

NZ Shareholders Association National AGM 2010

When: Thursday 29 July. From 9.30 am to 3 pm

Where: **Novotel Hotel, 72-112 Greenlane Rd East, Auckland.**
Adjacent to Greenlane off ramp from Southern motorway.

Who: a great line-up including our keynote speaker:

- **The Hon Simon Power** Simon is the Minister Commerce and Minister of Justice. He recently announced sweeping changes in regulation for the whole securities markets including the establishment of the Financial Markets Authority. Simon has achieved more in 18 months than his predecessors did in 20 years. Come and hear for yourself the vision he has for the future.
- **Don Nicolson** National President of Federated Farmers will give a blunt assessment of the effect of the Emissions Trading Scheme (ETS) on New Zealand's main export earner and the implications of this for all investors.
- **Tenth National AGM.** This one **will** be special.
- Full buffet lunch included for registered attendees. No charge for members.
- **Accommodation:** Special room deals available. Novotel \$145. Ibis (next door) \$109
Quote "NZSA Conference deal" when booking. Ph (09) 529 9090

Early Registration: Early registration will assist with catering.

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THE EMPIRE STRIKES OUT (with apologies to George Lucas)

Ten years ago Bruce Sheppard decided he'd had a guts-full. Corporate New Zealand continued to run roughshod over the already feeble "rights" of small shareholders. Governance, ethics and transparency were words that seemed to have disappeared from many executives vocabularies. The lessons of 1987 had been forgotten and rampant excess and arrogance was back in vogue among the movers and shakers of the "*Empire*".

So donning his trusty Viking helmet Bruce went to work. He named, he shamed. He highlighted some of the rorts. He made a lot of powerful enemies and not a few friends. And from this chaos the New Zealand Shareholders Association was born.

In the offices of the *Empire* elite, they said, "Don't worry, it'll never last It's just another annoying irrelevance. They'll never get enough members to matter. They don't know what they're talking about. We'll wear them down. Government will never listen to them. And so on, blah, blah, blah.... "

But the NZSA did not go away. It did grow. It made more noise. And the Viking became the most feared sight any chairman could see at his AGM - mostly because he (it's always a "he") rarely had adequate answers. And the media had a new champion of the one-liner, which they like, because it saves them having to think.

Slowly things began to change. The system of proxies being left to the Chairman's discretion was eventually replaced with directed votes. Companies were embarrassed into treating all shareholders alike most of the time, some of the worst executive reward schemes became fairer and a few enlightened directors began to engage with Bruce and the Association - sometimes off the record, sometimes more openly. Even the NZX was forced to remove its hated 20 minute delay rule that so favoured a few institutions.

Still, the reality is that the real power resides in Wellington. If you cannot influence the officials or the Minister you will ultimately fail to effect dramatic change.

In mid 2009 I persuaded the NZSA board to "work behind the scenes" to win influence. This was certainly not universally accepted as a good idea. For a start it meant we could not publicise the effort. And that would mean the membership at large would perceive that we were sitting around doing sod all.

However, eventually I was told to try and given the rather grand title of "Director, Strategic Relations" Which does sound vaguely like something out of a plastic wrapped book kept high up on the rear shelves!

We decided the first project would be removing market discipline powers from NZX. However this rapidly morphed into something much larger because the government had picked up a previous Labour initiative, the Capital Markets Development Task Force (CMDT), and intended to use its findings as a basis for a re-write of the Securities Act. – at some very distant time in the future if the *Empire* had its way.

Why you may ask does this matter to me? Because put simply, the securities laws affect every aspect of virtually every publicly available investment in NZ. And coincidentally would also be able to address the NZX issue.

This was surely the opportunity for a joint approach by several organisations which would prove an irresistible force for change. We met and talked a number of times with Chartered Secretaries of NZ, the Institute of Directors, NZ Institute of Chartered

Accountants, the Listed Companies Association and numerous individuals of influence. As a board we also had two visits from members and senior officials of the CMDT. For perhaps the first time they were genuinely interested in the views of the people who actually buy securities.

Most groups we talked with had surprisingly similar views to our own about many aspects that needed to change, but with the exception of Chartered Secretaries there was little vision, courage or willingness to actually do anything. So where to? Pretty simple really! We had done things on our own before, and with the added support of CSNZ that's what we did yet again.

I was determined that our submission would be done properly. This meant that we needed to identify the issues, address the current situation and most importantly suggest a path forward. As a volunteer group and lacking paid researchers, we had no hope of covering the whole scope of the CMDT enquiries and decided early to concentrate on the regulatory aspects.

After endless hours poring over such mind numbing delights as Brookers Company and Securities Law handbook (Volumes 1 and 2), I now realise why most lawyers have certain personality traits and deserve to be paid a lot of money! The end result was 22 hopefully concise pages. This document is on the NZSA website.

Now, most submissions go into bureaucratic limbo and at best the Minister gets to see a half page summary. But we are the NZSA and that was not good enough for us! I don't know quite how he did it, but Bruce obtained an audience with the Minister, Simon Power. To our astonishment he had read the whole thing, seemed impressed and was able to question us in detail. I must say Bruce was at his brilliant best and he even looked the part in a suit and tie – something few have ever seen!

That was the beginning of an interchange that has continued for over six months. The views of the NZSA have been taken on board and your Association is now recognised at the highest levels as the voice of retail investors. And more to the point, our views are both sought and valued.

The markets were astonished when the Minister recently outlined the formation of the Financial Markets Authority and a sweeping series of other initiatives. In particular the speed of the changes had a number of the **Empire's** best choking on their G and T's. Of 17 proposals we ultimately pursued, Government has adopted 16.

I can now tell you that neither the content of the Ministers speech nor the timeframe proposed was a surprise to your board.

The FMA will replace and consolidate a large number of bodies into one organisation with the resources and powers to regulate in a consistent and independent manner. NZX loses virtually all its external privileges that have protected the incompetent and indolent for so long. The impotent Securities Commission which (falsely) claimed to have no powers until its leader saw the noose and trapdoor looming a few weeks ago will also be incorporated and reorganised into a much more effective form. Very significantly, the incumbents in the **Empire** will no longer succeed in gaming inadequate rules as either the FMA or the Minister (if in the public interest) will be able to directly regulate.

Setting the FMA up in a very tight timeframe will require a great deal of work and skill. The NZSA board was delighted when Simon Power announced on 26 May that Bruce Sheppard was to be a member of the FMA Establishment Board. We are sure his appointment will be controversial especially among those in the **Empire** who have

consistently struggled to understand that their owner/shareholders and other stakeholders also have rights.

But really it is an inspired selection. Anyone who knows Bruce quickly realises that he has an astonishing depth of knowledge about both the NZ securities markets and the personalities that sit on the boards and positions of authority. He also has the most extraordinary ability to summarise and draw the threads of a topic into a cohesive whole. While there will inevitably need to be compromises, and perhaps decisions we do not embrace, we can all be sure that he will achieve the best possible outcome for retail investors and a significant improvement in corporate governance regulation and practices generally.

Bruce has been wandering around saying “we are going to rebuild Rome”. To do so will take “brick layers”, “carpenters”, and “architects.” In my view, by selecting Bruce, Commerce Minister Power has also inserted what is really the most important member of the group – the visionary.

The *Empire* has indeed struck out this time. Long live the NZSA!

John Hawkins

BRICKBATS AND BOUQUETS – THE BEACON AND THE GLOB

Recent winners of these awards were published in our last newsletter. For the Glob, Greg Muir had the dubious honour of representing the Finance industry rogues back in 2008, and it is sobering that this wound is still festering. Some of your 2010 nominations are likely again to come from this sector.

The new Super cop - Simon Botherway was an early choice as a Beacon by the NZSA and aided by our own Bruce Sheppard is expected to put things right for us, mom and pop investors in the Establishment Board for the New Regulator, but members have a role to play by getting proactive too.

Get your awards nominations in at the July AGM, or email your choice of Glob and Beacon to howardz@xtra.co.nz. Please discuss nominations with your fellow Branch members.

Howard Zingel

BOARD REPORT FOR MAY – ITS JUST A WEB THING

The board always reviews financial, management, Scrip and Corporate liaison reports, but this month we felt your attention should be drawn to the changes which Chris Curlett has masterminded for our website.

- We email Invoices along with Statements
- We can Short Message System members from the system
- Software is written to enable an Anniversary Date renewal (rather than the current annual due date)
- The package can be operated from the Web Server so members can obtain their balances on line OR they will be down loaded onto the member data base
- New Invoices and statements are completed and in use.

The first two stages of the new members' section in our website are now complete. This gives members access via an access code (allocated automatically from the data base,) to a preferential section of the website. Here members will be able to read newsletters from the Australian Shareholders Association, and the UK Shareholders Association as

well as the most recent copies of our own Scrip. Members can also pay their accounts on line or by credit card in confidence. The third stage of the development, now well underway, is perhaps the most exciting. The financial results of our top 50 companies will be loaded on to the database, and the key ratios (KPI) will be calculated automatically. These will be available to members only, in either graphic or numeric form, developing into a five year profile of the business. It will not replace detailed annual reports but will give members a standardised basis for comparison of company results. With this in place, membership of NZSA may yet be seen as a prerequisite for successful share investing in future.

Alan Best

8% RISK FREE DEBENTURES? WELL, ALMOST

Is it fair that most finance companies get coverage under the Governments Retail Deposit Guarantee Scheme? A number of commentators don't think so, citing the extreme distortion to the market and the fact that poor investment choices are being effectively rewarded.

I suspect most people who need income to live in these low interest times simply say "we would be silly to pass up twice the interest we can get in the bank on a completely safe investment" – So much for moral principles! And really, who can blame them? It's legal, won't damage their health but is quite intoxicating, especially for those who have benefited to date!

The original retail guarantee scheme runs until 12th October 2010 and covers individual investments up to \$1 million per investor per entity. Recently a few companies have been admitted to the "extended" scheme which goes through to December 31, 2011. In the extended scheme finance companies have a lower maximum of \$250,000 per investor per entity. This includes South Canterbury Finance which is offering 8% for deposits that mature before the end of the guarantee. In other words, this is a risk-free rate of return of 8%. Or is it?

Concern has been raised about how long it could take to get your money back if SCF failed and the guarantee was called. Some have even wondered aloud if the Government could afford to pay, or whether it would be on drip-feed over months or years. While both principal and interest due are covered, ongoing interest payments stop once the guarantee is called. This could make a huge difference if it took a year to pay out. The effective interest on a 12 month debenture at 8% pa would suddenly become 4%. Not such a great deal!

The Treasury website www.treasury.govt.nz is not specific about the timeframes stating only "as soon as possible". We think uninformed speculation is not helpful to investor confidence. So we wrote to Treasury seeking clarification on behalf of our members. And this is what they said:

- The average delay from receipt of a correctly filled claim form has been 6 weeks to date. Treasury is seeking to reduce this to a maximum 3 weeks.
- The system Treasury has set up is designed to cope with large numbers of claims in a short time period.
- The rapid payout process will continue though the life of the scheme including companies covered under the extended scheme.

- Treasury is satisfied that sufficient funds are available to meet all its obligations under the retail deposit guarantee scheme.

There is one sting in the tail that you should be aware of. While the claims will be processed quickly, it has been taking about 6 weeks to receive the claim forms in the first place. This is because the information has to come from the finance company and be checked before these go to depositors.

And that leads to A REALLY IMPORTANT WARNING. Check carefully if your investment will be covered before making it. Not all deposits and not all companies are included. Joint investors and Trusts have specific rules applying. If you do not understand any aspect about the operation of the scheme or how it applies to your circumstances, obtain expert advice BEFORE you invest.

So, back to the title of this article - the bit that says "Well almost". It would seem that if SCF was to go under and you had a debenture of 8% for 12 months due at that time, you will probably wait about 2 months to receive your money. Therefore, the effective interest rate will be about 6.7%. If you had it in for 18 months it would be a little over 7.6% pa.

You must decide if that is reasonable for a risk-free Government guaranteed investment.

John Hawkins

ELECTRONIC COMMUNICATIONS, SOCIAL MEDIA – ARE YOU PLUGGED IN?

From time to time, NZSA members are asked their opinion on matters of interest to shareholders. The rapid growth of business and personal communication via the internet and the increasing popularity of social media as a means of communication, especially among the younger generation, has provoked a survey to gauge what use our members are making of these new ways to receive and send information. The same survey is being conducted with members of the Australian Shareholders' Association, and the results from both surveys will be made available to the NZSA in due course.

The Australasian Investor Relations Association (AIRA) is conducting a survey to assess retail investors' preferences and use of electronic communications and social media. Your support in completing this survey is highly valued by AIRA. The results will assist AIRA's listed entity members to better understand the use being made of electronic communications and social media by retail investors.

This survey will provide insights on:

- * Electronic communications preferences for annual reports, websites and webcasts
- * Use and timeliness of email notifications for listed entity announcements
- * Whether retail investors' are using social media as an information source
- * Perceptions of information generated in social media channels
- * Whether the influence of social media is expected to increase in coming years

Please be assured that your response is confidential and only aggregate responses will be reported. The questionnaire will only take 5-10 minutes.

If you would like to be emailed an executive summary of survey results when they are available you can indicate this in the final survey question.

To complete the survey, please click on or type in this link:

<http://www.zoomerang.com/Survey/WEB22AMT4E55SG>

If you could complete the survey by Friday, 11 June 2010 that would be most appreciated.

Patrick Flynn

COMPANY AGMs AND PROXIES

THE PROXY REPORT FOR 2009

During the year 60 AGM and SGMs attended by proxy representatives of the Association. This is a great achievement - but we should point out that not every AGM or SGM can be attended by NZSA.

Breakdown by region:

Breakdown by region:

Auckland	36	
Wellington	9	
Christchurch	9	
Tauranga	4	
Dunedin	2	
		Total 60

We thank all of our active representatives who give their time freely to research any potential issues, attend the meetings, ask questions of the directors and write up the report for the Scrip:

Auckland:	Oliver Saint Noel Thompson Joe Turnbull Uli Sperber Jenny Merrilees	Alan Best Des Hunt Jacquie Staley John Hawkins Patrick Flynn
Wellington	Martin Dowse Martin Erhenstein	Ashley Chan Matthew Underwood
Christchurch	Robin Harrison Margaret Murray	Peter Heffernan Tim Kerr
Tauranga	Howard Zingel	Kerry Drumm
Dunedin	Roscoe Lord	

The focus for 2010 AGM season will be to co-ordinate proxy representatives with individual members who actively follow their 'favourite' or 'troubled' companies. So if you have questions or issues for a meeting please send them to proxies@nzshareholders.co.nz.

As most of the AGMs are held in Auckland, we need more members to act for us there, especially in the busy months of July to November. It is good to see that when the proxy member does initiate questions he is usually supported by other members from the floor of the meeting. So you will have support if you take on the role of proxy holder for NZSA.

Jacquie Staley

NZ REFINING COMPANY AGM – 22ND APRIL

NZSA proxies: 12 proxies representing some 208,000 shares, less than 0.75% of the issued share capital. In relation to the resolution by Mr Halliwell, my direction was (with the exception of 3,500 shares) to vote for the motion or to give discretion to the Association representative. I seconded the motion for Mr Halliwell and voted in favour of the motion on behalf of members who gave the Association their proxy.

The meeting was again held at Marsden Point and the attendance, probably due to the motion put by Bryan Halliwell, attracted twice the numbers that had attended last year. In spite of the motion relating to the processing fee, no media members were present.

The chairman announced, during his address and prior to the main agenda items, that the Board had decided to complete an external assessment of the processing fee every five years and undergo an annual review of the fee with management. This was clearly an attempt to take the sting out of the last agenda item.

The remaining agenda items were dealt with quickly and Mr Halliwell was afforded a very reasonable time with which to speak to his motion. One failing, subsequently corrected by the Board on the Company website, was the fact that none of the previous reports had been put on the website and in time for many shareholders to vote on the motion. There are now two reports posted on the site that go a considerable way to setting out the complete picture. In the review of the processing fee by Purvin & Gertz Inc that has been placed on the NZR website, the appraisers had been asked to comment whether the fee remained 'not unreasonable' and the appraisers confirmed this. Those with an elementary knowledge of the English language will appreciate that there is quite a significant difference between 'not unreasonable' and 'reasonable'. The double negative allows professionals a greater freedom and I strongly urged the Chairman that for future reports we would be more amenable to the use of 'fair' or 'fair and reasonable'.

In discussing the question of the processing fee, politics unfortunately comes into play. As background, it should be appreciated that our government has always been keen to ensure that there was a local refinery capable of providing the country with the right mix of fuel for our needs. The refinery was completed in May 1963 and in the mid 1980s it was expanded and upgraded at a cost of nearly \$2 billion (of which close to \$1 billion was wasted). The project was one of the most badly organised of any of the 'think big' projects at that time and eventually, whilst shareholders may have benefited with an upgraded refinery, the government made a free gift of around \$1 billion of the remaining balance to the Company. The difficulty with assessing processing fees is the oil producers have little incentive to retaining a shareholding in a refinery so far from the source of supplies. So long as New Zealand considers the need for a local refinery is paramount then shareholders of this company will always be on the back foot.

The Company announced to the NZX that 98.89% of those voting had voted against the motion. This figure of course does not tell us what number of the total issued capital had voted. In this respect the lack of any requirement to disclose the right sort of information to the Exchange is highlighted. Now that a large slice of the issued capital of the group is held by the Guardians of New Zealand Superannuation there may be a rethink on refinery margins – don't hold your breath!

Whilst the annual report of this group is exceptionally well produced, there are gaps, particularly on the website, that could be improved without trouble. We are in contact with the Company on this point.

Oliver Saint

L&M ENERGY AGM 29TH APRIL

The first AGM for L&M Energy ("LME") post-merger of the coal seam gas and conventional oil businesses was held in Wellington on 29 April. Chairman Geoff Loudon

announced that he had just become a New Zealand resident, which will enable him to focus fully on growing the company.

LME's market capitalisation on a diluted basis is now approximately NZ\$130 million (A\$100 million), and Mr Louden states that it is an "exciting time" for shareholders and the merger has meant a "total change of game" for the company's future prospects.

In coal seam gas, run by Kent Anson, LME will be undertaking pilot testing with the aiming of certifying "bankable" 2P reserves by late 2010 or early 2011. Exploration and appraisal is also ongoing with electric logging of the OM-4 step-out well in the Ohai permit indicated 40m of net pay in two main coal horizons. LME are confident of good gas content as they saw gas bubbles in the cores and are confident of a substantial increase in 3P reserves from the current certified amount of 173 PJ.

(Readers will recall that the Independent Adviser for the merger, Ernst & Young, valued coal seam gas 3P reserves at A\$0.25 to A\$0.55 per GJ, in other words A\$0.25 to A\$0.55 million per PJ. One petajoule is one million gigajoules.)

In conventional oil and gas, run by John Bay, there has been a refocus of efforts into the proven Taranaki oil basin. Onshore, LME has recently completed 2D seismic data acquisition in the PEP 51151 permit (LME 50%, Mosaic Oil 50%) up-dip of Origin Energy's Rimu-Kauri oil fields. Drilling is planned for early 2011 and should be significantly cheaper than the typical \$20-\$50 million cost for offshore drilling as the well is onshore and the primary targets are at shallow depth of about 1600 metres.

In the West Coast of the South Island, LME has used innovative technology to acquire seismic data over oil targets where there is only vintage 1980s seismic. Conventional seismic acquisition – exploding dynamite – would either be too expensive (requiring helicopter support in rugged terrain) or inappropriate (DOC land).

The new technology, called Accelerated Weight Drop, is comprised of an all-terrain tracked vehicle and compressed gas to propel the striker/weight towards the surface to create seismic waves. This has proved "wildly successful" and the empirical evidence is that the technique has minimal adverse environmental impacts – and anecdotally has positive impacts for weka in particular. The striker leaves only a small depression (inches) in the ground and drives up the worms to the surface for the flightless woodhens to enjoy.

As an example of how well industry peers view the overall quality of LME's technical staff, John Bay has recently been appointed the Chairman of PEPANZ, the industry association for petroleum producers and explorers.

Ashley Chan

BRISCOES GROUP AGM – 20TH MAY, 2010

'It was a spectacular AGM to attend' – so said CEO Rod Duke in reporting to the meeting the staggering 80.7% increase in NPAT to \$21.03 million. It was a substantial year of growth for the overall Group based on restructuring programme commenced in 2008, and the strength of the retail brands. On same-store basis, sales increased by 4.7% for the year.

“And above all else, we at Briscoe Group (BG) never lost sight of sound retailing fundamentals - getting the right stock, in the right place, at the right time, in the right quantity and at the right price. And we back this up with aggressive promotion, and a commitment to looking after our customers when they come into our stores” said Rod Duke. A new profit centre structure aimed at rewarding senior and junior profit partners has proved very rewarding.

Merchandising was critical to all operations – and the importance and strength of the buyers’ relationships with their manufacturers was very rewarding and provided leverage buying power. For members of the merchandise team the opportunity to share in incremental gross profit dollars generated has resulted in much clearer focus on range reviews, product availability, sell through and final margins. The merchandise team and the store profit partners have the common goal of creating incremental profit.

Living and Giving continues to struggle, with 8 stores failing to line up and this required an impairment adjustment of \$1.86 million. Over the last few months BG has changed the product focus in most L&G stores, concentrating on creating the most compelling and complete kitchen story in a shopping mall. And BG have secured significant margin improvement by better leveraging Briscoes’ off-shore buying power and relationships. L&G is a long slow haul back to profit but, with every passing month, the brand edges closer to breakeven.

On such satisfactory results there were only two questions asked:

- The Directors are pleased that Urban Loft has performed better now that it is operating within the framework of Living and Giving stores. Rod Duke acknowledged that the timing of introducing the higher value Urban Loft stores was unfortunate due to the global financial crises.
- The impact of increased gst on the various stores would not be as dramatic as some companies because the average value of sales in Rebel Stores is \$70 and in Briscoes is \$58 – so it was not anticipated that customers would either buy ahead of the increase in gst to save \$1.50 – nor that it would impact overall on sales afterwards.

Jacquie Staley

TURNERS AUCTIONS AGM – 22ND APRIL

Chairman Michael Dossor gave a refreshingly short overview of previous financial year to Dec. 2009. This relatively small company with a market cap of just under \$40m runs auctions for vehicles and commercial goods from 16 sites around New Zealand.

Over the past 10 months its share price has climbed from \$0.70 to \$1.40, in expectation of increased profit. In fact EBIT and NPAT profit trebled on the back of slightly reduced revenue.

CEO Graham Roberts gave an impressive overview of the NZ used vehicle market, where number of dealers declined by about 33% over last few years to just over 2000, and vehicle availability from Japan also declined. He spoke of cost saving initiatives such as online instead of media advertising, and live online auction participation to adapt the company to a dwindling market.

Overall: an impressive CEO, obviously supported by a capable team, with strategic initiatives leading to a dominant market position & achieving remarkable anti-cyclical success. One has only to wonder if they can continue this in changing conditions. Your

proxy holder is not a shareholder in this company but was positively impressed. Evidently the audience was too, because it asked no questions and offered only a few complimentary comments

Uli Sperber

NZ WINDFARMS – SGM 6TH APRIL

Some 50 or so attended to give shareholder approval (as required by listing rules) to the raising of \$31.4 million dollars in a renounce rights issue and the issue of these shares to Vector Ltd (as the underwriter) at 15cents a share.

An opening question from the floor asked "was the money needed and if not forthcoming would that mean the company "would go bust?". The answer could be taken as yes but the Chair informed the meeting he "could not say too much". He was then asked "would Mr. Stiassny of Vector be speaking. The Chair advised that he (Stiassny) was not required by law to speak on the subject and called for the vote to be taken.

Mr. Stiassny then advised the Chair (and the meeting) that he was prepared to speak and did so - to the obvious comfort of the meeting who would (no doubt for the most part) have bought their shares at the issue price. He stated that Vector had always had considerable interest in wind powered electricity generation. They had advanced money to the company to this end, and they would certainly be taking up their rights, and would be underwriting the issue if such was approved by the meeting. He realised that a lot of people would prefer that a major buyer of the power should not be a significant share holder in the producer of that power and almost hinted he was of the same opinion.

Asked was he "confident in the potential of the technology" he declined to say yes or no. He did feel strongly there was a place in New Zealand for windfarms and was prepared to put a lot of time and effort (and in this case money) into the concept and the effort. The Chairman then called for the vote which was, not unsurprisingly, overwhelmingly carried.

A somewhat disturbing feature of the meeting were the occasional verbal interjections from the rear of the meeting that a number of seemingly innocuous questions put to the chair were not answered. It seemed that a free frank exchange between Chair and Owners took a back seat at this meeting.

Joe Turnbull

CAVOTEC MSL HOLDINGS AGM 27TH APRIL

This is a NZ listed company which held its AGM in Lugano, Switzerland after gaining NZX permission to do so. Local shareholders attended the live video conference link at Cavotec's Christchurch offices in Barbados Street. I was initially apprehensive about this tele-conferencing arrangement but it did work reasonably well and some credit should go to the Chairman, Stefan Widegren, who was attentive to receiving questions from the Christchurch participants. With all but two of the board members residing in Europe their choice of venue made some sense, particularly so, when only a few days earlier most of Europe's airports were closed.

The Chairman said they were putting behind them "difficult times" but that diversification into new technologies and into the Middle East had compensated for declines in traditional areas. The dividend which had been suspended in 2009 would be restored in 2010.

The CEO, Ottonel Popesco, gave an overview of the group's performance which had seen declines in Europe but growth in the USA, Asia and the Middle East. Notable

growth had occurred in their installations at airport developments. To curb expenditures employee numbers had been reduced to 677 (from 718 in 2008), managers had accepted a 10% pay cut and others a 5% cut. Board members had agreed to a 10% reduction in remunerations. Now that was a revelation; cutting salaries and board remunerations in response to adverse market conditions. I had not noticed any of our Kiwi firms and directors doing that in response to the recession!

With their 2010 order book now much improved on 2009, Mr Popesco said the company was ready to grow and that the salaries had been restored.

The re-election of Board members proceeded without opposition.

The AGM was followed by light refreshments and an opportunity to talk with Michael Scheepers (Cavotec's Group Manager – Investor Relations, who had overseen the tele-conferencing link), to other shareholders and the local staff of engineers who work on the Mooring Systems part of the group.

Robin Harrison

CDL INVESTMENTS AGM – 26TH MAY

NZSA proxies: 114,373 shares or 0.05% of the issued capital.

The Chairman covered briefly the transactions for the year (34 sections sold compared with considerably fewer in the previous year) and the CEO then gave a brief resume of the economic background. A questioner, seeking to understand the cyclical results of prior years and prospects for the future, asked for information about the number of sections available for sale and those completed but not yet put up for title. The distinction here is that only those sections that have title are liable for payment of rates to the local councils. It is therefore more practical for the company to delay seeking title until sale is assured. Mr Chiu advised there were 100 sections ready for sale, 186 sections ready for title and 44 sections had already been unconditionally sold in the current year. At present progress the land bank assures a further 10 year's supply of revenue. Despite the tentative upbeat commentary, there is no doubt the major performance indicator for a development company is net asset backing and in the four full years since 2005, the asset backing per share has moved from a disclosed 30.7 to 37.8 cents per share, an annual increase of 5.7%. If market values were substituted for book values then asset backing has moved from 73 to 76 cents per share over the 4 years. Dividend to shareholders has dropped in the same period from 2.0 to 1.2 cent per share, a reduction of 10% per annum.

Oliver Saint

Millennium & Copthorne Hotels New Zealand - 26 May 2010

Proxies covering 15,000 shares were received in favour of the Association; a negligible number compared with the issued capital of close to 350 million shares. In view of the lack of interest in this group, I suggest that the article by Brian Gaynor in the New Zealand Herald on 29 May 2010 will be compulsory reading. The major news that shareholders will have read is the press report that a fraud had been uncovered in operations in China when the hotel on Hainan Island was fraudulently sold. Both the Chairman and CEO took considerable time to explain the situation and the opportunity loss arising from this fraud is incalculable. In fact, Mr Chiu took one hour to go through the procedures that were taken to try to recover the loss sustained including the police report and efforts to obtain a criminal action against Cheung Ping Kwong so that the contract could be voided and the position reinstated. The difference between New Zealand and China is a contract or sale of property in China requires the seal (or chop) to be placed on a document for completion of a contract, thus the owner of the seal has complete control. In New Zealand a seal is not required by a company and the signature

of two authorised persons are generally required. The problem in the case of the hotel in Hainan Island was that both the holder of the seal and the legal representative of the company happened to be the same person and thus one person was able to perpetrate the fraud. Lengthy discussion took place about the internal controls possible for transactions in China and the Board promised to look into what can be altered to make the position more secure. Whilst it is appreciated that only Chinese may own property, it should not be beyond the powers of the joint venture to devise a system ensuring that a director of the Board and the legal representative be present at the signing of a contract that requires a seal. This remains a most unsatisfactory situation and shareholders will expect further news of the steps that will be put in place to ensure that this fraud is never repeated; such advice to be delivered well before the next AGM.

Oliver Saint

OPUS INTERNATIONAL CONSULTANTS AGM – 13TH APRIL, 2010

The 2010 AGM for consultancy firm Opus International Consultants (“Opus”) was held in Wellington on 13 April. Opus is the former consulting arm of the Ministry of Works and Development, and it offers a range of services including engineering and architecture services, involving roads, bridges, water, schools, hospitals, indigenous housing, railway stations.

The company’s Malaysian controlling shareholders retain a 65% interest after selling down their stake in October 2007, with shares issued at \$1.65 in the IPO.

CEO Dr Kevin Thompson presented the annual results, although he took pains to state that he was not providing any guidance or views on the company’s outlook or prospects. Although revenues were slightly down in 2009, margins and profitability was higher.

Net revenue was \$273 million, EBITDA \$31.6 million (12% margin), and EBIT \$25.3 million (9% margin) in 2009. This compares to net revenue of \$278 million, EBITDA of \$30.5 million (11% margin), and EBIT of \$24.1 million (9% margin) in 2008. Net revenue and net revenue margins are more accurate numbers to follow – total revenue can be misleading as it incorporates pass-through revenue paid to outside consultants. NPAT was \$18.6 million in 2009, compared to \$17.5 million in 2008, and earnings per share around \$0.13 (based on 148 million shares fully diluted). At a current share price of \$1.80, Opus is therefore trading at a trailing PE ratio of 14 times.

Market capitalisation (undiluted) is around \$250 million and net cash around \$30 million, making an Enterprise Value of around \$220 million. The trailing EV/EBIT and EV/EBITDA ratios are thus 9 times and 7 times respectively.

I asked if Opus had changed their IPO strategy of doubling their overall business from 2007 to 2011. Dr Thompson replied that Opus has essentially stood still for two years and no longer have the same bullish approach to the UK. The UK is highly competitive with Opus fighting hard with other companies over a smaller public sector pie. The company is instead focusing on improving its existing business (at least breakeven in UK, and profitable in Australia) and is looking to be “overcommitted” to NZ to take advantage of the planned increase in public infrastructure investment here. If there is a change of focus, it will be on Australia and on building a critical mass in Canada.

In Australia, Opus has good critical mass in Queensland, but “sub-optimal” mass in WA and NSW. The specific objective is to build a sustainable size in WA and NSW before other states, rather than a generic objective of being number one in Australia. Opus has

learnt that a large mass is required in regional markets to support specialist capability, in order to have a sustainable business.

If Opus is successfully in achieving its primary objectives, it would be hoping to reverse 1H09 EBIT losses in the UK of \$6.7 million to at least breakeven (it was breakeven in 2H09). In Australia 2H09 EBIT was \$2.3 million, and if this was maintained throughout the year would work out to be \$4.6 million annualised (a \$3 million increase over 2009 EBIT of \$1.6 million). Geographic segmental information is provided in Note 21 of the 2009 Annual Report and also in the interim report.

Thus there is calculated potential of at least an extra \$10 million in headline EBIT for FY10 onwards, if Opus is able to remain breakeven in the UK and Canada plus earn NZ-level profit margins in Australia. However readers should be aware that in Australia peer consultancy firms Cardno and Coffey International are reporting difficult trading conditions.

Ashley Chan

GUINNESS PEAT GROUP AGM

Editor's introduction: For some time NZSA has been concerned at the apparent lack of governance in the Ron Brierley controlled, GPG. The governance problems are several:

1. Failure to appoint independent directors, who can adequately represent the interests of small shareholders.
2. Failure to provide for adequate succession and renewal of the old Brierley directorate.
3. Failure to meet forecast of restructure promised in AGM of 2009.
4. Failure to give NZ shareholders adequate meeting and consultation opportunities.
5. Failure to give remuneration committee adequate independence and safeguards.
6. Indecision over returning cash and minor asset balances to shareholders.
7. No evidence of fresh ideas in returns to shareholders - same old bonus issue and dilution year after year.

Sir Ron has consistently adopted the approach: "We save you money when you don't have to comply with the bureaucracy. Trust us to invest wisely with the minimum of red tape."

When GPG again planned to hold its AGM in Pall Mall without any provision for representation or questioning by New Zealand shareholders, we contacted Tony Gibbs, the company's New Zealand director. He tried to introduce a two way link with the meeting, only to be foiled by the lack of electronic facilities in the city of London. So we finally had to settle for a video link to our computers. Oliver's report reflects the NZSA frustration with this. The issues remain and we are still on the case. We would welcome any thoughts of ideas from members on GPG issues.

Through the tireless efforts of our Association Board, those GPG shareholders to whom hope still springs eternal, were able to view a web cast of the proceedings at the 2010 AGM. You would have had to be lucky as the viewing was only available on the GPG website for 7 days. As usual, it was a short meeting and lasted 10 minutes of which some 3 were taken up in watching the Board whispering and drinking cups of tea before the start of the meeting proper. I had intended sending a critique of the event but I have been saved the task by an excellent 'Chalkie' article on the back page of the 20th May issue of The Independent, with a picture of our Chairman presenting Tony Gibbs with the Beacon award for 2007. They had to publish this picture because the Golden Glob award to Ron Brierley in 2003 was never collected, thus no media attention. The Remuneration Report including the discretionary votes given to the chairman collected 411 million votes for and 339 million votes against the motion. Approximately 766 million votes were cast compared to total voting rights available of 1,6 billion, a vote count of

less than 50% of issued capital which we suggest is very disappointing and dare one say, apathetic.

Oliver Saint

RENAISSANCE CORPORATION AGM – 21ST MAY

NZSA proxies – 6 totalling 46,914 shares

Renaissance comprises the following reportable segments:

- Brand representation, eg Apple computers, earning \$3m on an investment of \$21m and Revenue of \$122m,
- Digital Services, barely breaking even on an investment of \$4m, and sales of \$71m
- Education including Natcol, making \$1.5m on an investment of \$4m and sales of \$53m
- Retail (Magnum Mac) losing \$3m on an investment of \$10m and sales of \$41m.

Colin Giffney chairs an honest board which has faced its problems, including the reduced margins on Apple products, and appointed Murray Wood, the former owner of Natcol and Magnum Mac to its board to prevent the loss of institutional knowledge. It has appointed an impressive new CEO Richard Webb, and independently, a new gatekeeper, CFO Shaun Rendall. Members should read their CVs on the website. Both executives have opted for longer term share remuneration schemes for their at-risk pay. Shareholders were promised by the previous CEO, that bank debt would be paid back by the end of the financial year 2009, but this has not happened, and we await the results of the shake-up. Richard Webb reported on his changes:

Of the 12 divisional executives, 6 have held their positions for less than 4 months. The 42 free calling numbers have been reduced to 1, 100 websites reduced to 1 with specialised pages for each service, a service centre operating 24/7 has been established. A flatter structure with more interoffice communication has been established a la Silicon Valley. This is a revolution at court, and the early budgetary signs are promising. So look out for improved performance. After 2009 it is sorely needed.

All 4 resolutions were passed without dissent.

Alan Best

PROPERTY FOR INDUSTRY AGM – 21ST MAY

NZSA proxies: 18 representing 568,750 shares or around 0.48% of the issued capital.

Your representative was late for the start of the meeting and missed much of the opening address of the Chairman. He was, however, present for the voting on all resolutions. The significant resolution was item 3 dealing with changes to the constitution. Resolution 3 read as follows:

- To adopt a new constitution
- That the constitution tabled at the meeting and signed by the Chairman of the meeting for the purpose of identification, be adopted as the constitution, in substitution for the current constitution.'

This agenda item was brought about by the fact that the Company is now one of the half-dozen or so of listed companies that insist changes to the constitution be voted on by members at general meeting. The alternative, that 95% of listed companies follow, is what is now colloquially known as the autopilot system, where new Stock Exchange rules that relate to constitutions, are deemed to be part of the constitution of companies without seeking specific approval from shareholders. This places the Stock Exchange rules in priority to the Companies Act (a Statute of Parliament), which the Association has

always insisted is an absurd conclusion. Our Association e-mail to the Exchange dated 13th August 2004 sets out our view, which has never wavered. The response by the NZX deliberately avoided answering the legal problem and concentrated on the pragmatic advantages. The Exchange indicated that their lawyers (and other major law firms) took the view that the rules were legal. NB. These exchanges of correspondence are on our website (press the left hand heading Advocacy on the home page, then click 'correspondence' on the drop down menu, type 'Autopilot' in the Search facility and the first item covers the initial query to the NZX and its response. The surprise at the meeting came when the Chairman indicated that he had decided to have a poll on the resolution rather than the usual show of hands. A 75% vote in favour of the resolution to change the constitution is required. Whilst members were not aware when polling took place, the Chairman knew from the proxies received that many institutions had decided to vote against the motion and had encouraged their clients to do likewise. The voting was extremely close and the requisite 75% majority was only just made. If your representative had voted against the motion then it would have been an even closer run thing. An article by Ms Stevenson in the Dominion on 22 May pointed out that the Risk Metrics Group analyst investment manager advised its clients, including ING NZ to vote against the proposal. The comment by the Chairman when advising a poll would be taken, suggested a close run situation when he advised the Company would continue as before, whatever the result. The changes regarded by the institutions as reducing shareholder protection were allowing increasing placements from 15% to 20% and allowing issues of securities to directors and associates. It is possible NZX might in future bring pressure to bear on companies like Property for Industry to change to the autopilot system. The alternative would be for the Exchange to have a far more public debate over changes to the Stock Exchange Rules if they are not to get themselves into embarrassing problems of some companies being outside the Exchange rules if shareholders vote against 'autopilot changes'. Bear in mind that this is the first major show of muscle by institutions and very nearly succeeded. The advantage to the Exchange is that most listed companies are trapped and will find it difficult to go back to shareholders and say – sorry, we were wrong. Will institutions follow their initial success and try to prevail on those listed companies using Autopilot? Wait for the next instalment.

Oliver Saint

CONTACT ENERGY – VISIT TO OTAHUHU POWER STATION – 11TH MAY

Auckland branch and a few Waikato visitors shared a successful visit to the local power station hosted by Contact CEO, David Baldwin. Electricity like any commodity is manufactured, distributed and traded. The main generators in New Zealand accounting for over 95% of the market, according to Wikipedia, are:

COMPANY NAME	MEGAWAT CAPACITY	OWNERSHIP
Contact Energy	2070	Listed Company
Genesis Energy	1977	State Owned Enterprise
Meridian Energy	2601	State Owned Enterprise
Mighty River Power	1369	State Owned Enterprise
Trust Power	594	Listed Company

These producers feed into the national grid via 220 nodes or injection points, at price determined either by contract or by the spot price, an auction system with bidding by the 12 electricity retailers.

David did not follow a scripted presentation but largely followed the interests of the group by answering questions in an accomplished manner.

Geothermal will form the largest part of NZ's new power generation developments in the near to mid future for which Contact was well positioned. David was dismissive of wind power and this would explain the lack of resolve around the proposed windfarm development at Te Akau in the Waikato. David seemed surprisingly confident about ultimately getting community approval for Hydro development on the Clutha, but thought it would need its own Act of Parliament. Large hydro schemes are also constrained by the \$1-2 billion capital requirement. David unsurprisingly wished for a more level playing field with the SOE generators.

We had a tour of the plant, which at 400 MW forms a considerable part of Contact's generational capacity (~20%), and operates at capacity for months at a time. I now have an appreciation for the importance of gas as being not just for peak requirements, but forming an important part of base load generation as well. I was surprised that transmission and distribution costs account for over 1\3rd of the price of electricity to the consumer.

Robert Foster and Joe Turnbull (Edited version from both reports)

BRANCH REPORTS

AUCKLAND

Next Meeting: The next meeting will be held on **June 16 at 7.00pm** for a 7.30 start. The venue is the Hobson Room, Level 4, Alexandra Park.

- It has taken a long time to get them here but **Telecom** Chairman **Wayne Boyd** and CFO **Russ Houlden** will be the guest speakers at our next meeting. They will brief you on the enormous challenges facing the company and take your questions. This is one you really **must attend**.

- The **Branch AGM** will follow straight on from the Telecom presentation. We are looking for two new members for the branch committee. This is not an onerous task and it is your opportunity to give something back to the Association. Anyone who is interested should give me a call. Ph 478 3198.

Last meeting:

At our April meeting Dean Bracewell MD of **Freightways** gave an interesting commentary on the company. He outlined the history and ownership control of the company at various stages prior to listing – private NZ owners, Aust. Owners and Private Equity to becoming a public listed NZX Company in Sept. 2003. Dean has been with the company since 1979 and MD since 1999 during these various ownerships and has seen the company grow substantially in its specialised business areas.

Express Packaging, the largest division is a multi branded operation within NZ from a network of 90 depots delivering packages up to 25kg, and 10 point to point depots for single delivery items (motor bikes). Specialist brands NZ Couriers, Poste Haste Couriers, Castle Parcels, Now Couriers, SUB60 and Kiwi Express cover different market segments. Freightways and NZ Post have 80% of this market and it is difficult for other new entrants to penetrate this market.

Business Mail is conducted through DX Mail a niche player catering mainly for business customers throughout NZ and main competition is NZ Post.

Information Management is a growing newer division with locations throughout NZ and Australia providing services to recycle paper, destroy documents and provide secure document storage.

Independent contractors provided all land delivery services complemented by 5 aircraft operating within NZ.

Results to June 09 – Sales \$340 – EBIT \$61 and NPAT \$35 were up on the previous year which was a good result in the current environment. NPAT represented 10% on sales.

Deans presentation was followed by a discussion on **NZ Refining**. A report on this is elsewhere in this Scrip.

Upcoming Company Visits:

- **Restaurant Brands.** 10 am Wednesday 11 August. Level 3, 666 Great South Rd. This visit will be limited to 30 participants.
- **Possible overnight visit to Tauranga.** We are investigating the possibility of a trip to see three companies in Tauranga in October. These would be Port of Tauranga, Comvita and Seeka. We will have more information at the Branch meeting and be seeking expressions of interest. We will circulate full details to all members closer to each visit. Those wishing to attend should contact Uli Sperber by email uksper@gmail.com or phone Joe Turnbull on (09) 631 5071.

The NZSA company visit programme is kindly sponsored by INFOSCAN

National AGM: Branch is hosting this event on **THURSDAY 29 July**. An initial notice is in this Scrip and members can expect to receive further information over the coming weeks. Mark off the time now and register early to assist the organising team.

Education: There will be no more education classes until August.

John Hawkins, Acting Chairman

WAIKATO

BILL FALCONER MEETING 14TH APRIL 2010

This talk was aptly named “30 years of Public and Private Investment”. Bill Falconer had no props and proved how a person can be a good speaker without the aid of modern technology. He took us through his career history, from which we learnt a great deal about the standards required of a director.

Bill was schooled in Hamilton, has a legal background, was a trade negotiator for the Government and then on the Liquid Fuels Trust Board under the Think Big policy. He became CEO of insolvent Petrocorp, turned it round and privatized it. Then Bill had 7 years in Fletcher Challenge selling off energy assets to keep it solvent, followed by a short stint as a barrister.

Over the last 30 years Bill Falconer has been on 29 boards, and chairman of 13. He warned us what to look out for in a company and a board:

Opportunism: Example Peter Yealands and Delegats where Peter valued the land and not the grapes on it – result costs rose from \$20,000 to \$150,000 a hectare, and now Delegats is undercapitalized (but will survive under Jim Delegats with his 55%).

Greed: IPO of Restaurant Brands where the promoter put the initial price too high. On market \$2.20, overnight became \$1.80, and promoter pocketed \$220 million and was never seen again. We were told to see how the stock settles before buying.

Over confidence: Example Hellabys which grew slowly by acquisition then made the mistake of buying BBQ Factory which took it back 3 years. Companies can get carried away with their own genius. Prudence is the best course.

Fraud: 10% people honest, 10% dishonest and rest opportunists. In well established companies directors usually OK, but in new companies they often have no idea of

corporate responsibility. We need to close off the opportunities to commit fraud by frequent checks, and having internal auditors for system checks.

- Take analysts opinions rather than sharebrokers.
- Look at founding director – see if he is buying with his own money.
- No. of directorships – 5 enough, no more than 8. Six common.
- Choosing CEO – biggest problem is to know when to fire them. Deal quickly when things go wrong.
- Source of directors – look for leaders with common sense. Prefer them to be over 40, sex unimportant.
- Look out when everyone joins the bandwagon.

Who gets the blame when things go wrong? If good news, the CEO; if bad news, the chairman. The Companies Act is against directors, not managers. Shareholders should have a say on whether a director should stay on, not just the Board.

Helen Glyde – Branch committee

Tim Rooke Meeting 11 May

Tim is most well known for his standing for the Telecom Board last year. He is also a GP and a past Chairman of NZSA Waikato Branch. He has a postgraduate diploma in business administration and a graduate diploma in business, majoring in management. Tim's particular interest lies in management and its effectiveness. Tim supported his talk with research and case studies learnt on his courses in the US. He thought much of the value of his Diplomas could be garnered from books.

He is keen on monitoring management and proposes that they undergo audits from their boards. Boards should be comprised of individuals capable of giving management close scrutiny.

This was Tim's reason for standing for Telecom's Board. Although unsuccessful he felt he got a fair hearing and still intends carrying out his own management audit of Telecom. He felt that the current CEO may be a good manager and that Telecom's fortunes may improve under him.

Tim's level of shareholder activism is to be applauded. Companies and their management can and will only improve if they come under closer scrutiny, both from individuals and collectively under such organisations as our own.

Robert Foster – Branch Committee

BAY OF PLENTY

Our April meeting continued with another good attendance – number nearing 50. Six potential new members attended for the first time.

Bruce Anderson provided a humorous presentation covering the need for diversification and a range of asset types in ones investment portfolio. A group discussion followed along the same theme with members reporting back on their experiences. As the afternoon progressed it showed the diverse nature of member's thoughts and attitudes toward investing off shore. Our volatile exchange rate at present is one of the difficulties in the building of a diversified portfolio.

Neil Parker provided a short discourse on P/Es emphasizing this is only one measure for finding value among companies. Several examples were provided that lead to perceived value or not.

Jane Lyndon shared the experiences of the share club that was formed by BOP members in 2007. The club is limited to 20 shareholders. While the market has generally been against their best endeavors the experience has been valuable in seeking value. Their investments have now expanded into the Australian market.

Howard Zingel provided an update for those in the “Share Pick 5” competition where results will be judged on investing prowess at our Christmas function.

Forthcoming Events.

- 3rd June.** BOP branch AGM. Guest speaker to be Cameron Watson from **Craigs Investment Partners.**
- 25th June.** Mr John Hirst. Managing Director. **Nuplex Industries.** Sydney
- 6th August.** A company visit to **Comvita** at Paengaroa.

Allen Smith - Chairman

WELLINGTON

In May we ran the Investing and Sharemarket basics Shareholder Education courses for the first time in several years. The courses were well attended and we had a lot of positive comments afterwards. Thanks to Ashley, Ray and Jacquie for presenting! Our branch meetings are now being held in First NZ Capitals new offices in HP Tower on Featherston Street. The first meeting there will be on Tuesday 8th June where Chris Green, FNZC's Director of Economics and Strategy will speak on the global economic environment and outlook for the financial markets.

Martin Dowse - Chairman

CANTERBURY

We held our Branch AGM early this year, on 26th May, in an endeavour to avoid the worst of the winter's weather which we had hit in previous years when holding it in June. Unfortunately an unwelcome weather bomb arrived and only a dozen members braved the storm to attend. We looked in danger of completing our AGM in a record time of even less that set by GPG at their AGM last month ! The branch annual report and the financial report were accepted without question and we concluded with the re-election of all five members of the committee plus the return of Max Smith.

The completion of the AGM business left the evening free for us to enjoy a talk by Ms Marta Steeman, Business Editor of The Press. This was an engaging presentation drawing questions from all present. We gained insights into the demanding role of the business reporter, a brief assessment of the impacts of the recession on the Canterbury economy and an overview of Canterbury's business environment. This overview was supported by some detailed background information on the interlocking arrangements connecting some of the prominent companies and businesses. The lively questioning extending beyond the formal presentation into the end-of-evening social and we are most grateful to Ms Steeman for generously giving so much of her time.

Our next speaker will be Mr Chris Swasbrook, the Managing Director of Elevation Capital, on Tuesday 22nd June at 7:30 pm. The next site visit will be to Champion Flour on Tuesday 6th July at 3pm. and we are also planning a visit to The Press at their premises in the Square before they move out later this year. Members are advised to keep an eye on the Canterbury Events section of the NZSA web site for details of these and other forthcoming activities.

Robin Harrison - Chairman

BRANCH CONTACTS

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MEMBER'S ISSUES

NZ REFINING PRICING TO ITS SHAREHOLDERS

Subsequent to the NZR meeting, Tony Knights questioned the validity of NZR's pricing policy, and the vote by shareholders over Bryan Halliwell's motion to end the refinery's dependence on the Singapore Refining margin. Tony's views summarised here were:

- That NZR was intended as a toll refinery at the outset, but has been hi-jacked by the oil companies. Other refineries around the world do not operate discount systems like that at NZR.
- That a full explanation of the pricing formula should be included in the annual accounts.
- That only independent directors should commission a review and implement pricing policy, not the whole board dominated by oil companies.
- That the 2009 review was unduly influenced by the oil companies
- That there is \$300m stock being stored by NZ refining with no charges being made for the service.
- That the safeguards over the 70% pricing formula, eg quality premium, are not being implemented.
- That Infracore's main attraction to the Shell interest was because of the 30% discount on the processing of their crude.
- That 35% of NZ demand could be serviced from NZ crude, but very little is being refined at NZR.
- That shareholders in good times have always received only the crumbs after the oil companies have taken their 3 dips (30% discount, extra free services, and dividend on profit)

Editor: Auckland Branch of NZSA had a very interesting discussion on these issues, incorporating comments from Brian Halliwell on his motion to the AGM. The chairman's address (now available on the NZR website) answered some of the points. Although oil companies pay only 70% of the Singapore refining rate, NZR does have the added security of a fee floor providing a guaranteed income of \$118mm pa. From now on, Independent directors of the company will review pricing policies with management, annually. The 1995 Reports on Pricing, and the Purven and Gertz report of 2009 have now been included on the company's website. We believe that the government's intentions over the continuing existence of the refinery in New Zealand, and the need to maintain an inexpensive supply to the New Zealand market, are strong influences on NZR's pricing, and also on the entry of Infracore and the NZ Superannuation Fund into the ownership. In other words, plenty of questions remain, and we should monitor possible manipulation of the profit figures by the oil companies and the government. Shareholders need to be vigilant.

NZSA SHARE INVESTMENT COMPETITION

Editor: The starting date for our competition was 1 May 2006, and it closes on 31 March 2011. The only indicator mentioned was to be the NZX 50 Index which on 1 April was 3795. However we believe that the winner must also beat the rate of inflation.

Auckland has now withdrawn, and only Waikato remains. So keep up the good work Waikato. The end is in sight.

Portfolio Summary 31/03/2010 – Waikato Branch

Company	Quantity	Latest Price \$	Cost Basis	\$ Gain/Loss	% Gain/Loss	Value
Abano Healthcare	769	5.30	4,297.85	- 222.15		4,075.70
Delegats	1,669	1.88	4,172.85	-1,035.13		3,137.72
Ebos	1,047	6.51	4,997.90	1,818.07		6,815.97
Infratil	1,068	1.72	3,234.00	-1,397.04		1,836.96
Kingfish	665	0.91	1,022.50	-417.35		605.15
Michael Hill	3,334	0.70	2,344.96	-11.16		2,333.80
New Image	1,250	0.38	1,000.00	-525.00		475.00
Nuplex	310	3.53	1,244.85	-150.55		1,094.30
NZ Oil & Gas	3,524	1.55	4,999.43	462.77		5,462.20
Opus International	629	1.67	999.95	50.48		1,050.43
Pike River Coal	2,953	0.92	4,367.99	-1,651.23		2,716.76
Pike River Options	590	0.15	0.00	88.50		88.50
Restaurant Brands	1102	2.02	1,799.22	426.82		2,226.04
Seeka Kiwifruit	554	3.00	1,797.80	-135.80		1,662.00
Xero	3,880	1.65	4,989.77	1,412.23		6,402.00
Cash			50.39			50.39
Totals			41,319.46	-1,286.54		40,032.92

Summary to 30/09/2009

The rise in the sharemarket since March has certainly given our portfolio a boost. Our notional return on funds provided to that point was over 29% in the red. The current position (\$41,000 funds provided) leaves us only 14% in the red! We may yet be in positive territory before the competition concludes.

We must be in more positive frame of mind as our recent purchases have mainly been of more risky small cap shares such as New Image, Xero, Abano and further purchases of Pike River Coal. Our sells have been the Ports of Northland and Tauranga, both long term holdings that it was thought may not have much upside potential.

It looks like the next challenge to our portfolio performance will come about from the strength of the \$NZ and the adverse consequence on export companies. Anyone game enough to predict its values by competition end?

Summary to 31/03/2010

The latest summary gives a notional return of nearly 15% in the red. The additional purchase of Delegats in the period proved costly (we will blame mis information from the company) and the ongoing problems at Pike River and non performance of managed funds Infratil and Kingfish contributed to our lacklustre performance.

In the latest six month period we sold off non-performing export companies Rakon, Sanford and Fisher & Paykel Healthcare. We replaced them with additions to Delegates, Abano, and Xero and new holdings of Seeka Kiwifruit, Michael Hill and Restaurant Brands.

Our decisions now until competition end are still not easy. Do we adopt an aggressive approach (with more risk) or do we just conservatively accumulate – although this is not any certainty in these volatile times.

Robert Foster

FELTEX – WHERE ARE WE AT?

There are currently 3 court actions against the directors of Feltex :

1. A criminal action by the companies Office for breaches of the Financial Reporting Act. The first part of the hearing has been completed and the trial will continue at the beginning of June. Fines of up to \$100,000.00 could be levied for such breaches, but with the introduction of new international reporting standards, and the approval of auditors Ernst and Young, the directors have a fair chance of defending the charges.
2. An action brought by the receivers, McDonald Vague, for \$41m alleging that the Feltex Directors failed to act in the best interests of the company, failed to disclose relevant information on the Godfrey Hirst offer to the market, and indulged in reckless trading in looking for alternative bids at that time. Negotiations between the directors and the receivers appear to have broken down and an out of court settlement appears unlikely.
3. A class action brought by Joint Action Funding Ltd, (JAFL) 90% owned by Christchurch solicitor, Gavigan, as allowed by the High Court, in the name of Eric Houghton (student and sole plaintiff,) against the directors plus the promoters of the public offer. This claim is for the full purchase price of shares purchased in the public offer, and therefore concerns only shares sold in that offer. Qualifying shareholders are told that they will have no liability for court costs if the case is lost, but will have to pay to JAFL between 30-38% of the recoveries, plus a share of lawyers' costs and disbursements, plus GST. As court costs are awarded only at the end of a trial, there is a very slight doubt over the "no liability" claim. Concern over the 6 year statute of limitations forced JAFL to close the register for participating shareholders on 2nd June 2010. We hope all qualifying shareholders have made their decision, and lodged their forms by now, although there is good reason to suspect that late applicants may be added in a separate category, of course.

It will be interesting/painful to watch how these proceedings play out over the next few months.

DANIEL DEFOE'S COMMENT – REFORMATION OF MANNERS 1702.

Sent in by Tim Kerr. Thanks Tim. Did he know about Feltex?

*Some in clandestine companies combine,
Erect new stocks to trade beyond the line;
With air and empty names beguile the town,
And raise new credits first, then cry 'em down:
Divide the empty nothing into shares,
To set the town together by the ears,
The sham projectors and the brokers join,
And both the cully merchant undermine;*

*First he must be drawn in and then betrayed,
 And they demolish the machine they made:
 So, conjuring chymists, with their charm and spell,
 Some wondrous liquid wondrously exhale;
 But when the gaping mob their money pay,
 The cheat's dissolved, the vapour lies away.*

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