down by corporate costs. The combined businesses, however, can share corporate costs.
And over the business cycle one would hope that the retail side makes enough profit to cover its share of corporate costs and more. Over the same period, management can be focused on thinking up ways to add value to the property portfolio at the appropriate time.

Property

The Harbour City Centre actually comprises two buildings – the modern building in the front and a low-grade building in the back. The rear building is effectively a site development. Overall rent has improved by 1.4% after a market rent view of the major tenant and vacancy rates are low. Despite the rent increase the independent valuation fell by 14% from $49.3 million to $42.2 million, although Kirks stated at the AGM that it believes that this is "not a permanent diminution in value".

Retail

Even though the property comprises the vast majority of Kirks' value, AGM questions focused naturally on the retail business. (The Chairman and Managing Director's responses and discussions are set out below, although I have grouped them into categories.)

<u>Big Stuff</u>
Is there a future for department stores? Yes there is.
Is there a future for Kirks in Wellington? Yes there is.

<u>Kirks Strengths</u>
Right location
Great branded product
Charge card (accounting for 30% of sales)
Great, enthusiastic service
Great local support

<u>Retail Strategy and Operations</u>
The focus is on growing sales, as there is little further scope for cost cutting.

The cosmetics and fragrances division is a very good business model and "nice little earner". It has ongoing positive sales growth and now comprises 28% of retail sales (~$11 million), with one brand accounting for $2 million in sales. The goal is to be the #1 counter in NZ for each brand – Kirks is currently the #1 Elizabeth Arden counter in NZ. [I note that a Mecca Cosmetica counter has recently opened.]

It is a win-win situation as cosmetic companies like Kirks' positioning and strengths, whilst Kirks can piggyback on the millions spent by these companies on branding, fit-outs, product launches, etc.

The fashion (clothing) division operates in a tough market environment. The basic rule-of-thumb is that Kirks need to sell 65% of stock at full price to make money. Kirks is focusing on keeping inventories current and clean, so conducts two half-price sales a year to shift old stock. (In the current economic environment "if it [sales discount] is not half price, it does not sell".)

Inventory management is critical and hence the expenditure made to install a Point of Sale System for information on the 200,000 items in stock. Previously, management only knew precisely what was in stock twice a year (at stock take) and relied on the gut feel of staff on the floor for what was selling at all other times.

Regarding a "Buyers' Alliance" of NZ department stores to reduce import costs, Kirks has always been open to this opportunity. The South Island stores such as Ballentynes (Christchurch and Timaru), Arthur Barnett (Dunedin), and H&J Smith (Invercargill, Gore, Queenstown, Te Anau, Balclutha) are more amenable to the idea. Smith & Caughey's is not.

<u>Other Issues</u>
There has been no increase in "shrinkage" (theft!) in the recession, but it is still going on. A new camera system has been installed and an internal auditor role created. The new Point of Sale System should also help to manage shrinkage.However,air conditioning to cover the 20-30 days a year when Wellington is warm, would be too expensive, at around $2.5 million. So fans around fitting rooms and open areas stay.

Ashley Chan

L & M ENERGY BRIEFING – FEBRUARY 2010

Listed oil and gas explorer L&M Energy ("LME") has acquired L&M Coal Seam Gas through the issue of 444 million LME ordinary shares and 56 million LME options (5-year term, nominal strike price). The Independent Expert, Ernst & Young, deemed the acquisition to be fair and reasonable for non-associated shareholders of LME. Shareholders approved the transaction and the acquisition was completed in early March. The "new" LME has around 700 million shares on issue on a fully diluted basis, equivalent to a market capitalisation of NZ$110 million, so is now a more substantial entity. I took the opportunity at the public meetings to question the LME Co-CEOs John Bay (heading up the oil and gas business) and Kent Anson (heading up the coal seam gas business) about LME's future plans and prospects.

Briefing

There was quick discussion on the West Coast permits comprising the Niagara oil trend. John Bay told the meeting that source is basically proven as uptrend there are oil seeps. So the question is what is downtrend – has the oil migrated there, has it been trapped in hopefully large traps, is there an effective seal rock to prevent trapped oil leaking out, and is there permeable and porous reservoir rock such that oil will flow out at an economic rate.

The investor briefing, handled by Kent Anson concentrated on coal seam gas,
<u>Site access</u>: The old Lime & Minerals has a good name dating back from the 1930s, so access to farmers' land is not a problem.

<u>Local authorities and resource consent</u>: Southlanders have a different mindset to economic development and neighbours are not disruptive. Venture Southland and Mayor Tim Shadbolt are very encouraging.

<u>Drilling costs</u>: So far on average $0.5 million per well.

<u>Flow rates:</u> No information at the current time.

<u>Initial Production</u>: Even an initial 2-4PJ pa initial production rate would be large.

<u>Resources</u>: The coal seam in the Ohai permit is about 30-50m thick, whilst that next door in PEP39238 is about 1-2m thick --- the coal seams are shaped like a bowl, so be careful how you extrapolate total resources from the permit map.

Ernst & Young valued the coal seam gas assets using a transactional methodology. They effectively took the 173PJ of 3P (proven, probable, and possible) reserves and multiplied this number by what other companies in Australia have acquired 3P reserves for. The value range Ernst & Young chose was A$0.25 to A$0.55 per GJ of 3P reserves. So A$0.25 times 173PJ = E&Y's low value of A$43.25 million, while A$0.55 times 173PJ = E&Y's high value of A$95.15 million for the coal seam gas assets.

I suggest that care must be taken to compare apples with apples:

- Queensland LNG gas prices and netbacks are possibly lower than North Island gas netbacks
- But NZ has an Emissions Trading Scheme which subtracts maybe $1/GJ to $2/GJ from the North Island gas netback, while Australia's Emission Trading Scheme was rejected by Liberal and Greens Senators.
- The LME coal seam gas 3P reserves are in the South Island where there is no gas pipeline network but there is an electricity transmission line directly overhead.

On balance maybe a midpoint of A$0.40/GJ or representing value of about NZ$90 million for the coal seam gas assets is as good a guess as any.

In my opinion, the clearest way to increase value is for LME to find and certify new 3P reserves in Southland and to discover and certify 3P reserves in their South Waikato acreage. For example, and this is only hypothetical, if LME were to increase its 3P reserves from 173PJ to 300PJ in Southland, and discover 100PJ in South Waikato, then on a transaction basis the coal seam gas value at A$0.40/GJ would be about NZ$200 million, double the current market cap.

LME's current plans include drilling six wells in Southland to extend certified 3P reserves and to certify initial 2P (proven and probable) reserves, which would give bankers and investors more comfort. A five well exploration campaign is underway in South Waikato – any gas found here could be tied directly into Vector's North Island gas pipeline network.

Coal seam gas for baseload gas-fired power generation

IMHO, the simplest way to monetise the Southland coal seam gas reserves is to supply gas to a power station located directly on the resource and under the Transpower transmission line running from Manapouri to Bluff. To obtain the overall best prices, power needs to be exported from Otago-Southland which is generally an electricity surplus region. So at the very least Transpower, the government monopoly, has to be persuaded to upgrade the transmission line connecting Canterbury to Otago-Southland for LME to earn optimal returns on its coal seam gas.

I guesstimate that if LME were to supply a combined cycle power station with 20PJ of gas annually for 10 years from 2015, at a $4/GJ gas price (net of carbon charge impacts) it should earn around $40 million in after-tax free cash flow each year from 2015-2024.

This would be worth all up $250 million in 2015 dollars or $150 million in 2010 dollars. LME's current Enterprise Value is around $100 million dollars, so to earn a 10% pa after-tax return shareholders should be hoping that total capex required to certify and develop 200PJ of "contractible" reserves is only $50 million in 2010 dollars.

To enhance returns further, LME and shareholders soon need to consider lobbying both sides of Parliament (and perhaps Bill English in particular) to a) reduce the cost of the Emissions Trading Scheme or any replacement carbon tax on coal seam gas, b) reduce government royalties on coal seam gas projects, c) allow for immediate tax write-offs or at least accelerated depreciation for coal seam gas capital expenditure, d) persuade Transpower to make the upgrade of the Otago-Southland to Canterbury transmission line a top priority.

Other medium-term coal seam gas scenarios

IMHO, there is little doubt that there potentially will be latent demand for an alternative source of fuel in Southland. Boilers in the large dairy processing plants pretty much run on lignite coal while the Bluff aluminium smelter is dependant on relatively cheap power from Meridian's Manapouri power station. The question is whether this latent demand can be realised in the medium term.

IF (and this is only one possible scenario) the Government's Emission Trading Scheme prices lignite coal out of the local industrial market, then gas would benefit. IF (in the same vein) Solid Energy successfully implements its Grand Strategy for lignite-to-urea and ginormous lignite-to-diesel plants, and then diverts its lignite coal production towards supplying these projects, then coal seam gas could take over as the secure source of supply for dairy and existing fertiliser plants.

Potential source of demand for gas in dairy and possibly fertiliser is as follows:

- Fonterra's $210 million Edendale expansion, increasing capacity to 15 million litres per day at peak capacity (guesstimate somewhere between 2500 and 3000 million litres of milk annually)
- Open Country Dairy (formerly Dairy Trust) new whole milk powder plant (200 million litres of milk producing 30,000 tonnes pa) at Awarua near Invercargill
- Mataura Valley Milk's proposed $100 million dairy processing plant near Gore
- (Possibly) Ballance Agri-Nutrient's superphosphate plant at Awarua, Invercargill.

A quick scan on google of Oceania Dairy's resource consent decision tells us that their 220 million litre plant costing $100 million requires a 15MW coal-fired boiler. This implies that Open Country Dairy and Mataura Valley Milk require close to 30MW combined, while Edendale close to 190MW (seems high but there you go).

Then back-calculating from Genesis and Contact's 400MW power stations (which use around 20PJ pa if operating base load) and adjusting for the lower efficiency of smaller plants, gas demand from Open Country Dairy and Mataura would be around 1PJ combined per dairy year while Edendale would be around 6 PJ per dairy year.

The South Island has recently been prone to electricity price spikes – resulting from a combination of a shortage of water in the South Island hydro lakes and transmission line constraints over the Cook Strait cable which government monopoly Transpower is / should be attempting to rectify.

If the government monopoly properly upgrades the line from Otago-Southland to Canterbury, but not the Cook Strait cable, then there may be the opportunity for LME or power companies to install LMS100 gas-fired peaking units (100MW each) in Southland to generate power during times of high demand and low supply. A 100MW peaking station operating a quarter of the year would consume around 1.5PJ.

You can see that potential gas demand from dairy processing and peaking power generation is in the order of 8-9PJ pa as at 2010. You can also see that gas demand will not be constant throughout the year – instead maximum demand will be in the peak dairy season followed by the peak winter period.

The key technological question therefore is whether coal seam gas is able to produce "seasonally" i.e. for the dairy months and for the winter "peaking power" months. If not and coal seam gas fields must produce on a constant steady basis day-in day-out, then some alternative use of gas will have to be found for the non-dairy season.

If it all gets too hard, the back-up option is always to use coal seam gas for baseload gas-fired power generation.

Ashley Chan

COMPUTERSHARE – AUCKLAND BRANCH VISIT

Participation was initially limited to 20 in line with their board room capacity which was filled within 2 days from announcement.
When approached, Tim Bond MD immediately offered another session the following day.

The presentation by Tim Bond and Senior Relationship Manager., Jan Jolley started with an impressive overview of the company history: founded in 1978 as a small Australian registry service with head office in Melbourne, it grew into the leading global investment related service provider with offices in all continents, 11000 staff (NZ 70) & today's market cap of 6.6 billion AUD, incorporating the latest in computer technology. ASX listed in 1994, its main assets are computer hardware and software.

In NZ, where market share is 60-70 % (whereas in Australia they are market leader with only 40%), they now offer shareholders internet access to their individual holdings, or to the whole portfolio, and options to amend/add data.

Their main service/income areas worldwide (with sector income differing from country to country) are;

Investor Services (registry)
Plan Managers (employee share plans)
Governance services (entity & board information management)
Global Capital Markets (global & cross border solutions)
Fund Services (mutual fund holder communications)
Communication Services (customer communication)
Georgeson (voting surveys & proxy solicitation)

A member's question revealed that sometimes they are privy to what in NZX terms would be called "insider information" which company policy demands to be treated with strictest confidentiality for the sake of client retention and government regulation.

Uli Sperber

Two questions:
At the Wednesday session, CEO Tim Bond answered two questions in a way that I thought was potentially misleading.
He stated that Computershare closely guarded access to a companies' share register and it would not be released without good reason plus the payment of a fee. He would not be drawn on the level of this fee.
In fact, the law requires that share registries MUST make the share register available in writing to ANYONE who requests it on payment of 20 cents per name on the register. Overseas, this has led to people obtaining registers for a variety of direct marketing campaigns and for making opportunistic offers to shareholders at prices far below the current value. The NZSA Board is aware of this situation and is in the process of formulating a policy to address the situation before it becomes a problem here. There are arguments both ways, so we are consulting with a variety of groups before making our decision. However, at this stage we are most likely to favour some restrictions that limit access to avoid this type of behaviour.
A second answer relating to electronic proxy appointment/voting may have given the impression that this was something readily available to companies. However, the law is not entirely clear about the acceptability of this practice and for this reason very few companies have introduced it. Those that have would have to argue the case if it were ever challenged in court. Currently there is a Bill on the Government's list for this year that aims to clarify the situation and allow greater use of electronic transfer of documents. The NZSA supports this proposal.

John Hawkins

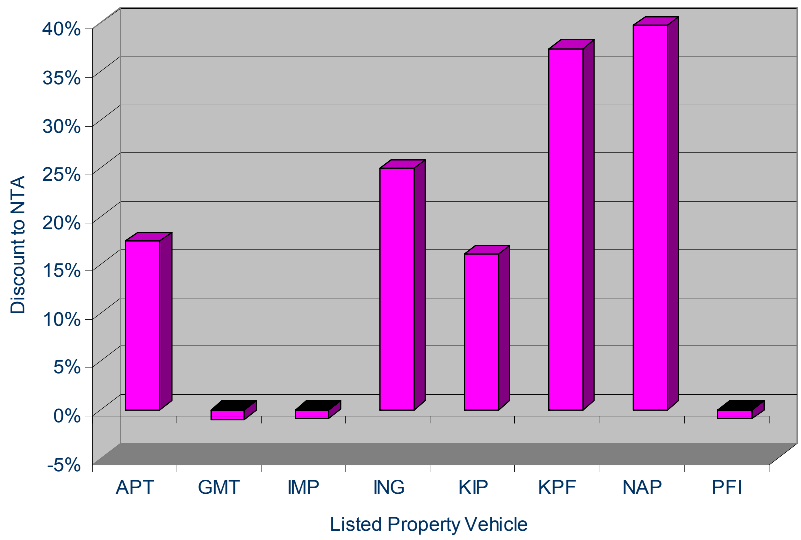
Editor: Computershare was keen to enclose its informative leaflet with this issue of the Scrip. Copies and information are available by phoning Computershare or referring to the website: www.computershare.co.nz/investorcentre.

BRANCH REPORTS

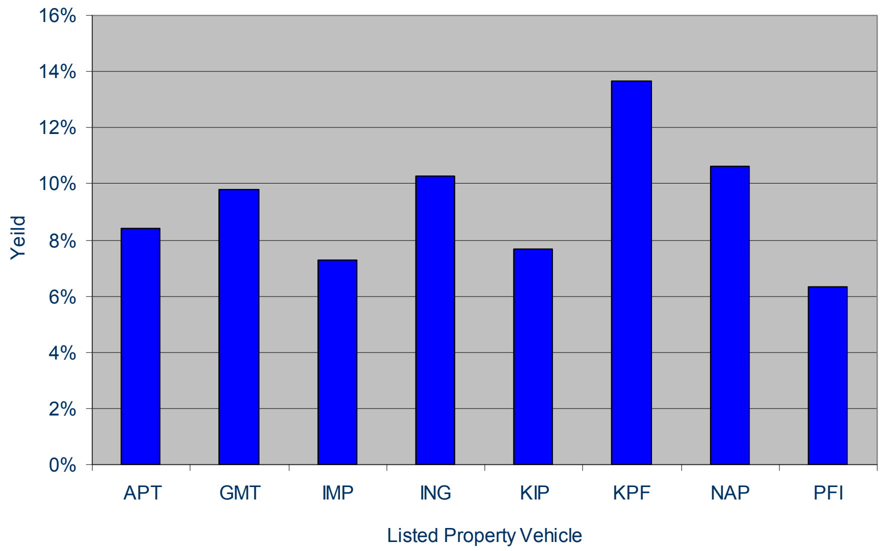
AUCKLAND

The last branch meeting in February heard a very interesting talk from ING property Trust GM Peter Mence. In a commendably objective way, Peter modelled a typical property cycle, explained how valuations were derived from capitalised income, projected income, and discounted cash flow techniques, and took a sceptical view of proposed alteration in depreciation allowances and the role of property developers. We thought the slides comparing asset backing and yield of all listed property vehicles on the NZX were worth including:

Discount to net tangible assets



Distribution - Yield



Oliver Saint then gave a talk about the Z score concept which can be used to give a gauge on the financial strength of a company.

Branch meetings for the rest of the year will be held on **April 14, June 16** (,Branch AGM) **July 29** (National AGM), **September 15** and **November 10**.

Next Meeting: The next meeting will be held on April 14 at 7.00pm for a 7.30 start. The venue is the Hobson Room, Level 4, Alexandra Park. The speaker will be:

- **Freightways**. MD Dean Bracewell will talk to us about this very successful company which operates a string of courier services and data storage facilities both in New Zealand and Australia. The company even runs its own freight airline.

Upcoming Company Visits: Following our heavily subscribed visit to sharemarket registry company Computershare in March we have now arranged two more. Please note that these visits are exclusively for members and a smart casual dress code is appropriate.

- **Contact Energy**. Tuesday 11 May. Otahuhu Power Station, Sparky Rd. This visit will be limited to 48 participants.
- **Restaurant Brands.** Wednesday 11 August. Level 3, 666 Great South Rd. This visit will be limited to 30 participants

We will circulate full details to all members closer to each visit.

Those wishing to attend should contact Joe Turnbull by email or by phone on (09) 631 5071. rjyturnbull@xtra.co.nz

Questions about the visits should go to Uli Sperber uksper@gmail.com

The NZSA company visit programme is kindly sponsored by INFOSCAN

Education: Term 2 classes will be held at Glenfield college night classes.

- **Investing** commences 3 May for two sessions
- **Sharemarket Basics** commences 24 May for 2 sessions.

These courses are open to anyone, so tell your friends and their adult children.

Details available at www.gcc.co.nz or phone 444-1353.

John Hawkins, Acting Chairman

WAIKATO

Our opening meeting of the year on March 9 was addressed by John Wilson a director of Fonterra. John gave a very assured and polished presentation on “Fonterra’s Capital Structure” and also a very thorough outline of Fonterra’s business.
John sees Fonterra as being supplier of first choice for the global dairy ingredients markets. The rational of establishing the Fonterra monopoly for developing a global dairy brand like Nestle appears to be shelved. It was pointed out very emphatically that the farmer shareholders had spoken out and insisted that no dilution of farmer shareholder control would take place. Being a director of Fonterra is no sinecure as directors are routinely dumped by the farmer shareholders if they are either not seen as performing or toeing the line. John endorses this reality and we as members of NZSA can certainly appreciate this and wish that directors in other companies took more notice of their shareholders’ voice.
John took a good number of questions from the floor. Our thanks to Richard Meyers who liaised with John and made the introduction.
Roger Jennings and I attended the NZSA Board meeting in March as the Waikato delegates. This is the result from a Board initiative to maintain and build closer ties with

the Branches, whereby Branches supply a delegate to the monthly Board meeting on a rotating basis.
I found the Board to be receptive to what we had to say and was encouraged in particular for their support and offers of assistance for the Education Courses in the Waikato.
Some of the Board's business is naturally of a "behind the scenes" and of a confidential basis. The nature of the Board's business and how it should be played out or publicised does create some tensions between the Board members. However they seem to function well as a team and very much enjoy their work with a good deal of fun.
It would be disappointing if Branches did not support the initiative or supply delegates on their rostered turn.

Robert Foster – Branch committee

BAY OF PLENTY

The Bay of Plenty branch has been quite heartened with the response of potential new members attending our first two meetings. Eighteen new potential members have shown interest in joining.

During February we had an interesting address by Hamish Coleman from Craigs Investment partners who spoke about their impressions for the coming year.

Some of the problems cited were

Sovereign debt with a number of the EEC counties at present. Currency problems especially with the Euro and British pound.

The public are being more careful and not wanting to take risks. There is a move toward quality stocks and those with stronger balance sheets - low debt.

The potential tax changes in May may have affected listed property companies.

Keep a diversified portfolio. Pay some attention to the healthcare sector. They are defensive stocks, reliable dividend payers. CSL in Australia has just delivered another very pleasing result.

Is there earnings growth there for 2010. Sadly this does not appear to be happening just at present.

Be disciplined in your approach to investing. Purchase by instalments.

A lively discussion ensued with members making several succinct comments relating to the future.

Rules for the Pick Five competition were set out clearly. Entries close on 5th April.

Our guest speaker during March, Chris Zingel spoke about the impact of computer technology in a number of related fields and how this has impacted upon a number of businesses. Examples provided were, the newspaper industry, second hand shops / pawn brokers / purchasing product online is increasing exponentially. David Higson a committee member provided a brief insight into direct broking - buying and selling shares online and his experiences. Also the penalty costs incurred when one looses a share certificate for and English investment and replacements are required. It is not a cheap exercise.

General discussion covered aspects surrounding the problems with Allied Farmers and their Hanover investment.

The BOP branch annual general meeting date was announced - Thursday 3rd June at Daniels In The Park.

Allen Smith - Chairman

WELLINGTON

We have a full schedule of branch meetings planned this year and are planning to run our first shareholder education courses for the year on Saturday 15th May. More details on our branch page at www.nzshareholders.co.nz.
George Spencer died on the 16th of February 2010 aged 98. George was probably New Zealand oldest active investor and was a regular attendee at the NZSA Wellington Branch meetings. George was an extremely successful share investor and leaves a vast and diverse share portfolio. He had a very logical mind and loved the challenge of sorting through the IPO's to separate the wheat from the chaff. George claimed it was the share investing kept him mentally alert.
Geoff Fuller died 6 November 2009 aged 76. Geoff Fuller was enthusiastic about all matters legal which drew him towards the NZ Shareholders Association and to becoming a regular attendee at meetings conducted by the Wellington branch. His questions were always well considered, thought provoking and conveyed in his usual pleasant, non-confrontational style.

Martin Dowse - Chairman

CANTERBURY
The Branch held a meeting on Tuesday 6th April at its usual venue (the Fendalton Croquet Club, 28 Makora St, Fendalton). Our speaker for the evening was Mr Matt Burgess, CEO of " iPredict" who gave a presentation titled: "Prediction markets and public policy: new ways to harness the wisdom of crowds"

Matt explained that "iPredict" is a New Zealand endeavour sponsored by Victoria University of Wellington which has been operating very successfully for the past two years. The "iPredict" web based facility enables bidding on future events of a political or economic nature where participants use their own money to register their expectations. It follows similar prediction markets running in the USA and Europe which have been remarkably accurate at predicting events' outcomes and their probabilities. Members were given a fascinating introduction to this relatively new innovation which generates useful information about the likelihood of future events and offers a low cost forum to participants (zero transaction fees and no tax liabilities on profits!) Matt gave examples of how the prediction market operates in practice and presented evidence of its considerable success covering political and economic events in NZ.

For those interested in following up or participating on iPredict their web site is: www.ipredict.co.nz . We feel that other branches would enjoy this presentation in their monthly meetings.

Robin Harrison - Chairman

BRANCH CONTACTS

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Canterbury	Robin Harrison	robin.harrison@canterbury.ac.nz

MEMBER'S ISSUES

NZX AND CONTINUOUS DISCLOSURE

Several members noted with concern that NZX had announced the write-down of its carbon trading platform an asset completely impaired since the Copenhagen climate summit. So Bruce immediately emailed the Chairman of NZX for some explanation as why the Continuous Disclosure Rules had been breached by those very people whose job it is to frame and monitor them.

"Andrew, there are a number of things going on at NZX currently which are troubling.

1. Your announcement last Friday of a 420m write-down on your carbon trading platform assets. Would you care to explain the rational for the timing of this please.

2. In respect of this announcement the impairment of this asset should have been obvious to the board and management for some time, can you advance any reason why this breach of the continuous disclosure regime should not be referred to your own regulatory arm to deal with.

3. It seems ALF investors have been lead up the garden path. Probably just a mistake, but it could be construed as a pump and dump - convince your paying customers with what is clearly insider information to buy shares, then change your mind, I hope no one in NZX was short selling ALF.

4. The whole issue of price sensitive information being sold is now in sharp relief. Someone on this information traded in ALF shares on your first report, sure they have got burned , but it doesn't alter the fact that NZX has provided this data for a fee, and someone has acted on it, price up 20% post your making this available.

5. Have you now instituted an investigation into the ALF trading over the last week as you are obliged to do or is NZX too hopelessly conflicted.

Can you think of any reason why your action in publishing this data privately and for a fee, and those who acted on it should not be referred to the Sec com for appropriate enforcement.

And finally against this backdrop can you think of any reason why Simon

Power should not act quickly to remove NZX from all regulatory involvement."

The immediate reply suggested that Bruce's comments and questions were inflammatory and defamatory, but it did promise a fuller explanation. We are still waiting!

NZ REFINING PRICING TO ITS SHAREHOLDERS

Mr Bryan Halliwell has moved that Hale and Tworney Limited carry out a review of the pricing arrangement by which the 4 Oil company customers and shareholders give the Refinery business at a 30% discount to the Gross Refinery Margin used in Singapore. This caused a loss of $53million in the latter six months of 2009. He claimed that the formula was unfair to the minority shareholders of NZR. The directors have responded that the arrangement was approved by shareholders in December 1995, when the related party shareholders stood aside from the vote, and that the implications of greater volatility (resulting in extra profit in the good years) were explained by Deloittes at the time. They also point out the hazards of negotiating a price with each customer during a depressed time like this.

Oliver Saint, concerned that we have insufficient information to make a decision, has written to the Directors asking for further information. The following is a quotation from the body of his letter:

"Profitability

This is the first time for many years that shareholders have been presented with no cash dividend and a wealth loss in the form of drop in share price of their investments. I also note that it has now become the practice of showing an alternative profit position. I refer to the 'Net Profit after Income Tax' as shown on page 76 of the Report and 'Total Comprehensive Income for the year' which is outlined on page 77 of the Report. I note that the media and your Trend Statement prefer to use the first listed figure. So my initial query is why is this? The items shown in the comprehensive result all relate to regular transactions and are not 'one off' items and it seems to me that the Comprehensive result is the more appropriate for reporting purposes. May shareholders have your comments.

The motion from Bryan Halliwell

This motion should probably have been put some time ago but shareholders may have been blinded by the fact that margins have, for a large number of years, resulted in increasing profits and dividends from increasing throughput. In the material that you have sent to shareholders you have mentioned several reports. The Deloitte Report produced in 1995 (presumably) prior to shareholders agreeing the present situation, the Arthur D Little report in 1995, the Hale and Twomey Report to the Ministry of Economic Development and the Purvin and Gertz Report produced in 2009. All of these reports will have information that will be of benefit to shareholders when assessing this motion yet none have been included on your website and we are therefore ignorant of their contents. You have not stated in your response whether there are any listed oil refineries that are not prospectors and this information is we feel vital. Also, despite your comment that directors fully understand their responsibilities to the company, we are all aware that 70% of those shareholders are presently oil companies whose own oil is being refined and such oil remains in the ownership of those companies.

An additional point that must now be very significant is the announcement that Shell New Zealand has sold its holding to Infratil. The majority holding of the oil companies will be significantly reduced.

I am disappointed that none of the reports has been incorporated onto your website. There remains an opportunity to correct this situation and I encourage you to address this failure. Do you intend to do this?

Venue for the AGM

Last year, in his address to shareholders at the AGM in Whangarei, the Chairman advised that in future it was the intention to rotate the venue for AGMs between Auckland and Whangarei. I was a little surprised to see that the location for the 2010 meeting is again Whangarei. I would be interested to know the reason for the apparent change of mind and hope that it has nothing to do with the Bryan Halliwell motion."

Oliver Saint

Editor's Note: We await the NZR reply with great interest. We will stay in touch with Oliver and will be happy to pass on the contents of the reply.

GPG PLC – VOTING AT MEETINGS AND POLLS

Many readers will be aware that as a former Research Director of your Association, I was involved with the task of finding members to represent the Association at the various AGMs of listed companies around the country. This task became more difficult when meetings happened to be held overseas. Probably the most difficult meeting was GPG plc (GPG) who have always held their AGM at the Army and Navy Club in London. In my determination to obtain information and attendance one year, I resorted to asking my sister, who lives in London to attend. On another occasion I managed to persuade a fellow member who was in London at the time to attend. Unfortunately, in the last few years no shareholder of GPG has even known how the meeting went as, other than the bare facts of voting required by the London Stock Exchange, no information is ever divulged by this Company to members. One year, I pleaded with our friends of the UK Shareholders' Association to find a shareholder to attend – to no avail.

I would draw the attention of GPG shareholders to the article in The New Zealand Herald, business section on Saturday 3 April by Brian Gaynor dealing with the poor performance of GPG over the last five years and the astronomic salaries that the executive directors draw each year. (Incidentally I suspect that few shareholders had received their copies of the annual report until after Easter given the holiday.) The only real way in which shareholders can show their anger is for them to complete their proxy form and start voting against the re-appointment of these executive directors or friends of the chairman who stand for election. Voting against a Remuneration Report may feel satisfactory but it will have little effect on a Board full of executives. Any action taken to complete a proxy will have no effect unless somebody can be present at the meeting and persuade two other members to vote for a poll to be taken following the result of voting. If no poll is demanded the meeting, which will be stacked with director nominees or friends will vote through the resolution and that will be that. It takes no little courage for someone to ask for fellow shareholders to demand a poll after a resolution given the stares of the pin striped occupants of most of the meeting but that is what is needed. Otherwise the vote of hands will win. It is time to turn the heat up. The meeting this year is on 7 May, once again in the Army & Navy Club, Pall Mall.

Oliver Saint

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