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

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THE CHANGING OF THE GUARD – Heads replace helmets.

Just two days ago, I took over as Chair of your association. This was an honour neither sought nor expected, although I should have guessed that, when a year ago, Bruce introduced me to a very senior business figure as "the new Chairman of the Association". My hoped-for, quiet life was about to come to a screeching halt.

'Courage' is a description usually only applied to politicians with a death wish – Chris Carter comes to mind! However, Simon Power demonstrated courage of the Victoria Cross variety when he appointed Bruce to the FMA Establishment Board. By doing so he cemented once and for all the importance of the NZSA as a real influence in the securities markets, and inadvertently hastened my promotion.

A cynic might suggest this was a great way to quieten Bruce down. The officials in Wellington would no doubt disagree!

Anyway, while my style is different, I am no less determined to champion your rights and hold to account where necessary. But I am less of a "rape and pillage" Viking and much more of the Don Corleone - "make you an offer you should not refuse" type. Helmets may be out, but severed heads will still be needed!

It was extremely heartening when a record 200 of you turned up to the national Conference/AGM in Auckland on July 29. We had a great array of speakers including Commerce Minister Power. His acknowledgement of the NZSA in an off-the –cuff expansion of his speech notes was as generous as I have ever heard and is a huge compliment to your board and committee members whose voluntary hard work earned this praise.

And he announced **another** breakthrough facilitated by the NZSA. He will be introducing legislation shortly to allow companies to have direct electronic voting in real time as you watch a company AGM webcast. So it won't matter if you are in New Plymouth or New York, you will be able to listen and vote in real time.

Now I am not so naive that I think many of you came to hear me – you were there to send off Bruce after 10 years as Chairman, and rightly so. But the editor of this august publication has insisted I provide an overview of my address for the 900 members who could not be present - to the great relief of our Treasurer and the Auckland organising committee I might add.

To stop you dozing off, I will limit this to where we the NZSA needs to go, and why. Firstly though, for those that heard the news of the changeover and said "Who?" a little background.

I spent 4 years at Auckland University and practised as an optometrist for 10 years, mostly in a self employed partnership role. This was invaluable experience as you become very adept at thinking logically, problem solving and dealing with a very wide range of people of all ages and backgrounds. I suppose you could say that this makes me an ideal person to keep an 'eye' on the affairs of the association!

I have always been interest in the "business" side of business, and through a series of fortunate coincidences started a manufacturing business with my wife Helen. This grew so rapidly I was obliged to leave my partnership and work full time as MD in the business. We grew this niche operation to the second largest in Australasia, employing 27 staff and exporting up to 50% of production. We sold it 6 years ago having got sick of 70 hour weeks. The idea was to take it easy and travel, but that changed when I got involved in the NZSA. Then the Viking messed it up big time!

In my address, I likened the association to a child that has matured from the rebellious, noisy and ill disciplined teenage years to a young adult facing challenges with a greater maturity and the benefit of some life experience. The efforts we have made to open dialogue with government and other participants have finally started to payoff, especially in the last 12 months. Perhaps at times we have been guilty of talking **at** these groups, but much less successful at talking **with** them. My approach works by making progress in one area and progressively building on that. NZ is a small community. Word gets around quickly and doors open. This belated but welcome recognition has led on to continuing consultation and adoption of many of our ideas to a greater or lesser degree, in particular the urgency for change.

And here I want to digress. You may have seen Treasury recently express an opinion that the early adoption of the FMA is very risky before the review of the Securities Act is completed. The eggheads in their ivory tower are **wrong!** Early introduction is a critical first step in restoring confidence. The FMA will ensure that regulation will be both active and proactive. Unless investors know that they won't have their money used to fund Christmas cards from Hawaii, they will keep their wallets shut. Capital markets need capital. Early introduction of the FMA is a useful first step to ensure the supply of funds does not remain constrained by fear.

I told the conference I had a "three peaks" vision going forward.
Firstly I want to ensure that your association provides exceptional value to members with increasing services and facilities for your exclusive use. Our new company comparator currently being set up is an example. This can easily be expanded into soft data such as governance compliance and director/CEO pay to performance comparisons, all in one place and free to members. Working to provide paid tutors for our education courses is another. I am currently discussing the rationale for unique director identifiers with officials. Considering whether we spend some effort on the debt market (where issued by public companies) is also something I want your board to consider. And we will be further strengthening your board with the addition of women directors and legal expertise to complement the wide skill set that we already have.

Secondly, we will continue our activist and independent approach to issues. But we must temper this with the knowledge that mistakes can and will be made from time to time. Our emphasis should be on the serial offenders and changing poor practice to best practice as we just did at Methven. You can expect to see a higher profile from the other NZSA directors as they are given spokesperson roles in some areas.

Finally, we need to continue to work with the other groups that make up the capital markets as well as government. We will work **with** but not **for** anyone that will advance your interests and the interests of New Zealand. We are **not** selling out. This is a means to an end. The good news is that a fair number of these groups are now calling us, talking to us and treating our views with respect. This work requires trust and patience on your part, as much of it is "behind the scenes". We will always tell you what is going on just as soon as we can. In fact, I expect to announce a major initiative in this area within the next few weeks.

It is important we all pull in the right direction. There is no doubt our capital markets are in dire risk of going into an irreversible death spiral. Concerted action is needed to restore confidence and encourage good companies with decent track records to list, as well as some more entrepreneurial enterprises. We cannot change the world situation, but we can play our part in getting the best environment in NZ. We should also push for smaller government and less regulatory interference with normal business and personal activities. If New Zealand does not get it right, we will ultimately end up unable to afford the education, health and social services that we currently take for granted. I am sure none of you want the Wallabies and Socceroos as your national teams although the state of our cricket would be improved.....

To play a full part, your association needs more resources. We need to double our membership. **I challenge every one of you to sign up at least one new person**. I went to the dentist last week. Before I left, the receptionist was our latest member! It's not hard to convince people because we offer a fantastic range of services **for only 30 cents per day**. For those of you who have not renewed claiming you are too old to participate, how about gifting a child or grandchild a subscription? They are our future, and a small investment now will pay huge dividends over time.
To those who have sent their best wishes-thank you. To all members- feel free to write directly to me with any concerns or suggestions. This is your association and I want to be responsive to your needs.

John Hawkins

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BRICKBATS AND BOUQUETS – THE BEACON AND THE GLOB

Get your awards nominations in urgently, or email your choice of Glob and Beacon to howardz@xtra.co.nz. Please discuss nominations with your fellow Branch members.
Howard Zingel

NZSA CONFERENCE REPORTS - 29TH JULY

Our AGM in Auckland this year, achieved the twin aims of celebrating the ten year's achievement of our founding Chairman, Bruce Sheppard, and introducing a number of challenging speakers to the attendees. In the AGM itself Messrs Diggle, Hunt and Best were confirmed as board members, and we were promised women on our board in the near future. The following is a summary of the keynote addresses:

BRUCE'S ADDRESS - TEN YEARS OF MY LIFE

As Bruce moves on to take a role in prescribing and setting up a new comprehensive monitoring and enforcement system for our capital markets, he reminded us of the journey he has been on over the past ten years of shareholder activism.
The tin hat came out first when Brierleys moved to Singapore, and he called for 2 minutes silence to mourn the losses of 120,000 shareholders. During subsequent "informal" meetings with Sir Selwyn Cushing (and his lawyer,) Bruce formed the view that many New Zealand directors are greedy and self-serving, BUT frightened when challenged, and that challenge is nothing without strong publicity.

The formation of the NZSA arose from the desire of all participants to foster robust capital markets which are the foundation for more jobs, all taxes and government services, and better commercial services for the community.

One of the first major targets was share option plans at Telecom, and although this appeared to be lost, the issue of boards giving away company assets (or equity) without the owners' consent, did arouse the interest of institutional shareholders who came to realise that their interests and NZSA's are clearly aligned. Although they then told the company they voted "yes" by mistake, institutions have now become more careful, and almost always vote intelligently.

Graeme Bullings independently, but with NZSA support moved a motion against retirement allowances for directors of Restaurant Brands. The motion, was passed, to everyone's amazement. Today retirement allowances are not paid. Institutional opinion and public opinion was once again galvanised by NZSA activism.

Bruce also remembered the Tower Insurance debacle. Parent company directors used to top up their fees by nominating themselves to the boards of subsidiaries and paying further fees to those board members. Once the wrought was exposed, Bruce laid a complaint with NZX that was upheld and the practise finished. This was a victory over every law firm in NZ who recommended the practise. Thinking changed again. When Bruce suggested the directors should repay the money, he was advised to "take the victory but let them keep the money."

The lumberjack outfit came out for Fletcher Forests which almost turned itself into a sleeping pension fund, by buying the Central North Island Forests, and using the American Depository Receipts to secure the vote. NZSA managed to defeat the proposal with the help of GPG and other large shareholders, but the principle of not using the ADRs to secure a majority has now been established. This has now been extended so that voting forms usually contain the 4 boxes – for, against, abstain, and open. Chairmen until recently could always count on undirected proxies to support their vote.

Bruce also recalled that Feltex was the first public company to be forced into liquidation by shareholder petition. The NZSA did this. Bruce was even able to demonstrate to Sir Dryden Spring (ANZ Bank) that he had no right to withhold documents from a court appointed liquidator, (who stood instead of the client company.)

Questions from the floor highlighted the dilution still commonly suffered by Australian investors in option plans and share placements recommended by management. Bryan Pippen also highlighted the continuing challenge of “gloss-over” audits, and the corruption of the “true and fair view” by modern regulation.

Bruce agreed that there was still plenty to do, but at least commentators all round the country were highlighting the need for local savings and healthy capital markets. Opinion has moved.

ADDRESS BY THE HON SIMON POWER.

The minister emphasised the urgent need to restore confidence in our capital markets. He apologised for stealing away Bruce Sheppard for the new Financial Markets Authority, (FMA), whose progress being eagerly monitored by his department. He endorsed the urgency of their work, because too often in the past regulators had done nothing while small investors suffered great loss.

He also emphasised that ultimately investors must take responsibility for their own decisions, and that he was planning to coordinate the scattered and ineffective attempts to develop financial literacy by a large number of industry participants.

Question-time included several pointed recommendations from members:
Why isn’t the government helping to fund our education programme?
Why shouldn’t community leaders and politicians invest in our sharemarket?
Why are we planning to adopt an Australasian version of IFRS when it was intended to be global?
When will you scrap the negative and expensive FDR tax regime, which is providing so little revenue for so much cost?

No definitive replies were made, but we felt the issues were taken on board.
The minister concluded by restating that all the protective measures by government should not interfere with the freedom of investors to make their own choices and accept responsibility for those choices. The government did not guarantee Kiwisaver or other forms of investment.

FEDERATED FARMERS – DON NICHOLSON

Don began his address with an amusing letter to the British Secretary for Environment and Rural Affairs, from a farmer seeking to set up in the business of not rearing pigs. (*This can readily be Googled on the internet.*) He then drew a comparison between such ludicrous subsidised activity and the Emissions Trading Scheme which pays selected recipients for not producing.
Don’s charts showed that while the agricultural sector including fishing and forestry is projected to earn 66% of our export revenue in 2009, farmers will earn only 6.2% on their sales revenue.
He claimed that it took the revenue from 881 lambs to pay for a MAF employee, and the equivalent of 92,161 kg milk solid to pay for MAF’s CEO.

The annual cost of the ETS to the pastoral sector was estimated by Federated Farmers to be:

CATEGORY	PER FARM	TOTAL
Sheep and Beef	$1475	$42m
Dairy	$3900	$44m
Fonterra		$38m
Freezing works		$10M

However this is only another example of a worrying trend, in which Government spending in NZ has moved from 35% of GDP in the early 90s to 45% today. It is a giant hoover sucking up market liquidity, and our ability to invest in developing business. If, he claimed, government expenditure could be returned to 35% of GDP, business including farmers, would have an extra $18.7b to spend on development, (*or consumption – ed*) Don felt to direct this into investment a large injection into Kiwibank to expand it into commercial lending would be important, and he hit out at the NZX, which does not represent the real economy. “NZ,” he said, “is an SME economy, and that includes farmers,” and it is essential to maintain trust in the capital markets which support this economy if we are to be successful. NZSA listeners were stimulated to ask a variety of questions and found much common ground between Don’s arguments and our own.

MICHAEL COOTE – TOWER INVESTMENTS

Michael gave us an economist’s global view of the “new normal” - a hypothesis coined by US Fund Manager PIMCO, arising from the Great Recession of 2008.
The “old normal” was characterised by reduced volatility, faith in the ability of central banks to control inflation, increasing benefits to the G7 countries, globalisation, light-handed regulation and government intervention, increased leveraging of households and businesses, causing limited asset bubbles whose fallout was not so severe as to shake the system.

The rupture occurred with the Great Recession between end 2007 and mid 2009, in which we saw financial markets crash, asset values reduced, bursting of asset bubbles (inc housing,) downturn in global trade, unemployment, and whatever-it-takes intervention by central banks.

The “new normal” now involves a realisation that there are systemic risks in the high level of crown debt especially amongst the PIIGGs (Portugal, Italy, Ireland, UK, Greece) So the way out now looks to be slow, and constrained by governments and central banks looking to exit their emergency relief packages, tightening of credit and interest rates, reduced borrowings by governments, a careful evaluation of contingent liabilities for superannuation, health, and social support, and closer supervision of capital markets by governments. The new normal will therefore result in lower returns amongst the G7 countries, higher hurdles for new ventures, lower household debt, chronic unemployment especially amongst young workers, greater welfare dependency, a rebalancing towards financial assets (for liquidity), and a new fashion for thrift. This will mean that developing economies are relatively advantaged over the developed economies, and bad luck! New Zealand shares the characterisics of a developed economy. The Sovereign Debt Groupings are set out as follows – as usual red is minus and black is positive – not good for us, though Australia may coat-tail onto the Emerging G20s

Economic Block	2010 Debt ratio	2011 debt ratio	2014 Debt Ratio	2015 Debt Ratio
G-7	110.2	114.9	122.3	124.1
G-20	76.8	79.7	82.2	82.5
Adv G-20	104.4	108.8	115.5	117.1
Emerg G20	37.0	36.4	34.3	32.7
NZ	30.3	32.7	35.8	36.1

SHARESIGHT – TONY RYBURN

Tony's address covered the most important aspects of DIY investing through the internet. He outlined the simple steps of developing a strategy, selecting shares, placing orders, and monitoring investments. Members would have found the most useful aspect of his address was the wide variety of websites recommended for each step.

1. Strategies: The motley fool, and This is money, as well as the broking sites.
2. Selection: Use Reuters, Value Cruncher, and target-company websites
3. Check out your opinions on the blogs of Share investor, Bristlemouth, and Sharechat, as well as chat-forums like Share trader.
4. Order with an internet broker like Direct Broking, National and ANZ Bank sites or ASB Sharebroking. These also have useful education sections.
5. Monitor – by using Sharesight (Tony's proprietory package)

When you have developed a several family portfolios, you will be using "the Cloud",(all on the net, accessible to phone, and computer) as all your information and records will be immediately available, and securely held off site, so that your tax returns (including FDR calculations) can be made without further spending on professional advice.

Alan Best (covered all AGM reports)

THIS DAY WAS EXCEPTIONAL VALUE TO MEMBERS, AND OUR THANKS GO TO OUR AGM SPONSORS, **CRAIG INVESTMENT PARTNERS**, **FIRST NEW ZEALAND CAPITAL,** AND **SHARESIGHT**

COMPANY AGMs AND PROXIES

METHVEN AGM - 22ND JULY

The Chairman and CEO are clearly passionate about the business and presented well. The CEO Rick Fala, , who has been in his position for over a decade and who is also a substantial shareholder in the company, moved from the Rostrum and spoke without notes outlining company's innovation strategy , its product management and distribution strategy and marketing strategy. The Chairman acknowledged the less than expected performance in the UK frankly and openly and did not attempt to defend the company's reduced performance.

Overall the team including the board presented well.

There were a number of minor matters in the financial statements that I challenged them on, and the board and CFO acknowledged that they were simply following nonsense IRFS orders in the way they presented the accounts. The major item which I feel has not been correctly dealt with is the Impairment of the goodwill in the UK. The auditors forced a minor impairment write down on customer relations in the UK, and frankly there is no rhyme or reason to treat this differently to goodwill. So if one is impaired so is the other, and worse, to arrive at a no impairment outcome, the board and auditors used a lower discount rate on UK earnings than they did on the Australian and NZ earnings which clearly have less risk. Dopy stuff, but as far as shareholders are concerned it is of no real economic substance.

The two major issues were the role of the auditors and the extent if not the principle that they shouldn't be doing work that they are then charged with expressing an opinion on, and the second issue was the proposed increase in directors fees to $250k, from $196k.

I canvassed both these issues with the chairman before the meeting and he announced at the meeting the following which I think we can wholeheartedly support.

1. That the auditors will no longer be used for any services other than auditing unless the circumstances are exceptional, including tax compliance.

2. The base level of directors fees will remain unchanged at $36k per director which I consider is enough based on the scale and current performance of the company, and the increased pool will be used to reward directors for committee work. The chairman also had an open dialogue on using the pool to recognise contribution from directors individually and thought this was a useful way to allocate the extra pool and could be used to attract new talent, albeit that the board composition and size is currently working.

So overall a good outcome, auditors will stick to auditing, base fees will not go up, the board will pay directors who deliver value over and above base services. You could almost say Methven is an example of how to engage with shareholders and listen.

In dialogue it was noted that two of the directors did not own shares. I suggested that this was inappropriate and that they should buy shares and do so on market. One director argued that he felt this would compromise his independence. Rot! After the meeting he too agreed to buy shares over the next 12 months, the message was hammered home by AMP the major shareholder agreeing with me.

Bruce Sheppard

KINGFISH FUND - AGM 23RD JULY

Approximately 140 attended the meeting held on the ground floor of the Ellerslie Event Centre. The NZSA received proxies from 14 members holding 139,805 (1.6%) of the issued capital. The chairman announced a new issue of new warrants to all shareholders on the basis of 1 warrant for every 2 shares held at the record date, exercisable in September 2012 at the latest, at an exercise price of 95 cents. (Present price – 90 cents on 26 July 2010). Holders will already have received their prospectus for this issue by the time this note is printed. The chairman stressed that Kingfish is currently good value with a Dividend Yield of 10-11%.
(This is quite true but it would be unfair of us if we did not warn that the market usually has a reason for marking down share values. In this case whilst the performance of the managers has been excellent the future prospects of Kingfish depend increasingly on the NZX being able to introduce growth investments that will perform. There has been minimum activity in new issues and with mergers, insolvencies and loss of listings, the

field for good equities in New Zealand has reduced significantly. The alternative for investors is to seek investment in overseas funds of the group (Barramundi (Australian companies) and Marlin Global (Other world wide countries) if portfolios are becoming too heavy in Kingfish).

The questions raised at the meeting covered:

Q. In your quest for size, have you considered acquiring other funds that may not be performing well?

R. Yes, the Board has looked at this before but the management agreements of target companies make it difficult to chase up opportunities. However an eye is always kept on the price and performance of other investment companies.

Q. Why was a warrant issue selected instead of a rights issue?

R. We considered a rights issue. Rights issues compel shareholders to take them up as they need outlays of cash; they can sell them on the market but often not at fair value. We did not consider that to be fair to all shareholders. With warrants, holders can choose whether to participate or not over the two years.

Q. Warrant exercise price should be share price and not NAV.

R. There is a lot of theory supporting the calculation of an exercise price but in practice the share price yesterday was 90c. We are looking at warrants being exercised in two years time or earlier. A 5c gain over two years is all that is required for the warrant to be in the money. The share price is important as is the NAV. The exercise price of 95c sets the right balance for shareholders and for the Manager to perform to.

Q. Will the warrants be tradeable?

R. Yes

Q. How sustainable is the dividend policy?

R. The dividends paid are from dividends received from portfolio companies and gains in the portfolio. The policy is very sustainable. To achieve the 3-5% gains required to top up the dividends received is very achievable given that the long term returns from equity investments is 14% p.a.

Q. Do you believe the Exchange has a moral obligation re a property company - Money Managers Limited?

R. No comment from the Chairman or Directors.

The meeting took 50 minutes.

Oliver Saint

CANTERBURY BUILDING SOCIETY AGM

The Canterbury Branch was unable to recruit a representative to attend this AGM so we were relying on the report in The Press *to discover the outcome. However, their report the following day revealed that* The Press *had been denied entry with their Business Editor Ms Marta Steeman refused admission! This is not illegal - but it is very unusual. Indeed in these times of "continuous disclosure" the exclusion seems indefensible. So, in the absence of a report on their AGM Canterbury Branch committee member Tim Kerr has offered some personal observations on recent developments involving CBS:*

I am worried about the future plans of the Canterbury Building Society. This is an old established Ashburton-based building society that has managed to scrape reasonably well through the 2007-008 economic crisis. The future of building societies and credit unions has been under stress as organisations are pressured to act more like banks - and grow their asset bases.

Currently the CBS has been pursued by Marac - and though no official engagement has been announced, the signals are there that Marac is going to be the new spouse.... Marac Finance is a wholly owned division of PGC (Pyne Gould Corporation) not to be confused by PGW (Pyne Gould Wrightson) – but both companies share family and Board connections.

Like PGW, PGC 's share price has dropped and there is little indication of resumption of dividends. Also associated with PGC and Marac is Perpetual Trust - which has had a real hiding. Its key Director George Kerr has previously trumpeted his close association with Alan Hubbard’s trusts. However, the directors of PGC and Marac are dead keen to set up Marac as a registered bank. To do so Marac needs a capital base of 2 Billion Dollars.... and to achieve the capital value it has a plan to increase wealth by acquisition. Yep, marry outfits like CBS. Which would be OK - building societies have a limited future it seems - except that Marac loans (one of the directors was reported in *The Press)* on risky assets like motor vehicle finance. CBS hasn't survived the recent economic downturn by lending money to car buyers! So, if you have a few bob stashed away in CBS remember that if it gets married to Marac your loans could be riskier...
In addition, one of the family members, George Gould is keen to develop a tunnel from Glenorchy to Milford. He is - according to an item in *The Press* - fairly confident he will get resource consent. A bold idea. But, he was quoted as saying when he gets the consent he will need to obtain about 1 Billion Dollars to build the tunnel.
Now.... let's see... where would a Gould family member (and member of at least one of the associated company Boards) look to obtain a few bob?

As for the big engagement announcement.... well you may have noticed that the Westpac Centre (otherwise known as Lancaster Park) is to be re-named *The CBS Centre* - although the MD of CBS added that if CBS changes its name it will be able to alter the CBS Centre name to reflect the new name.... Nice hint!

Of course, if you are a shareholder in CBS (PGW or PGC) you may see a rise in the listed value.... though I am sure any dividends would be a few years away....
I am not a shareholder in any of these organisations - but I am a committee member of the Canterbury Branch of the NZ Shareholders' Association. I am expressing my personal views - not necessarily those of the NZSA

Tim Kerr

WIDESPREAD ENERGY – AGM JUNE 2010

Widespread Energy (NZX code: WEN) is a junior New Zealand resources stock with 24 million shares on issue (200 shareholders), a market capitalisation of NZ$3-$4 million, and about NZ$0.5 million of cash in hand. Its cousin company Widespread Portfolios is the largest shareholder (20%), followed by International Mining & Finance (9.5%) which has links to the Chairman of OceanaGold and ex-Chairman of SinoGold. Around 13 shareholders plus directors attended the AGM.

WEN owns 90% of a NZ offshore prospecting permit that contains a rock phosphate deposit and 100% interests in two petroleum exploration permits in the NZ West Coast (frontier acreage). It also has a small investment portfolio: 11.8% of Green Gate which holds a petroleum exploration permit in onshore Taranaki and 13.2% of Akura which holds three petroleum exploration licenses in frontier acreage offshore Fiji.

WEN's most important asset is its 90% interest in the Chatham Rise Rock Phosphate Project located on the ocean floor in MPL 50270 halfway between Wellington and the Chatham Islands. The relevant points to note are:

- Prospective mid-case resource of 30 million tonnes of rock phosphate grading 20% (compared to Moroccan rock phosphate grading 28%).
- The core deposit is contained in about 300 sq km in the northwest corner of a 4,700 sq km permit located centrally in the 125,000 sq km Chatham Rise area.
- Core deposit located in 400m water depth at the high point of the Chatham Rise.
- Orange roughy grounds are very far away in 800-1200m water depth on the flanks of the Chatham Rise.
- No rare bivalves or other rare sea creatures so far discovered near the deposit.
- Potential ling hatchery at least 50km away in the extreme south-east corner of the permit.
- Up to $50 million in current dollars spent on defining the deposit in the 1970s and 1980s by the Germans and Fletcher Challenge, so a known deposit.
- Phosphate deposited in the upper layer of the ocean bed at 65 kg/m2 intensity, with phosphate nodules being 13% of the mineralised cover and sand/silt the remainder.

The development concept is to dredge the ocean floor for the phosphate nodules, using the equivalent of a giant vacuum cleaner. This is a theoretical mining concept that is yet to be proven globally for phosphate. There are three global dredging companies with the technical competence to build and operate the mining ship. One of them, Jan de Nul Group of Belgium, has indicated its interest in being the contract miner.

The business model is to sell the rock phosphate to New Zealand fertiliser manufacturers which convert the input into superphosphate (by adding sulphur). The end-product is then sold domestically to farmers for fertilising paddocks. *(Ed; provided it can be processed by local processors*)

The business rationale is that it currently costs around US$170-$190/tonne to import anywhere from 0.5 million to 1.0 million tonnes of rock phosphate from Morocco to New Zealand to satisfy local demand – about US$100-$120/tonne to pay the Moroccan monopoly supplier and US$70/tonne shipping costs. Provided New Zealand mining costs (CAPEX and OPEX) are low enough and the phosphate grade good enough, then it would be economically sensible for the local fertiliser manufacturers to switch from using Moroccan phosphate to using a local supplier at a price below US$150/tonne (world price, adjusted for the lower grade).

The commercial economics for a hypothetical project assume that production is 0.7 million tonnes pa for 40 years (i.e. 28 million tonnes recovered). Development CAPEX (including delineating the resource to a recognised standard to satisfy any lenders and engineering & design studies) is possibly in the sub-$50 million ballpark – relatively cheap for a new mine. If operating, transport, port, separation, and storage costs are under US$125/tonne in total, the project would be making profits in the tens of millions of dollars and be worth in the hundreds of millions of dollars and $N/share to investors.

It is the preference of the Board including Managing Director Chris Castle not to raise additional equity from outside investors to fund development as that would be too dilutionary to existing shareholders. The strategic question is of course whether it is better to own 50% of a big pie now or 100% of the same size pie in 5 year's time after a long painful period of trying to get bank loans and other debt funding and then being beholden to the lender.

Therefore to minimise capital requirements for existing shareholders WEN is looking to:

- Reach a non-onerous off-take agreement with one of the two domestic fertiliser companies, Ballance Agri-Nutrients and Ravensdown Fertiliser Co-operative, or with a potential new entrant to the domestic fertiliser manufacturing sector.
- Obtain significant pre-payments from its customer(s).
- Lease the mining ship (i.e. Jan de Nul funds the construction).

The key investment risks include:

- WEN is not able to reach an off-take agreement (perhaps Ballance or Ravensdown are able to source rock phosphate from Australia).
- Project delays from lack of funding.
- New Zealand Government decides to restrict or ban ocean bed mining.
- Global rock phosphate prices fall.

The outcome for shareholders is thus binary. If off-take and funding proceeds, if oil prices and thus international shipping prices rise, if agriculture booms and rock phosphate global demand and global price increase, and if the government keeps out of the way, then shareholders will be richly rewarded. If they don't, they won't.

Ashley Chan

INFRATIL – SPECIAL GM – 9TH JUNE

On a crisp morning just over a dozen shareholders attended the the Infratil SGM at the BP theatrette, a comparatively frugal venue as far as corporate general meetings go.

A single special resolution to change the charter to facilitate listing on the ASX was welcomed by Wellington Branch chairperson Martin Dowse, and immediately passed without dissent.

Infratil commented that a special meeting was necessary prior to the AGM to keep the momentum going in the somewhat lengthy process of obtaining an ASX listing. While the specific business objects of infrastructure were also dropped from the charter, Infratil intends to continue operating in that business area.

I am told that the primary benefit of the ASX listing to existing shareholders is, that investors limited to the ASX can also purchase the shares – presumably larger institutional investors.

As an aside, note the SSH notice dated 24 May disclosing just under 20% ownership by Utilico Limited, which is a bit hard to spot in the recent flurry of announcements.
Martin Ehrenstein

WIDESPREAD PORTFOLIOS – AGM JUNE 2010

Widespread Portfolios (NZX: WID) is an investment company that takes significant holdings and directorships in a number of junior resources stocks and projects. WID has a long history (this was its 22nd AGM) and now has over 800 shareholders including many from the Wellington region. Over forty shareholders were at the AGM, including investment banker Chris Stone from Rockpoint.

Chris Castle (Managing Director) created Widespread Portfolios as a share club in 1989. The original directors were Linda Sanders (the current Chairman) and Jill Hatchwell (Director). Linda, previously business editor of the Evening Post and deputy business editor of the Dominion, is Chris's partner. Jill worked with Chris at Brierley Investments Limited and subsequently at Charter Corporation.

Most of the founding shareholders of Widespread Portfolios were Brierley or Charter staff, directors or advisers. Denis Kelly (Director) was one of the founding shareholders and joined the WID board in late 2008. Denis was exploration manager of AMOIL NZ, the Brierley mining arm and left BIL in 1981 to float Spectrum Resources with Chris Castle, Peter Roberts and Mike Baker. Keith Hindle (Director) is a former partner of KPMG and is the current Chairman of Widespread Energy.

WID has a current market capitalisation of NZ$3 million (23.5 million shares @ 12.5c). Its investment portfolio includes:

- 20% interest (4.8 million shares and 4.3 million options) in Widespread Energy (NZX: WEN) – refer Widespread Energy AGM June 2010 notes
- 10% direct interest in the Chatham Rise Rock Phosphate project – ibid
- 4.3% interest in Asian Mineral Resources (TSX-V: ASN) which is developing the Ban Phuc nickel project in Vietnam
- 11% interest (10 million shares) in King Solomon Mines (ASX: KSO) which is a copper-gold explorer in Inner Mongolia
- Minor holdings in Golden Phoenix Resources, Fischer-Watt Gold (US OTC: FWGO), and Glass Earth Gold (NZX: GEL).

Based on quoted prices on the listed stock exchanges, the value of WID's portfolio is nearly $3.5 million for its major holdings (Widespread Energy $0.8 million, Chatham Rise Rock Phosphate $0.4 million using one ninth of the WEN market cap to value a 10% interest, Asian Mineral Resources $1.5 million, King Solomon Mines $0.7 million).

Major upside to the WID share price will most likely come from:

- any revaluation of the Chatham Rise Rock Phosphate project, resulting in an increase in both the value of the 20% interest in WEN and the value of its 10% direct interest
- any development of the Ban Phuc nickel mine to the production stage
- a discovery by King Solomon Mines

Please refer to the Widespread Energy AGM for notes on Widespread Energy and the Chatham Rise Rock Phosphate project, the success of which would also result in $N/share for WID investors.

Re Asian Mineral Resources, the Ban Phuc nickel mine development is back on track and about US$40 million in additional funding is still required to complete the project. On the negative side, there has been a recent change of control and shareholders have voted to abandon the shareholder rights plan which was previously put in place to protect minority shareholders. As a result, WID may look to exit its investment if the price is right.

The King Solomon Mines AGM is being held in Turnbull House, Bowen Street, Wellington on Tuesday 31 August at 11am, so interested shareholders and investors should attend.

Ashley Chan

XERO AGM

I attended the AGM and found myself amongst a number of Wellington members.

Jacquie Staley had done her usual thorough job and the proxies were there at the check in desk. Chair Phil Norman opened the meeting and introduced the Directors, with apologies from two away on business.

I was interested to see that of the 1,958,536 votes to be cast the Chair held 22,764 undirected proxies and NZSA 78,221. The three motions in front of the meeting were auditors remuneration, and the reappointment of directors Phil Norman (Chair) and Sam Morgan. As expected these were all passed unopposed on a show of hands.

The Chair ran a good meeting. It was a very positive meeting with a good story to tell and it was a story well told.

The subscriber numbers now stand at 22,000, up 5,000 since the 31 March balance date. The Countries being served and the revenues for 2009 and 2010 years were:

2009	25	$ 6m
2010	50	$17m

The strategy of working the accountants channel was stressed through out the meeting, and if I caught the number correctly there are 980 NZ accounting firms have at least one client on Xero. I understand there are around 2700 practitioners in 1800 firms licensed as Chartered Accountants, and 235 practices licensed through TINZ, so ignoring the overlap of double membership that looks like just under 50% penetration in the “licensed” accountant market, not bad. Xero say they have their product at one third of all accountancy firms and are talking to all the rest

There was also a keen observation that Xero works both sides of the client / accountant equation for the same price. As well as the businesses paying for their accounting system, some products such as MYOB also charge the accountants again for software to run their side of the business.

There were also several charts showing the potential that the Xero product has to provide the functionality of much more expensive product suites. That may create fear in some boardrooms as the XRO product replaces for perhaps '000's what used to cost tens of thousands.

I found it interesting that 40% of new customers had adopted Xero as their first accounting system, moving up from manual arrangements. That should improve business survival rates. A pie chart of accounting systems replaced showed big slices from MYOB and Quicken.

Another chart mused on what market penetration might look like. Each case was supported by reality checks in terms of what other players in the various markets had achieved.

At 4:22PM we also got an advance on "tomorrows stock exchange announcement" that Sam Morgan had increased his holding of shares to just under 5% by purchasing 1.4M shares from Xero founders and staff. This looks like a big vote of confidence by Sam Morgan, and what looks like some well earned profit taking / deleveraging by the vendors.

The question of breakeven was raised, and it may be achieved in the current year. The point was made again that Xero was cashed up and able to spend the money to improve and roll out it's product in a way many players are not. The achievement of breakeven depended on revenue growth, but it was clear that the company had the choice to run the expansion harder if they choose. With $20m in the bank at balance date, and a cash burn of $12.5m during the year to 31 March 2010 it is clear we should all be looking forward to the fourth XRO annual general meeting this time next year. No doubt a few competitors will be disappointed to hear that Xero are not looking to go away any time soon.

What won't happen at next year's AGM: The product display on the big screen at the end of the meeting was very hard to read.
Nice giveaway: A calculator with a Xero label on the Zero button – nice!

Mathew Underwood

BRANCH REPORTS

AUCKLAND

Branch meeting with Telecom – 16th June
Approximately 100 members heard Wayne Boyd – Chairman, and Russ Houlden - CFO, give a commentary on the many issues facing Telecom, with in-depth coverage from the company's perspective, correcting some of the bias found amongst news media and competitors.

- Wayne reminded us that there was not enough appreciation of N Z's largest companies, of which Telecom is the largest. As a nation we cannot afford to lose these companies. Many have been taken over and now controlled from offshore. Telecom has millions of interactions with businesses and the public, who use its services either directly or through other suppliers every day.
- Wayne covered some of the principles for creating a healthy company. – Experienced Directors. - Stewardship of investor's money. – Robust and credible strategy. – Productive and well maintained assets. – Innovative products

that are needed. – Dealing with regulators/caring for the environment. – Attracting and retaining excellent people - Perspective “inside the company” and “outside” and relationship with customers.

- Functional separation is a huge issue, forced on by the previous govt. In the last 4 years major internal changes have been made in management and culture within the company. Many executive changes have been made. Paul Reynolds now heads a high quality management team of 130 young executives who are settling into the challenges ahead. Internally the company is barely recognisable from 5 years ago.
- High Speed Broadband: the government announcement of “Fibre to Node” to 75% of N Z with 10 years, and increase broadband speed to 10mbts per sec over 3.5 years, “must” involve Telecom – Chorus. A decision is to be made shortly on the preferred suppliers of Fibre and linking to the “doorstep” which is going to be challenging. Telecom are well positioned for this and have installed 1950 new “fibre” cabinets in the street out of a total planned 3500 and have over 25,000k of fibre cable in the ground – more than anyone else. A popular misconception is that Telecom still operates with “copper”, but the fact is, that South Korea the fastest service in the world operates at 15mb/sec, while Telecom operates almost as fast at 13mb/sec. Many broadband users can increase speeds now by up to 70% by checking their house wiring and having the correct modems.
- XT Mobile .The recent problems highlighted with the 3G network have been disappointing, significant errors have been made. The outlook is positive – XT system is sound and most of the problems have been fixed and over time will be a world leading network. The culture-change within management has enabled it to deal with the issues in an open, honest and transparent manner and the board believes that long after the technical problems have been forgotten, the way Telecom dealt with them will be remembered.
- General Data services improved market share during the period of the XT crisis., showing that other parts of the business were not affected.
- Financial Strategy. Russ Houlden claimed that Telecom was delivering on its turnaround strategy, 1. a bold vision to be the most preferred Telecommunications provider, 2. with a clear mission to be no1 in broadband, mobiles, and ICT, and 3.delivering all results within guidance Russ commented on the Regulation Intervention in 2006 – structural separation and Telecom Service Obligations (TSO).
- Share Price has suffered from the regulatory overhang and uncertainty over outcomes of “fibre to node”, fibre partnerships with Govt. and XT outages and perceived loss of market share In the UK new regulations were implemented over 10-15 years were as in NZ they happened almost overnight.
- Telecom today. Capex spend is $2.3b in last 2years. The sale of Yellow Pages has assisted reallocation of resources into new projects. Structural separation is an extremely complicated business. Fibre “Chorus” may be a further separation to enable working with the Govt. broadband initiative as there is a huge opportunity to provide and benefit from the infrastructure it has in place.

There were many questions from the floor and the branch was most appreciative of the time given by Wayne & Russ

Noel Thompson

Editors view: Telecom became an SOE in 1987 and was listed in 1990. At the time I felt that the infrastructure of lines (now Chorus) should have been separated from wholesale and retail services. Now Government and Telecom has caught up with this strategic imperative, as happened with Electricity (coincidentally also governed by Roderick

Deane, a persuasive and intelligent advocate for first Electricorp ,and then Telecom.) During the 1980s when I was General Manager of an electronics company, our engineers advised me that New Zealand should be investing in a network of fibre optic cabling. Now, after two wasted recessions, the government has decided to "take a lead." From a tax payer's point of view it is essential that our money is not again wasted on further duplication of competing fibre optic networks. And by coincidence it may be better for shareholders long term, if the demerger (although initially expensive) takes place as soon as possible.

At the conclusion of the Telecom meeting, the Branch held its AGM. John Hawkins and Jacquie Staley retired from the branch committee, and 3 new branch members wereappointed. Phil Kavanagh was subsequently appointed Chairman.
A company visit is scheduled for Restaurant Brands on 11 August
and an overnight bus trip to Tauranga visiting Port of Tauranga, Seeka, and Comvita and meeting with the local Tauranga Branch on 13/14 October has reach the minimum number required to proceed. Vacancies are still available with the change to a larger bus if required. Contact Uli – uksper@gmail.com
In addition the branch hosted the National AGM and Conference at the Novotel Greenlane on 29 July. This was a great success thanks to the planning of the small sub-committee and the efforts of the branch committee on the day.
Up coming meetings are for a "small company" presentation from 3 companies yet to be finalised for 15 September and Trustpower for 10 November to round off the scheduled meetings for year.
Noel Thompson

WAIKATO
On the evening of the 8th of May the Waikato branch of the association held its 6th annual general meeting in the Frankton Bowling Club rooms. Sixty members were present and with Bruce Sheppard, the Association's National Chairman, as guest speaker.

The AGM was brief as all accounts and the budget were satisfactory and one new member
(Martin Watson) was appointed to the committee.
Chairman Alex Eames reflected on his 4yrs as Chairman noting how the branch and the association had gained recognition and standing in that time. He leaves the position to John Davies with the branch in a much stronger situation.

After dinner Bruce Sheppard spoke for forty minutes on a wide range of subjects:-- some points were.

The New Zealand Shareholders Association has been in operation ten years and its formation was brought about by corporate greed which first appeared at that time and has carried on since.

Waikato has a very significant branch, the only one with a full committee. The Waikato branch are stirrers with remits and this is a good thing! The Association has a good relationship with most of the big companies and they are easily approached. However the Association is not in favour of CEOs pay being based on EBIT. The biggest losses in recent years have been through inept politicians and you cannot get through to them easily. But we have to give National a chance through Minister Simon Power who will influence things such as the merging of all financial and regulatory functions in the newly

formed FMA. (Bruce Shepperd has been appointed to this group and will be able to have a real input on behalf of smaller shareholders.)
More emphasis must be placed on truly independent directors ----- with no conflict of interest. He felt nine years is a reasonable time as a director, with compulsory retirement at seventy. Around that age you become very risk averse and this is not what a lot of companies need to push them forward.

Bruce also dwelt on the succession planning for boards of directors. Few have new younger people, especially women, availing themselves of positions on boards. There is only a small pool of company directors in New Zealand most of whom sit on far too many boards to be one hundred percent effective. More younger people must make the effort to train themselves and offer their services to boards to give them new life. There seems to be a reluctance to change with the chance of someone new rocking the boat slightly, which might be just what is needed in a company, but the old guard are too risk averse. It is thought that if succession plans are not implemented most of the competent capable and trained ones will move into private equity.

He touched briefly on financial literacy and how important it was to be taught in schools. A mention was made of the sovereign debt situation in parts of the world which could still keep the financial world in a state of flux in the near future.
Quality is what counts and to quote Warren Buffett "What is wanted are the three "I's" Industry/ Intelligence/ Integrity from boards.

Roger Jennings

At the committee meeting subsequent to Branch AGM, John Davies took over from retiring Chairman, Alex Eames. Martin Watson was appointed to the Treasurer's role vacated by John Davies. The other committee members remain the same and continue with their previous roles.

The committee will now meet bi-monthly.
It was decided to try to promote a post meeting discussion session after each monthly activity meeting. The intent is to promote further the aims of the Association through fellowship, education and the sharing of investment ideas and concerns. It was envisaged that a takeaway meal could be included. Those that are keen, please support this initiative.

Tim Brown – Infratil Update.

Tim addressed our July meeting. Naturally the focus was on the recent acquisition of Shell. Tim was very enthusiastic about both the purchase price and the future of Shell. In recent times only two of the four major oil companies in NZ have been actively reinvesting in the retail side of the business, with BP in particular having sucess with their cafes. With BP's focus now attending to more important or pressing matters, and Mobil looking to divest their investment in NZ; Greenstone (Shell) is looking for increased growth on the retail side and would also be keen to increase market share by acquisition. As has been reported in the press Infratil is keen to move out of its European airports. Tim is however still keen on airports and would have been interested in Queenstown had it been offered.

He was not so enamoured with NZ public transportation because of regulatory and political considerations and indicated if the opportunity came along NZBus would be divested.

Infratil was still keen and was continuing to invest in the Australian electricity sector with further opportunities arising as further deregulation took place.
Tim announced that Infratil was looking to place a $100m bond issue to help fund its half share of Shell. NZ Super Fund is the other partner in the purchase.
After the presentation Tim fielded many questions and was happy to chat for an extended time after the meeting.
Robert Foster

BAY OF PLENTY

Our monthly meetings are still well attended with an excellent variety of topics on our active menu."

June welcomed in our branch AGM. Attendance exceeded 55 for the evening. Our guest speaker, Cameron Watson from Craigs Investment Partners provided an excellent discourse on positive attitudes toward investing. His theme, stick to quality, ensure your choices pay a good stable improving dividend. Under today's conditions companies should not carry too much debt. To illustrate his theme Cameron provided supporting evidence of both Australian and New Zealand listed entities with dividend growth examples since the turn of the century. The quality of his digital slides was superb.

The following were elected to the committee on the night – Bruce Anderson, Lloyd Christie, Kerry Drumm – Treasurer / Secretary, David Higson – Deputy Chairman, Jane Lyndon, John Mainland, Neil Parker, and Allen Smith – Chairman.

Our guest speaker for our July meeting was Mr. John Hirst the retiring Managing Director of Nuplex Industries from Sydney. Again John provided an interesting insight to the growth of Nuplex since its listing on the NZ Exchange in the 1950s. Over the 50 years the company evolved through technology, innovation, producing a quality product, surety of supply and quite importantly listening to the customer and catering for their needs. Nuplex has manufacturing plants in ten different countries and generates sales to ninety countries.

Nuplex is forecasting a profit of 125 – 135 million for the full year – this is an all time record. Total assets exceed NZ$ 965 million. Nett debt is NZ$ 99 million.

John van Loon a member provided a demonstrated a computer programme that he has developed over the years that tracks company / share performance. It is complex and very detailed, relying on considerable input of data. It also has a future predictability factor built in. This was an interesting demonstration, with the acknowledgement of the huge amount of work that John has undertaken to date.

Future Activity.

6th August. Site visit to Comvita – Paeangoroa. Tauranga members phone John Mainland, 576 – 5063 to book a place for the afternoon.

27th August. An analysis of TrustPower Ltd and Fisher & Paykel Appliances Followed by a group discussion,
"How members monitor their Portfolios."

29th October. A presentation from Mr. Keith Smith, Chairman, Warehouse Group, PGG Wrightson and numerous others.

4th September. An Investment Seminar conducted by branch members. To be held in the Gresham Room Tauranga - commencing at 9:00am. Those wishing to register and attend please contact David Higson. Phone 07 – 572 – 3476 extension 206

Allen Smith - Chairman

WELLINGTON

First up a huge thanks to Bruce for his leadership over the past 10 years – barely a dull moment, and welcome to John who has committed (did we hear him say it at the AGM) to lead us for the next 10!

On a local note the Wellington Branch AGM will be held on Tuesday 10th August at 7:30pm at FNZC on Featherston Street – I encourage all Wellington members who can to attend. This is your branch and we welcome your input. As a bonus Ray "the bear" Jack will say a few words on his view on the markets. *There is light at the end of the tunnel- is it a train or is it really light?*

Martin Dowse - Chairman

CANTERBURY

Champion Flour Mill Visit: 6th July 2010

William Blake wrote of seeing "a world in a grain of sand". On 6th July 2010 a group from the Canterbury branch of the NZSA saw a world in a grain of flour. Flour seems a simple thing, but the process of milling a grain of wheat into flour is complex.

We were fortunate to be given a guided tour through the Champion flour mill on a wet afternoon in July. A flour mill has been on this site in Moorhouse Avenue for 120 years, and is currently owned by Goodman Fielder. We listened to a fascinating talk about the production of their 297 finished products and the associated challenges. Shareholders in Goodman Fielder would have appreciated the skill and dedication that Goodman Fielder puts into the miller's craft.

The factory employs 60 people. Shortly a new food dietician/product development technologist is to be employed and the engineering team is being restructured and the resultant savings are to be used to increase preventative maintenance on site.

The mill has three manufacturing plants. These are the flour mill, the plant for the mixing of premix products, and the speciality plant which produces such things as the flour product used in sausage binding and soup mixes. Altogether there are 80 000 tonnes of product sent out from their plant every year. A total of about 230 different ingredients are used in this production facility, the main one being flour.

The tour around the mill showed us where the wheat is ground between rollermills to produce wheat-meal, semolina and flour etc. The mill is five storeys high and as the wheat falls it passes through milling machines, each of which extracts a little more flour. The ancient craft of milling has become scientific and technically complex. We were shown around the laboratory where they measure, for example, the falling number of flour. This tells whether its quality had been compromised by rain before the wheat was harvested.

Goodman Fielder clearly thought that modern technology has improved flour. They still produce stone ground flour through the Specialty plant but modern technology allows for a far superior range of products and by-products through the milling unit.

It is desirable for the mills inputs and outputs to be of constant quality. New Zealand wheat is more variable than Australian wheat. To reduce variation, different batches of New Zealand wheat are mixed. Currently they are using only about 5% Australian wheat. This raises the question of selenium. It has been said that the use of Australian wheat in our bread partly makes up for the shortage of selenium in New Zealand soil. It seems that in the South Island this is not so, since this mill produces 60 to 65% of the South Island's flour. The Bakers Association and Flour Millers Association had suggested adding selenium via the wheat contracts with the local growers but such medication of the masses was not countenanced by the government. However it was a different story when the question of adding folic acid to bread was considered. After much debate within industry groups and public forums the government withdrew the mandate to add folic acid pending further research.

Champion's customers demand constancy. The mill produces pre-mixes which it supplies to supermarket bakeries and hot bread shops. These are designed so that the bakeries can reduce their process complexity by minimizing ingredient stock holdings and the associated storage space required yet still produce quality products.

We learned of the man who realized that people buy bread not by weight but by size. He made a loaf which was lighter but not smaller, and got rich.

Goodman Fielder is particularly driven with the efforts that are made to ensure safety around the site and also to maintain and improve the quality of the products. The factory which runs 24/7 lost just 18 man hours out of a million hours of work through significant injuries (SIFR). The plant is fumigated every seven weeks as part of the drive to increase product quality which results in the whole factory closing down as machinery is stripped down and everything fumigated with the loss of 32 hours production. Afterwards all the surfaces need to be wiped down and cleaned. Scheduling a fumigation around when there is an All Black test on, makes it is easier to get staff to take a holiday.

This year the operation achieved a 23% reduction in waste from the factory which now has an operating efficiency (OEE) of 93.7%.

When we were shown the test kitchen and saw some of the baking, one of the group asked if that was for the staff's morning tea the next day and to our surprise found out that it was for our afternoon tea. We were treated to cake and muffins to eat and found the chocolate sponge which made it home was very tasty.

Peter Heffernan and Pam Hurst
Robin Harrison - Chairman

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MEMBER'S ISSUES

FELTEX – WHERE ARE WE AT?

The first of the 3 court actions against the Feltex directors has been decided, as we predicted in our June issue, in favour of the directors. Judge Doogue found that the directors should have been able to rely on professional advice…. and "there was not one skerrick of evidence of intention to mislead the authorities, the market shareholders, potential investors, or any other person."

That may be so, but what about Ernst and Young who were paid $113,000.00 to review the interim accounts to 31st December 2005? Have they refunded that fee?

What about the IFRS, which was supposed to make company accounts more accurate and understandable for the ordinary investor? How could a loan whose terms had been breached not be a current liability? When will the auditing profession be held accountable for its faulty advice, and when will breaches of bank covenants be fully disclosed as they occur?

As John Hawkins pointed out, we also wonder whether directors should be paid less if they can shrug off liability by consulting professional advisers, and will they be more eager to pay high consulting fees to auditors to make sure their backsides are fully covered?

As for the Company's Office, - not an impressive swan song! The tone of the Judge's comments suggest that Bruce's new FMA will have to be considerably better informed if it is to bring cases successfully against boards of directors.

Alan Best

BOOK REVIEW – INSIDE THE MIND OF THE TURTLES – CURTIS FAITH

Curtis is famous for his earlier book Way of the Turtle, on how people can be trained to trade commodities successfully. In his new book he identifies common themes in investing, and such diverse undertakings as parachuting, and running an emergency room at the hospital. He distils his risk management advice into seven topics:

Embrace uncertainty
Remain flexible
Take reasoned risks
Let go of mistakes
Actively seek reality
Respond quickly to change
Judge decisions based on their quality, not their outcome

Curtis also shares his experience of literally sailing into a storm and going overboard, how he fared with an internet start-up company, what dynamics play out in corporate IT decision making that steer away from quality decisions, and more.

Martin Ehrenstein

WHAT ISSUES CAN BE RAISED AT A COMPANY AGM?

The AGM season is upon us and our Coordinator, Jacquie Staley is always looking for NZSA proxy holders and questioners for company meetings. She is often asked what issues NZSA wishes to address.

Shareholders are often bombarded with information, often conflicting, from companies, analysts, reporters, and brokers. Therefore do not be afraid to ask for clarification of even the simplest of points. The friendly atmosphere of a company AGM is the right forum for shareholders' questions. Debate arising from these is healthy. Here are some issues that NZSA members keep watching for:

1. The Board. Is the chair independent? Is there a diversity of skills, gender, technical and industry experience? Is there evidence of succession planning? Are the new directors able to address shareholders at the meeting?
2. Remuneration. Are there large gaps between staff and senior directors and executives. Are there any large consultancy fees or other payments to directors, or other professional staff? Do you consider the payments excessive?
3. Conflicts of Interest. How are these handled in the board? Have the rules in the Governance Statement been followed?
4. Balance Sheet. What are the movements in debt? Have the movements in debt been made to dress up return on Shareholders' funds? How large is Goodwill or Intangibles in relation to total assets? In the unlikely event of a forced sale Goodwill may be non existent.
5. Gearing. (Debt/ Debt+Equity) Ease of refinancing is a critical question? Market views of the appropriate level will vary over time and from industry to industry.
6. Overheads. Are the overheads high in relation to revenue or operating profit? This is an easy target for a prospective buyer of the company, but also an easy problem for a board to fix.
7. Net Operating Profit. Will the profit be ongoing? Are restructuring charges genuine one-offs?
8. Cash Flow. Free operating cash flow is fundamental to good health. Look at sources of revenue and deductions from these.
9. Taxes. When will tax concessions run out? What will be the effect on dividend payments?
10. Audit: Are the auditors paid for services other than the audit? Is the auditors' certificate unqualified?

NZSA is aiming through its website to give you a summary of financial data, for the top 50 companies, but there is no substitute for reading the annual report and understanding the company before you attend its meeting. If in doubt don't be afraid to ask for clarification from the Chairman. There will always be someone else who is more mystified than you.

What about writing a few notes for the Scrip? Our advice there is simple. Report on the questions raised by shareholders. Give praise for a well run meeting when it is due. Note the feeling of shareholders towards the board and management. Is there trust? Is it deserved?

Alan Best

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