"The Scrip"

MANY INVESTORS; ONE VOICE

New Zealand Shareholders Association Inc. NZSA

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ASSETS SET TO SAIL

The announcement by the Prime Minister, that limited asset sales would occur should the National government be re-elected, has opened a significant gap in the NZ political scene. Hysterical and often factually inaccurate claims about this policy have been widely reported in the media. Balancing arguments have not received the same coverage. As a nation, we are suckers for making snap judgments based on populist propaganda. There can be no doubt that many of the deals done in the late 1980's were hasty, poorly thought out, and resulted in the robber barons of the day enriching themselves at the people's expense. This has tainted the possibility of further sales for 25 years. Understandably, many people are wary despite the very different process proposed, and the much sounder regulatory environment we are now in.

The NZSA Board has considered the matter and in principle we support the concept of partial privatization. This is not a political statement, but is based on logic. It is interesting to explore the main concerns raised by opponents of the proposal.

- ***Asset sales will only benefit the rich. The rest of us can't afford to participate.*** There are currently 1.6 million people in KiwiSaver. The vast majority are ordinary working people. Sound established infrastructure companies with decent yields are exactly the type of investment that the KiwiSaver providers like. So the reality is that directly or indirectly almost everyone will participate.
- ***It didn't work before!*** That ignores the fact that most of the previous sales were "trade sales" That is, they were not sold on the sharemarket to a broad range of owners. They were sold to individuals or companies whose only interest was in screwing the maximum return in minimum time. That Fay and Richwhite were advisors on some of these sales to themselves was outrageous. Did the government of the day really believe Brierley investments would suddenly change from a corporate asset stripping model to a stable long-term investor? What is now proposed is quite different, with a transparent sharemarket float and a significant degree of initial and ongoing disclosure required.
- ***The assets will end up owned by foreigners.*** This statement defies belief. The Takeovers Code requires a jump to a controlling stake once a 20% ownership threshold is reached. Just how this could be achieved if the government owns over 50% is not addressed by the critics. Australian companies who are the most active in our market are unlikely to be interested in further investment in NZ electricity companies anyway. The NZ Commerce Commission proposes to wind back regulated returns to about 7.5% from the current 9%. This is already below Australia's 10+%. In fact, this proposal while holding down prices in the short term could be very damaging to future electricity investment generally and may impact on the value of the assets to be sold. The NZSA has previously raised this concern with government.
- ***Yes but they will sell the rest to their mates later!*** We believe this would not be an option politically under any scenario that is likely in the foreseeable future. A full sell down might occur if there was no other choice, at which point we would have probably already surrendered our sovereignty.

- ***Power prices will go through the roof.*** The market is already both competitive and highly regulated. Power prices are underpinned by the cost of providing new generation. This is currently around 10c per KwH. The move towards "greener" energy involves considerably higher marginal costs (15-30c per KwH) because not only is the capital expense higher, but the efficiency is lower- wind farms provide no energy when the wind stops. So like it or not, electricity costs will continue to rise over time. However, this has nothing to do with ownership.
- ***Government ownership is just as efficient.*** Ronald Reagan famously said *"One way to make sure crime doesn't pay would be to let the government run it."* Government and local bodies certainly have a mixed track record when assuming full control of a previously successful listed entity. An example is Ports of Auckland who have pursued growth regardless of commercial return. Their profitably is now dismal. Compare them to the listed Ports of Tauranga who still have a 55% local body ownership, but follow normal business disciplines resulting in far superior outcomes for both individual investors and the community holding the majority share. In the NZ electricity sector, Contact Energy and Trustpower have consistently outperformed the SOE's. SOE's can also have real problems when it comes to raising additional capital as government is often reluctant to participate. Partial privatisation moderates the demands on government, but also puts greater pressure on them to contribute their share when the business case demands.
- ***But we already paid for it!*** Often the argument is raised that floats are actually selling assets already paid for by taxpayers. That ignores the fact that the government is gaining a cash asset in return. Perhaps the problem lies in the way successive governments have spent that cash rather than the process itself?

Of course, it is all very well to address the negative arguments, but to make the case, there must be net positives. And there are several.

- The proposal will increase the options available on the share market. The lack of quality listings on NZX is a real concern. The increased pool will encourage KiwiSaver providers to invest more in NZ than they otherwise could. The impact on the economy of our dismal capital markets generally is much wider than people realise or care. It ultimately does matter more than who wins the World Rugby Cup!
- The Government is strapped for cash. While it can be argued that this is a self-inflicted problem, it is still a reality which must be addressed. The amount that will be raised if the sales proceed is modest, but it allows for a reduction in debt or the funding of other capital expenditure. This is important as NZ Inc is pretty much at the limit of its ability to borrow – currently $300 million per week. We are in a very deep hole that no amount of wealth redistribution or increased taxation will solve. We can only progress through investing in genuine income producing assets and infrastructure. Some say it would only be a drop in the bucket, but that is one drop less for future generations to have to find.
- The NZSA believe the proposal will improve company performance from the top down. Too many SOE directorships have been given to useless seat-warmers as a political favour. A lack of accountability and/or political direction inevitably results in sub-optimal decision making at all levels. Air New Zealand since its unfortunate earlier ownership experiences is a good example of a partially privatised company in action. It is well managed, innovative, dynamic, customer centric and profitable. These are not terms usually associated with airline companies. Successive governments have taken a hands-off approach and the results speak for themselves.
- Over time we expect partially privatised companies will be able to raise their dividends which will offset the impact of government owning less of the asset.

By signalling the proposal early, the government has given itself time to consult widely to ensure the final proposal is both sound and sustainable going forward. Whether this includes incentives for local purchasers (including KiwiSaver) to buy and retain shares is perhaps the biggest imponderable. You can be sure that the NZSA will watch and participate in the process on behalf of all individual investors.

We would also encourage every one of you, our members to debate the issues with others. The policies of "do nothing" have not only failed, but they are no longer an option. As a nation we require rational discussion and some sort of consensus about ways to reinvigorate not only the capital markets, but the economy as a whole. This is one issue where collectively you CAN make a difference.

John Hawkins
Chairman

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TELECOM – GETTING REAL

On 22nd December a memorandum from Paul Reynolds CEO Telecom was reported by the New Zealand Herald.
The company has developed a Vision for 2013, which includes the following points:

1. Staff reductions will occur from the current level of 7000. Reynolds says Telecom must drastically reduce its bureaucracy. "We are too big and too cumbersome," the Herald quotes.
2. Senior staff must cut up their company credit cards. Reynolds expects to reduce company cards from 3500 to 1000.
3. Telecom must improve its accountability for decision making. It must move away from its "siloed" (defensive) decision making. "We cannot afford to waffle around anymore," the Herald quotes.
4. Telecom must choose market segments where it has a competitive advantage, and for their profitability. It cannot continue to cover the telecommunications market comprehensively.
5. Telecom must consider the life cycle of its products and the overall cost of their development.

NZSA's Director of Corporate Liaison immediately commented:

a) Why have the board of Directors and CEO allowed so many executives to have credit Cards and what were the constraints on what could be claimed? If any employee does need to use his or her credit card for legitimate expenses why

could they not claim these expenses back at the end of say each month before payment is due?
b) Paul Reynolds has admitted telling the staff to put an end to "waffling around." Why has he taken so long to address this issue? What has the board been doing in allowing such poor performance to occur?
c) Telecom has been over staffed for many years and even though there have been attempts to address this problem we still hear the company employs too many people. What is of concern after reading the annual report is the number of staff who are earning very large salaries only to hear they have been waffling around. This seems to be the reason Telecom's cost structure is too high.
d) A well run company always has strict disciplines on what is spent on capital improvements. Why has it taken the Board and CEO so long to address this issue?
e) According to the Herald, the CEO claims the company has spent $4 billion in the last four years meeting regulatory requirements and customer demand, and yet seen its market capitalisation decline some $4 billion. Surely the question needs to be asked how a so called experienced CEO and board could get things so wrong. What confidence can shareholders have that they will now get it right?
f) The CEO states they will save millions by just looking at the way they spend individually. Why have they not been doing this all along? Where is the accountability at the CEO level as well as the board?
g) The CEO claims the company has poor accountability, they are siloed in their decision making, and their core processes and operations are not working well enough. Why has the board allowed this to occur, if they are so well qualified and experienced at running a telecommunication company?
h) The CEO then states they will focus on chosen markets where the company is competitive. Is that not just basic common sense which should have occurred all along?
i) The CEO says they will be streamlining what the company has to offer to the market and will also be considering far more carefully the life cycle of products and how much they cost each part of the business to develop. A well run company would have been doing this, and the board would have been monitoring progress.
j) The CEO states that they are too big and cumbersome and that they need fewer people working in the business although he says it is too early to say which parts of the business will grow or shrink. Why has it taken so long for an "exceptional, experienced" executive to decide on this? Is it perhaps because he was appointed from outside?
k) This CEO is one of the highest paid people in the country, who won the position ahead of any internal appointment and now has come up with this negative result. How soft were his key performance indicators to earn the large bonuses he has received?

.***Des Hunt***

CHANGING THE AUDITOR

There are times when a Board has to address the situation of a change of auditor. Fortuitously this event does not arise very often but a shareholder should be able to rely on a comment somewhere in the annual report giving the reason for such change. In recent New Zealand corporate history, I can only recall two occasions where a change has been considered. Both cases are worth examining as they reveal most tellingly how to and how not to go about this process.

At the June 2003 AGM of Guinness Peat Group plc, agenda item 5 contained a resolution 'to appoint Deloitte & Touche as auditors'. I suspect the vast majority of shareholders will be unable to say who the auditors are who signed the latest annual report and thus it is probable that the subtlety of the resolution would have been lost to many members. Existing auditors were Price WaterhouseCoopers (PWC). Corporate law requires companies who have existing auditors to obtain confirmation that they are willing to accept audit nomination for the ensuing year. If the response is in the affirmative then there is no need for auditors to seek re-election and a resolution to agree their remuneration is all that is needed. The resolution was tabled without comment. Your Association did write to the chairman and sought reasons for the change and the response was received three days before the date of the AGM on 17 June 2003 in London. The response remains on our website under Advocacy correspondence.

The second instance is Michael Hill International. The reason for change in November last year was precisely what our Association has been canvassing these last few years. The taxation and advisory division of PWC have over the last couple of years managed to render nearly $3 million in fee notes for tax and related advisory work compared with approximately $630,000 for Audit. The taxation advice arose on the sale (or transfer) of intellectual property from a New Zealand to an Australian subsidiary. The advice was proffered by PWC who were the auditors. We were told at the AGM that there is on-going discussion with the Australian taxation authorities and it is not possible to tell shareholders much more at the moment. However this is the very reason why we see allowing the auditors to tender taxation advice can be dangerous for all concerned. This matter has not gone away and there are likely to be further ramifications in the future. We will revert to this point again next year.

In spite of confirmation by the auditors that they continue to remain independent, it seems that the Board have judged that the perception of independence is lacking and a change in auditor was necessary for the 2010/2011 year. This matter was revealed to shareholders in the corporate governance section of the Annual Report. PWC will continue to act as taxation and advisers on other matters.

There are several common factors in an otherwise story of opposites. Neither company had a strong corporate governance identity. GPG had no independent director, MHI has but one; both companies are effectively controlled by their Boards and have Head Offices outside New Zealand. In each case, the retiring auditors were PWC. In other respects the attitude of each Board was quite different. MHI were at pains to disclose the full story, GPG preferring silence. The meetings of GPG has always been in London and the New Zealand shareholding, which represents over 80% in number, have never been given any opportunity to meet with their representatives.

Here is one final matter that may interest readers. I was sitting next to the auditors - both new and retiring – at the meeting. Through the chairman, I asked the retiring auditors if there were any matters that should be brought to the attention of members at this meeting. The response by PWC was expressed with clarity and the answer was that the Company had behaved with propriety. The only doubt in the back of my mind was that the response was given by the taxation rather than the audit partner of PWC. Perhaps a short straw had been drawn?

The profession of auditing, particularly of listed companies, is never productive for the accountant. The profitable side of the engagement is the special work that can be gleaned from discussions and personal contact with members of the Board and management. The attitude of the Accountancy professions is that Taxation is a legitimate area in which an auditor can conduct business. In the case of MHI the Board, correctly in my view, decided that perception was, in reality, more important. Long may this continue!

Oliver Saint

Related reading material:
Shareholder involvement – auditor resignation statements
Shareholder involvement – Questions to the auditors
Consideration of reforms in Australia (go to iceaw/com/index and click on the 'technical and business topics' on the top horizontal bar).
Green paper – 'Audit Policy – Lessons from the Crisis' (may be located by using the title on the google search facility).

BOARD MATTERS

Our December meeting was attended by Auckland Branch, while the February meeting included Waikato. This regular feature has now bedded down, and is good to see the positive suggestions that arise from the branch attendees.
Behind the scenes the board Chair and other directors are pursuing a wide range of contacts. Over the past two months this has included meetings with Korda Mentha, Australian Shareholders' Association, Australasian Investor Relations Association, Tourism Holdings, Springboard (emerging directors,) Wayne Boyd of Telecom, Max Gould of Goodman Fielder, GPG, Ministry of Economic Development, Select Committee on Financial Markets, NZICA (chartered accountants), Institute of Directors, Institute of Chartered Secretaries, and NZX, as well as frequent media interviews.
Our aim with the contacts is to pursue the interests of shareholders in a firm but non confrontational manner, and though the media profile of our criticism is not always high, we believe this is the effective approach.

Alan Best

SUBSCRIPTIONS FOR 2011

On October 1, 2010, the increase in GST necessitated a change in subscription rates.
The board adopted the following rates for 2011.
Full membership including branch membership - $115.00 (including GST $15)
Non-branch membership - $95 including GST
Student members (for full time students) - $23 including GST.

WE NEED THE FACTS

It is our plan to make sure we have the facts whenever we raise issues of governance with boards of directors. During periods of lower market demand CEO bonuses are lower, and we expect that some companies will attempt to increase base pay or benefits to offset this. We are assembling information on this as part of our KPI project, but it is not yet finished, and we may need to talk to companies before our records are complete.
Des Hunt is in day to day touch with a range of contacts. However we don't always have company reports or facts handy for the wide range of companies, even all those report on in The Scrip. So you can help us with the remuneration issue.
Choose a company in which you own shares, and where you suspect that remuneration is running ahead of shareholders' returns
Simply assemble the directors' fees, and individual chief executive salaries (total payments including bonus) for the past five years. Then, beneath each column put the total dividends, earnings per share, and return on shareholders funds.

Send this ammunition to Des Hunt. desmondhunt@xtra.co.nz
We can then pursue the question of remuneration on your behalf, with the facts.

Des Hunt

WHIMPY UNSOLICITED SHARE OFFERS

We have received a great deal of correspondence about the low-ball share offers made by associates of the appropriately named Mr Whimp over the Christmas period. Several members have made suggestions about preventing this sort of thing happening in the future. Unfortunately, after exhaustive investigations, the NZSA Board regrets to inform you that burning at the stake ceased in 1612 and currently government has no plans to reintroduce the punishment!

The NZSA did make several media statements at the time including supporting Bay of Plenty branch's suggestion for recipients to post back empty envelopes at Mr Whimp's expense.

The problem is how to discourage these sorts of offer without creating an unintended secondary effect. The NZSA supports part of the Australian solution which requires offers to prominently state the last market sale price right next to the offer price, and to give a one month acceptance window. This would result in it being quite clear that the offer was below market, give people adequate time to seek advice and pretty much destroy any chance of similar offers succeeding in the future.
The Australian legislation goes further by banning access to share registers except for "genuine" purposes, whatever that is. We do not support this because it could be used to stymie all manner of requests-for example if the NZSA was seeking support for a SGM and the company refused to allow us access to their register to make this possible.

There is also the matter of where personal responsibility sits in the argument. If we regulate to stop this activity, should we also regulate to stop people from selling the family home for less than it is worth? Or maybe everything on TradeMe should have to be sold at "true" value rather than by agreement?

Despite calls for them to refuse the transfers, the targeted companies have no effective power to stop Mr Whimp beyond rejecting incorrect paperwork. The share registries have no choice over releasing details. Like it or not, nothing illegal has been done. The ethics of the situation are of course a different issue. My understanding is that a lot of immigrant New Zealanders feature on the lists of those who have sold which supports the concern that these offers target the vulnerable and the ignorant. We should also keep this problem in perspective. Vector had 300k+ shares transferred which is 0.15% of the capital and Fletchers around 60K which is 0.0001%. So the vast majority of people were not fooled. However, once again the negative publicity impacts on market confidence, however unfair that may seem.

Some of you are demanding an instant solution, often involving legislative change. This is unrealistic. An outcome will take some time to achieve, and no amount of pressure will alter this. We have already been in contact with some of the companies, the MED, and the Minister personally about this issue. Simon Power is aware of the problem and has asked the NZSA to participate in finding a workable solution. That is yet another positive endorsement of the Association, and guarantees your voice will be heard loud and clear.

John Hawkins

COMPANY AGMs

PROXY REPORT – PROXY COORDINATOR

During the year 65 AGM and SMs were attended by proxy representatives of the Association. This is an even better achievement than the previous year- and particular thanks go to Wellington branch who attended many more meetings on behalf of our members.

Breakdown by region:

Auckland	37		
Wellington	13		
Christchurch	11		
Tauranga	4		
Dunedin	0	Total	65

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	Alan Best	Grant Diggle
	Noel Thompson	Des Hunt	John Hawkins
	Joe Turnbull	Jacquie Staley	Uli Sperber
	Bill Jamieson	Peter Healey	
Wellington	Martin Dowse	Ashley Chan	Brian Tyler
	Martin Erhenstein	Matthew Underwood	Scott Hudson
Christchurch	Robin Harrison	Peter Heffernan	Barbara Duff
	Max Smith	Tim Kerr	Pam Hurst
Tauranga	Howard Zingel	Kerry Drumm	Lloyd Christie

The focus for 2011 AGM season will be to co-ordinate proxy representatives with individual members who actively follow their 'favourite' or 'troubled' companies. So for those of you who have issues or questions that you wish to be asked at the meeting, please forward these by email to proxies@nzshareholders.co.nz.

For those members who hold Australian shares, please give your votes to the Australian Shareholders Association, by writing the Association's name in full on the proxy form.

Attending meetings and asking questions of the Chairman and members of the Board of our major companies is a vital activity undertaken for you our members, and important for all shareholders, in order to maintain the integrity and ethics that the NZSA aspires to.
If you wish and can to assist us, please get in touch with me at the above email address.

Jacquie Staley

NZ OIL AND GAS AGM 27TH OCTOBER

The Association received proxies from 33 shareholders holding 362,547 shares, just under 1% of the listed ordinary shares. 110 shareholders attended the meeting.

In October a year ago, the share price was $1.75. On the day of the meeting it stood at $1.31. The after tax results showed a loss of $3.3 million compared with a prior year profit of $53.2 and the 2008 profit of $97.2. 4 exploratory wells had been completed last year at a cost of around $34 million with no positive drilling results. This then was the position that shareholders faced at the meeting.

Following the address of the chairman (see NZOG website), a dozen or so members sought answers on several topics.

On the results, a shareholder commented that this was one of the most disappointing years we have ever had. As this was an exploration company, the member wondered what the government had done for the company? The chairman responded that 100% of all exploration costs were immediately tax deductible; in his view the tax rules were fair and reasonable. Government also had its own exploration programme. A member asked about emergency plans in the event that things went badly wrong. The chairman commented that bad weather was one of the major factors and the buffer against such an event occurring was to have available free cash of around $50 million. Being a listed company, there was more capacity to borrow and of course shareholders were a last resort for more cash. The Board is never sanguine about risk management.

A major subject of questioning was the Pike River venture. One shareholder sought comment from the chairman on the loan of $25 million due for repayment in December. As no firm commitment was forthcoming, other shareholders sought assurances that no further funds would be provided for this venture. Whilst the chairman would make no statement at this time, he did indicate that the investments made by the group were under constant review and that the Board was not looking to bail out of its Pike River Investment. It was confirmed that there was no impact from the recent earthquake in Christchurch. It was also confirmed that no more coal assets were being sought; oil and gas was the main objective.

One shareholder commented that other investments in exploration companies would be preferable to share buy backs. The chair indicated that this group was not an investment holding company but an active exploration company. On a comment about the increase in management expenditure, the CEO advised the meeting that management consisted of 20 full time staff.

The meeting lasted an hour and ten minutes.

Oliver Saint
Editor: Oliver filed this report before the tragic explosion at Pike River. The share price has now declined to $0.87 approximately half of that 1 year earlier.
The asset valuations in the 4 operating segments of NZO for 2010 were noted as follows: Tui $29m. Kupe $228m. Exploration $7m. Investments (mainly Pike River) $137m.(34%)
Revenue streams of $44m and $16m occurred from Tui and Kupe respectively.

SANFORD AGM

At beginning of Sanford's 106th AGM, chair Bruce Cole advised change in management

structure from 1st Jan 11, with 3 executives (Greg Johannsen: Operations; Vaughan Wilkinson: Marketing & Development & Dean McIntosh: Finance) being promoted to newly created GM roles reporting to MD Eric Barratt, thus allowing him to concentrate more on strategic planning.
The first 2 of the 3 new GMs then addressed the meeting.
Revenue to 30/9/10: 421.1 M (09: 433.1);
EBITDA: 49.1 M (68.4):
net profit: 25 M (39.1);
dividend: 23c (23):
dividend cover: 1.2x (1.8x).
Notably, 84 % of turnover resulted from exports & offshore investments, and 98.2 % of debtors were current at 31/12/10.

Sanford, through the acquisition of Pacifica Seafoods (Marlborough Sounds) and a 40 % interest in Pegasus Bay (Canterbury) marine farm consent, has enhanced its dominant position within the NZ mussel industry, which already represents the largest export share of the NZ seafood industry. Furthermore there are plans for mussel domestication and a selective breeding program, involving major competitors & NZ Government - as opposed to the present wild spat harvesting from beaches North of Auckland, Golden Bay and Marlborough Sounds.

Other initiatives, involving competitors & targeting industry consolidation, are aiming at rationalisation through improved fishing capacity utilisation, resource sharing, and sustainability. Sanford aims to improve export profitability through elimination of unnecessary price cutting for scarce species which are better sold as NZ quality.

The first few months of the 2011 year saw improved returns for various species as compared to 2010 and even better results are forecast for the 2nd half. There is a strong focus on debt reduction.

In summary: Sanford has been a solid performer with stable dividends over the last 5 years, ably lead by MD Eric Barrat and his dedicated team.
A modest man, he appears to have all company aspects at his finger tips. His logical next step is further strategic initiatives to improve Sanford's returns from the global market place.

Could this AGM be indicative for more changes in format to come in 2011? There were no screens support, and no endless repetitions of data & graphs, which were all contained in the annual report anyway. The show was over in approx 1 hour, resolutions decided by show of hands - no questions, no comments. Your proxy representative considered but refrained from asking if the predominantly white haired board already had succession planning underway. Chair Bruce Cole appeared to be mumbling at times & despite microphone was difficult to hear even in the front rows. The practice to put ages next to board members' photos in the annual report seems to be fading away.

Uli Sperber

SCOTT TECHNOLOGY AGM 10TH DECEMBER

Scott Technology builds automated production systems and had been adversely affected by the recession. However, Chairman Stuart McLauchlan reported that they now had a strong order book and that profits to August 2010 were $2.8m compared with $265,000 in

2009. Managing Director Chris Hopkins added that they had a US order worth $5.3m for a manufacturing line making fridges and negotiations were advancing for a further $4.5m NZ meat processing room. He estimated that their workforce of 200 would be expanding by 10%.

In response to questions Chris Hopkins said:

- They hoped to sell more of their automated sheep boning rooms and there were prospects for automated beef production
- They were working on a prototype robotic milking machine to operate on dairy farms
- The hedging policy was to take forward cover on contracts when signed.

The resolutions were put to the vote and all passed.

Their shares are currently trading at $1.40 compared with $0.75 two years ago.

Robin Harrison

MICHAEL HILL INTERNATIONAL AGM 5TH NOVEMBER 2010

This was the first time MHI has held its AGM in Wellington and about 80 shareholders turned up to see the Hill family and rest of the board in action.
As well as two directors up for re-election (Emma Hill and Gary Gwynne), there were three other resolutions to be voted on:

1. Options package for CEO Mike Parsell.
2. The Hill Family proposals allowing them to consolidate their share holdings without triggering a full takeover offer.
3. To appoint Ernst and Young as new auditors, replacing Price Waterhouse Coopers.

Prior to the meeting a shareholder had expressed concern to me re the valuation methodology for the option package for CEO Mike Parsell – in particular that the Simmons report that provided an indicative value for the options was undervaluing them, and therefore by inference Mike Parsell was being paid more than intended.

Before the meeting started I spoke with MHI director Wayne Peters (Chairman of the Remuneration sub-committee) about this. His explanation was that the number and vesting dates and prices of the options were determined internally at MHI and were based on return on equity targets. The valuation report came later and had no bearing on the number of options being issued or their vesting terms. Options were used rather than cash, as they wanted to keep Mike and increase his ownership in the company.

Michael Hill opened the meeting by introducing the board, which includes his wife Christine, and their daughter Emma, and then handed over to Mike Parsell. Mike joined the company (which opened it's first store in 1979) in 1981 and is very much a member of the Hill family.

Mike's focus was on the expansion of MHI into the US. It's been tough going for MHI has been losing money in the US with operating losses increasing to NZD $8.7 million in 2010 from NZD $5.3 million in 2009. This is in the context of a total profit of $24.5 million for 2010, down from $67 million in 2009. In 2010 MHI closed eight of the stores and will have refurbished the remaining nine by the end of the 2010. To date the refurbished stores have performed well with same store sales up.

While it has lost money so far MHI is still committed to the US and the team have learnt a lot. First up – to be a jeweller in the US you have to be big in the diamond engagement ring market. These little rings drive the whole business.

Michael Hill, aka Lord of the Ring, then came to the podium/altar and entertained us for the next 30 minutes or so. Lord of the Ring comes about because of his competition to find the perfect couple with the prize being a rare 22 carat princess cut diamond ring. Michael has been travelling the world with this stone and a few bodyguards promoting it, along with help from IT girl of the moment Kim Kardashian. Check out his facebook page for more detail. Among the story of his quest, his life, promotional and entertaining videos and advice on how to live your life there was quite a bit useful information and opinion.

MHI is evolving from being a discounter to being a global brand selling it's own products, moving away from mass produced jewellery. It's easier to compete with yourself on price than with others!

When the MHI team entered the US market in 2008 they thought they knew a lot about retailing and were pretty good at it. They now realise they knew nothing then, the retailers in the US are the worlds best. Since then the experience MHI has gained from the US has been used to improve operations in their other stores and the results are starting to show. In tough times MHI has been outperforming its peers.

MHI is committed to its branded international strategy and won't be pulling out of the US. The company has 232 stores now; it's aiming for at least 1000 and planning 30 years ahead. Michael intends to be around so see it too although he will be 102 then.

The final message for shareholders was "toughen up". Results won't be flash for the next few years while the strategy is executed so hang in there. If you don't like it sell your shares (presumably to the Hill family).

Following Michael's presentation resolutions were voted on. All resolutions were passed.

Most questions asked related to the 2 million options being issued to Mike Parsell – it seems shareholders are very suspicious of options packages these days.

The only resolution that attracted no question or comment at all was the Hill Family proposal that allows them to consolidate their share holdings and increase them from 48% to 50.1% without triggering a full takeover offer. This they are now doing. James Cornell makes the point in his January newsletter that in 1987 the Hill family raised $7.4 million from the sales of about 50% of the company, now they are buying back up to 5% for $9 million dollars. In the meantime $220 million in dividends and capital gains has accrued to the outside public shareholders. This indicates the benefit of owning shares in a growth company for unspectacular, long-term returns.

With showman Michael Hill fronting the meeting it was always going to be entertaining – I came out of it feeling like I'd been to an evangelical Hill family reunion.

Martin Dowse

BRANCH REPORTS

AUCKLAND

Auckland Branch will continue with its programme of stimulating meetings in 2011.
Please mark these dates in your diary.
Wednesday 16th Feb - Kiwi Income Property Trust - Chris Gudgeon, CEO
Wednesday 13th April - Brian Gaynor
Wednesday 15th June - NZOG, David Salisbury, CEO presenting
Wednesday 14th Sept - Bill Jamieson, Fixed Interest Investments, and the traps
Wednesday 9th November - To be advised
Andrew Reding

Our Investors' visit programme is well underway.
1. Wednesday, 9 March 2011, 10.00 am - Sealegs (SLG - amphibious marine craft), Albany (presentation by CEO & MD David McKee Wright);

2. Thursday, 19 May 2011, most likely am - Fletcher Building (FBU), Penrose wallboard plant - should Jonathan Ling, CEO & MD of NZ's largest listed company, not be available, presentation will be given by CFO

Please register your interest by email with Uli Sperber: ukspen@gmail.com - final visit details will be emailed to registered participants approx. 2 weeks prior.
2-3 more visits (definitely in August & October) with leading NZ companies are at present under negotiation & will be announced in due course.
Uli Sperber

WAIKATO

The Branch activities for the year concluded with the Xmas function held at the "Pavillion" of the Hamilton Workingman's Club.
Our guest speaker was Alison Paterson Chairwoman of Abano. Alison has had a long and distinguished career including amongst others; prominent roles in various Health Boards, Chair of Landcorp, Electricity Complaints Commission and board roles at WNMA, Market Surveillance Board and The Reserve Bank.
Alison had a positive outlook on her career in that she was hard pressed to think of any low lights. She seemed to most enjoy her Landcorp experiences. Alison thought selection of the CEO and top management was key to the performance of any institution.
Alison has a low key and modest approach and it was impressive to see before her presentation that she endeavoured to talk to as many people as possible. Alison's professionalism came to the fore at our gathering with the failure of the public address system which did not faze her, but unfortunately did distract from what she had to say.
The Branch Committee is currently investigating the possibility of the purchase of our own public address system which will eliminate these sorts of embarrassments and enable some of our more hard of hearing members to better enjoy proceedings at our regular venue at The Hamilton Club.
Thanks to all involved in arranging and presenting a successful function.

For the early part of coming year, Jim Haisman has organised the following program:
John Williamson from Hellaby holdings will speak in March
Dean Bracewell of Freightways and Martin Watson Part 2 of his address in April or May
John Hawkins to address the Branch AGM in June

Robert Foster

BAY OF PLENTY

Bay of Plenty branch while still in recess until the end of February have planning for 2011 well in hand. The committee toward the end of 2010 had a planning session whereby the year's programme is quite well advanced.

Examples of our activity as a guide are set out for members to peruse.

February. Andrew Burn from Craigs Investments will provide a review of 2010 and speak of trends for the coming year.

March. The branch will be visiting Newmont Waihi Gold's operation.

May. Our branch AGM will take place. John Hawkins our chairman is scheduled to address our meeting.

June. We hope to visit Seeka Kiwifruit during the harvesting season.

November. Australian Foundation Investment Co have recently confirmed that they will be visiting New Zealand for their biannual briefing and have Tauranga on their schedule again. Over 130 attended their Tauranga briefing in 2009.

December. No doubt we will continue with our very successful Christmas function where the results of the Pick 5 stock competition will be announced. A jolly night had by all.

As an update the booklet: **"A Personal Record Of Matters Pertaining To My Estate"** produced by the branch has sold well. Of the 650 printed, the branch has distributed over 80% making a small surplus at present of $200. Copies are still available at $5.00 per copy postage paid.

Enquiries are welcome: Email. allen.smith@wave.co.nz

Allen Smith Box 8004 Cherrywood Tauranga 3145.

A cheque with your order please.

Allen Smith

WELLINGTON

Welcome to 2011.

We hold our meetings on the second Tuesday of each month and will have ten meetings this year, the first in February and the last in November, with a guest speaker presenting at each meeting.

The first meeting this year is on Tuesday 8th and our guest is our Banking Ombudsman Deborah Bartell. Check our branch pages on the NZSA website for more details.

Martin Dowse

CANTERBURY

The year 2010 will undoubtedly be remembered for its disasters – the Canterbury earthquakes and the Pike River explosions. So the Branch Committee organised its final event of the year on December 7th to be more uplifting of members' spirits. We started with two speakers Max Smith (Canterbury Branch Committee) and Tony Koller (of Koller & Koller) on "How do you know if your share portfolio is performing?" We followed this more serious part of the evening with some entertaining video clips and a quiz provided by Peter Heffernan which covered topics ranging from finance and the share market through to some lesser known quotations. The evening concluded with awards of prizes to those successful with the quiz questions and some Christmas refreshments.

The Committee has already met once this year and is well advanced in planning its next two events with invited speakers. The details have yet to be finalised but should be announced to branch members very shortly. We are also progressing with arrangements for this year's National Conference to be held in Christchurch. It is provisionally booked for **Saturday August 6th**; so you may wish to mark that date in your diaries as it will be the major event of our calendar.

Robin Harrison

BRANCH CONTACTS

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MEMBERS' ISSUES

BOARD ASSESSMENTS

Several companies have recently commissioned independent assessments of their activities. Grant Diggle points out that all too few do this:
"The last annual survey of Annual Reports I did at Chartered Secretaries mid 2009 showed only 47% of them even mentioned Board evaluation and of those less than half made a quantified statement that indicated they had a process. A handful set out a definitive statement that indicated they actually did something. Pathetic! As I pointed out in my commentary the same Directors demand that the office cleaner is subjected to a 10 page Performance Review annually."
The lack of monitoring automatically empowers the chairman and CEO and allows strategies including asset sales, remuneration, and product development to go forward unchallenged. A good assessment will include feedback on goals, organisation health, teamwork, innovation, technical knowledge, risk management, information access, subcommittees, structural gaps, and professional development. It will encompass the board, the chair, subcommittees, peer review, self assessments. Where NZSA members feel that a board could function better, they are encouraged to raise this with the chair, and suggest that the annual report carry a summary of the assessment. However we should also beware of the "soft" assessments which show up as an endorsement of the boards operations even when the returns are not being achieved.

NZX WEBSITE

Several members have commented recently on the gaps in NZX's web based information systems.

1. NZX and TVNZ have recently withdrawn from the Teletext broadcasts of share prices which some members used as a day to day watch on their portfolios. The board discussed this briefly and decided it was old technology and probably not widely used. Nevertheless it is a reduction in the supply of information at a time when the exchange needs maximum exposure.
2. Others have given examples of "news" on the NZX website which has not been updated for long periods, and is out of date.

3. Waikato Branch believes that the records of company announcements should be much fuller and available to investors to go back to when they wish to research a stock or question directors.

We will be taking these issues up with the executive of NZX, and would like any other constructive suggestions from members. Our aim is to secure an informative and authorative website of investor information. Items of general news are rightly the province of newspapers and other media, but we should be able to look to NZX for a library of formal company information.

TOO BIG TO FAIL – quoted from a member's emails

It is a slow day in a damp little Irish town. The rain is beating down and the streets are deserted. Times are tough, everybody is in debt and everybody lives on credit. On this particular day a rich German tourist is driving through the town, stops at the local hotel and lays a €100 note on the desk, telling the hotel owner he wants to inspect the rooms upstairs in order to pick one to spend the night. The owner gives him some keys and, as soon as the visitor has walked upstairs, the hotelier grabs the €100 note and runs next door to pay his debt to the butcher. The butcher takes the €100 note and runs down the street to repay his debt to the pig farmer. The pig farmer takes the €100 note and heads off to pay his bill at the supplier of feed and fuel. The guy at the Farmers' Co-op takes the €100 note and runs to pay his drinks bill at the pub. The publican slips the money along to the local prostitute drinking at the bar, who has also been facing hard times and has had to offer him "services" on credit. The hooker then rushes to the hotel and pays off her room bill to the hotel owner with the €100 note. The hotel proprietor then places the €100 note back on the counter so the rich German will not suspect anything. At that moment the German comes down the stairs, picks up the €100 note, states that the rooms are not satisfactory, pockets the money and leaves town. No one produced anything. No one earned anything. However, the whole town is now out of debt and looking to the future with a lot more optimism. And that, ladies and gentlemen, is how a bailout package works.

FEATURES INDEX – page and subject

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