

NOTICE OF ANNUAL GENERAL MEETING

The Conference and AGM of the NZSA is to be held on Saturday, 6th of August 2011 at Club Mount Maunganui, Tauranga, commencing at 10am. Nominations for Board positions and Notices of Motion must be received by the Secretary at PO Box 42-139 Orakei Auckland no later than 44 days prior to the AGM. If you wish to nominate any member to the Board of the NZSA or submit a Notice of Motion, the forms to do so may be obtained from Chris Curlett by emailing him at chris.curlett@xtra.co.nz

OBITUARY

Many of you will know that in a few weeks time, the Securities Commission will cease to exist. It will die un lamented and be quickly forgotten, except perhaps by the odd crook and commercial hazard sad to see the end of an era of easy pickings.

In its place will be the new Financial Markets Authority (FMA), which incorporates not only the Commissions role, but also many parts of the Companies office (except the registry) and the Government Actuary. This new streamlined "one stop shop" has been a work in progress for the Association for more than a year. The NZSA has been a strong supporter of the establishment of this new body. We hope it signals the start of a new era.

Regulators have two main roles. Firstly they set boundaries of acceptable behaviour in the market and secondly, they enforce the rules. You would be hard pressed to find anyone who believes that former Securities Commissioner Jane Diplock achieved either objective. She presided over a massive meltdown in the finance company sector while claiming that "she had insufficient powers". But did she? And are penalties currently available enough to make the fraudsters and opportunists think twice if they knew the regulator would actually chase them?

Companies or directors knowingly providing false or misleading statements or engaging in insider trading are in many cases, committing criminal offences. Penalties can include up to 5 years in jail, up to \$300k fines for individuals and \$1m fines for corporations. So-called lesser crimes, such as misleading or deceptive conduct are also well covered. Brokers and advisers who do not meet their disclosure requirements, make deceptive, misleading or confusing disclosures can be slapped with a fine of up to \$100k for an individual or \$300k for a corporation. Misleading advertisements can cost them up to \$10k per day. In addition the Commission has a whole raft of other tools including disclosure orders, correcting orders or banning orders against companies and individuals in a range of circumstances.

But hang on. This list doesn't even include civil penalties. These can be sought by the Commission (but not individuals). Penalties range up to \$5m in some cases, although jail time is not an option. Compensation orders can also be made by the Court – on

application from individuals or the Commission on behalf of investors. There are limits of course. A three year statute of limitations on some civil actions is one (6 years for others). Unbelievably, in the case of Tranz Rail, the Commission got caught out by the time limitation and could not pursue penalties, but did agree a compensation settlement (without the directors accepting liability). Snails could have made faster progress.

The reality is that there is quite a decent blowtorch available for the Commissioner to use as Mr Whimp has recently found. In fairness, few options were open to the Commission in the earlier round of lowball offers at Christmas because of the way they were presented. Fortunately and moving with commendable speed, Government has given the FMA new powers to kill off the commercial incentives for these particular blood suckers. These are essentially the same rules your Association was promoting.

The Securities Commissioner has also been reluctant to pursue cases unless she thought they were an absolute certainty to win. This is counter-productive in two ways. Firstly, the bad guys know there is little chance of being chased and secondly, this approach results in no case law being written. As a result the boundaries of acceptable actions are not clarified. For example, an important positive outcome of the recent Nuplex settlement is that continuous disclosure limits are now more certain in regard to banking covenants. Your Association has long argued that cases should be taken on merit, rather than cost or certainty of winning. It was music to our ears when we recently heard the new FMA Chairman, Simon Allen agrees with this approach for these very same reasons.

The final irony about the Commissioners position is the fact that after years on the job, she finally discovered these long elusive and supposedly “non-existent” powers. Maybe if she had looked earlier, instead of spending an impressive amount of time jetting around the world talking to other regulators, we would not have suffered such a meltdown in the finance company sector? Commentators have complained that Ms Diplock was given an expensive send off a couple of weeks ago in a trendy Wellington restaurant. Sometimes it's worth paying to see a problem go away!

The new FMA has some extra powers including the ability to take over stalled individual actions. We fought long and hard for this. Past experience has shown that many civil cases never get past first base due to the time, emotional and financial cost burden to any individual brave enough to try. We know of no such cases that have ever been pursued to the full extent allowed, which does tend to prove the point.

There is one aspect in the current FMA Bill that may trouble members - the retention of many market discipline functions within NZX. The NZSA has negotiated a number of balancing safeguards which we believe will satisfy any concerns in this regard. However, until the new law and the Memorandum of Understanding between the FMA and NZX is finalised, we are unable to provide full details. The FMA will also get significant additional powers and broader jurisdiction when the new Securities Act is passed next year.

In the meantime, we hold high hopes that new FMA CEO, Sean Hughes, can change the culture and begin the long and difficult task of restoring faith in the regulators and ultimately the market as a whole. As we said to Simon Power at the beginning of this journey, it's all about perception and confidence!

John Hawkins
Chairman

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EARTHQUAKE SHAKES UP 2011 CONFERENCE AND AGM.

To the best of our knowledge, no members were seriously injured in the February 22nd Christchurch earthquake. For that, we are truly grateful. However, many have suffered property damage of varying degrees, and lives have been enormously disrupted. The fallout is continuing with serious infrastructure damage impacting heavily on the functioning of the city.

Against this backdrop, the National Board was informed on March 9th that Canterbury branch was unable to host this year's Conference and associated AGM. Planning had been well advanced, and they were very disappointed at having this decision forced on them by circumstances beyond their control. On a brighter note, they have assured the board that they are looking forward to welcoming us in 2012 instead. Great team spirit in the Mainland!

With time short, Bay of Plenty Branch has shown the strength inherent in the NZSA structure by stepping up and offering to host the event. We thank them and will be offering every support. Planning has been fast-tracked over the last three weeks and key decisions made. In a break with recent tradition, the event will be held on a Saturday, which gives members from further afield a chance to take a two or three day short break in sunny Tauranga.

Already, a top line-up of speakers is confirmed.

Chair of the Reserve Bank, **Alan Bollard**, FMA Establishment Board Chair and activist fund manager **Simon Botherway**, plus hugely successful, New Zealand fund manager, KiwiSaver provider and small cap investor **Carmel Fisher** will share their knowledge and experience with you. Other speakers are still to be announced.

The full programme and pre-registration details will be notified as soon as they are available. In the meantime we suggest you mark off your diaries now. This will be a "don't miss" day complete with the usual delicious buffet lunch where you can meet and share views with other members.

Date: Saturday 6 August 2011

Where: Club Mount Maunganui, Tauranga.

NUPLEX AND THE BREACH OF CONTINUOUS DISCLOSURE.

Shareholders in Nuplex Industries, who bought between 22nd December 2008 and 18th February, 2009, have been sent their offer of compensation from the company. They have 60 days to accept, after which Nuplex has 14 days to pay those who do accept. Nuplex must then report on the offer, the acceptances, the payments, and the balance which it is allowed to retain. The letter of offer was formatted in the company's agreement with the Securities Commission. There is no room for manoeuvre.

Apart from the \$148,000.00 which it has to pay to the Commission, Nuplex was ordered to set aside the sum of \$3,054,980.57 as compensation to qualifying shareholders. The offer to shareholders was \$0.537 per share. This means that the number of shares bought by qualifying shareholders during the period was about 5,688,977. The Waikato Times estimated that only about 3 million shares were bought in the period, and that would have meant that each share would have attracted over \$1 of compensation. Why is there such a large discrepancy between the NZX trading figures and the actual purchases documented by the company's register? The company points out that the figure was produced in company with the ASX, NZX, the Registrar Computershare, and included trade sales, as well as those conducted through Nominees and Custodians. Care was taken to include all qualifying shareholders. In reaching agreement with the Securities Commission each party had a number of shares traded in mind, and the ultimate settlement was reached after consideration of all areas in which trading occurred including off market trades. The figure used in the offer was scrutinised by independent counsel. As the outcome will be scrutinised by the Securities Commission, we expect that it will be accurate. Nuplex is unlikely to risk further action by overstating the number of shares or understating the compensation per share.

NZSA has contacted the company to verify the process by which offer was made. It is now up to shareholders to make sure they read the offer carefully. They should understand that if they accept, they release the company from any further claim.

Alan Best

BOARD MATTERS

Members of the board, and especially the Chair, John Hawkins, have maintained a busy schedule of meetings with Government and Company board members. These have included briefing sessions with Simon Power, and Simon Allen (new chair of the FMA,) Minister of Women's Affairs, Messrs Harnos (NZX) Campbell and Walker of GPG, Shale (IOD), Gaynor (Milford Asset Management,) Butler (CSNZ,) Stiassney (Korda Mentha,) Minto (Tower Australia,) and Carmel Fisher (Fisher Funds Management.) John Hawkins also renewed contact in Australia with our sister organization there, which resulted in valuable information sharing. The application of this will affect our proxy and research activities in future.

Our directors for legal issues have investigated the Financial Advisers Act 2008 and concluded that should not be held to be financial advisers as we go about our business in the usual way. However we will send explicit guidelines to each branch.

Alan Best

SPECIAL RESOLUTIONS AND MINORITY BUYOUTS

A special resolution and thus a special general meeting of a company will occur to approve a major transaction; that is acquiring assets which are more than half the value of the company's assets before the transaction, or incurring liabilities that are more than half the value of the company's assets. Under section 129 of the Companies Act, companies don't need to be changing their business dramatically for this requirement to be triggered. The act has been circumvented on occasions by major transactions being directed piecemeal through subsidiaries, or by breaking the transaction down to parts of an overall plan being approved overall by the board alone, but implemented in smaller stages. Mainfreight was clear recently in its Special General Meeting, that on a company, not a group basis, the value of Wim Bosman including the purchase guarantee equated to NZ\$223.9m, while the book value of the company was NZ\$338.8m(66%), and it was interesting to note that the CEO mentioned that his overall plan approved by directors was now partly implemented. The value of the group's assets was NZ\$578.2m making the transaction only 38% of the Group. However, the new loan facilities at NZ\$415m (of which \$315 will be drawn) are well over the 50% limit. To add inconsistency, the NZX test for a major transaction is based not on asset values but market cap, and here the assets bought were only 28%. Well done Mainfreight for making this clear in the proposal.

What then is the relationship of this to minority buyout? Here the dissenting shareholder has the right to force the company to buy his shares at the price ruling before the resolution was passed. The shareholder must vote all his shares against the resolution, and give notice to the company within 10 days of the passing of the resolution. There is then a process, allowing the company to contest, purchase or arrange a buyer, arrange for the resolution to be rescinded, and ultimately negotiate the price calling in an arbitrator.

As far as the Mainfreight meeting was concerned, in each of the above cases the law was explained and provision made during the meeting to allow for dissent. This is exactly what we would expect from one of our leading New Zealand issuers.

Alan Best

THE BEACON AND THE GLOB 2011

Howard Zingel has again agreed to coordinate your nominations for the 2011 awards. "Beacon and the Glob awards are really worthwhile events in the NZSA calendar," he says.

The criteria appear on our awards and bear summarising again:

- Leadership in corporate practice
- Bravery in taking a stand on corporate governance
- Ignoring self interest and putting the concerns of all stakeholders to the fore
- Treating small shareholders with the respect due to business owners
- Working within the rules to ensure fair outcomes for stakeholders
- Undertaking such actions that warrant special recognition from shareholders.

That's a pretty wide net to cast!

As for the Glob, you simply take the opposite of these attributes.

In the past we have recognised

- Simon Botherway whose leadership encouraged institutional investors to make their concerns public and vote their shares in favour of good governance
- Brian Gaynor for his clear voice and analysis which have informed and assisted small investors

- Bruce Plested whose example shows how a small team with a powerful ethic and culture can become a global player
- Michael Hill whose leadership in commerce, the arts, sport and his book show how business people can become benefactors in the community

Remember all the past winners have been nominated by members, but there can be only one winner each year. The choice has been a matter of informed debate around the NZSA Board table.

There is a strong element of altruism, zeal, and commitment as well as hard-nosed common sense to these winners. So we urge members to take a hard look at their portfolio, and pick out those who might qualify. Send these, and any supporting information to howardz@xtra.co.nz, or phone 07 5525320.

SIR RON AND SHAREHOLDER ACTIVISM

Members outside Auckland may have missed the sharp exchange between Sir Ron Brierley and Bruce Sheppard over GPG's refusal to hold company meetings in New Zealand or to give New Zealand shareholders an adequate opportunity to question directors. Sir Ron emailed John Hawkins suggesting that NZSA was a collection of "show ponies," and asking that we publish his email on our website. This we refused to do and so he gave it to the press, provoking this stinging reply from Bruce Sheppard.

Good Morning Ron,

It is indeed rare that you use Emails to communicate, and each time you do it is just priceless. Your latest missive which I read in the Herald this morning is astounding. Firstly it shows just how out of touch you are with the evolution that is occurring in the capital markets in which you operate.

In the 60's through to the mid nineties the world was your oyster. The majority of your "owners" by value, were disenfranchised from the process of business, were relentlessly manipulated by boards and major shareholders, and still remained compliant and quiet based on the inherent trust that they had for people like you. From the mid 90's onwards the frailty of board actions and the manifest self-interest that occurred in executive pay arrangements, and self interest transactions and the exploitation of conflicts of interest and the use of insider information began to shake that trust. And it did this the world over.

Initially due to the structure of companies and the fractionated ownership interests, disillusionment set in as there did not seem to be an answer to this entrenched power being exerted over the majority by a very small well paid minority.

Then almost spontaneously, and almost the world over, a few show ponies start to yell and scream, In fact Ron you were present at the birth of what is now the NZSA. You will recall the Tin hat, maybe.

The answer to this impasse was increased shareholder activism. The method had to be ridicule and the relentless use of the media, to increase the sunlight and the transparency of the stupidity, and self interest of the decisions made by boards allegedly in the interests of all owners. The show ponies got more than their 15 minutes of spotlight.

All things take time. Progressively this spotlight gained broader attention and progressively many boards began to evolve to the new environment. Not only did decision making change, so too did the way they communicated those decisions. Progressively minority shareholders began in effect to unionize, and organizations like the ASA and the NZSA started to spring up the world over, all with their own styles and methods, but all with the same collective objective, being the empowering of ownership.

The NZSA mission statement is crisp and succinct in its message and it is a global message of change. "Enabling, protecting and rewarding ownership." And in terms of such bodies world wide, I think it is fair to say the NZSA has been at least as effective if not more than effective than most of the others.

Public outcomes are rare as you well know, while the private outcomes of change in peoples decision making are much harder to measure, but the impact of the NZSA show ponies on corporate NZ has been enormous.

Now to John and the NZSA. Certainly for the last 10 years the style and flavour of the NZSA was a creation of mine. I have now moved on as you may know, and have ensured a well planned and successful succession. I selected John early on for this role as he is distinctly different to me. He is deliberative, thoughtful, and principled. He will be every bit as tough or tougher adversary than I ever was. His style is to work behind the scenes to deliver outcomes, and what has happened at GPG is just that. He no longer needs to use the media as extensively as I did as his pedigree and skills are established. He is an extremely accomplished lobbyist and change merchant, and you can expect the environment for business in NZ to continue to change for the better.

Your choice is to work with this change or face extinction.

Now to GPG. It is a company which you have led, from its very beginning, an organization which is rooted in the past and failed to evolve. You continued the tradition of ignoring your owners, and treating them with disrespect. You continued to use the old methods you deployed at BIL, which ultimately failed as you well know, but I expect you continue to deny, and now GPG has itself failed. You have had forced upon you a new group to effect the dismemberment of all you have established. This is indeed a sad ending for you. I guess your email should be read in this context.

It is interesting that you see this time at GPG as a time of "madness", and it is telling that in this time of "madness" that you turn on Tony Gibbs. He must be asking himself, "what does half a life time of service to you count for?" Tony at least tried to work with the change that was occurring around him. It is also telling that you continue to be resistant to the change that is now upon you, and that you remain disconnected from the environment in which you now operate.

Your extinction now seems certain. Better Ron, to accept it with grace.
Regards,

Bruce Sheppard

COMPANY MEETINGS

THE SEEDS OF DESTRUCTION – PGG WRIGHTSON

Agria Singapore is inching closer to control of PGG Wrightson having extended the 60cent offer from 15th April to 23rd April. Pyne Gould Corporation has locked up its 18% in favour of the bidder, which now controls over 40% of the target. Des Hunt and Alan Best cooperated to produce this commentary.

How did the company fall on bad times? Did it have the right leadership at the top? Was the previous chairman Keith Smith qualified and experienced to lead a rural company?

What risk management was in place to avoid the mistakes made with the New Zealand Farming Systems Uruguay investment? How could the directors and senior management get things so wrong in an industry where New Zealand is a recognised world leader?

Then there was the failed acquisition of Silver Fern Farms. Many more questions need to be answered about why this offer was made without having final confirmation that finance would be available when it went unconditional. Once again, where was the risk management in this transaction? A major concern is that these transactions were going on while the company already had a high level of debt. Its operating results were not too bad, but the cash was squandered by the directors.

Many things do not add up and those responsible who still remain should consider stepping aside when a heartland company like this slips downhill.

Of course, these problems have occasioned massive changes at the top of the company. Keith Smith was replaced as Chair by Sir John Anderson. Craig Norgate and Baird McConnon resigned. George Gould (the former MD of Pyne Gould replaced Sam Maling, who also resigned,) and has now been appointed as Managing Director. Presumably this is a stand-in position until the outcome of the sales process is known. Tim Miles resigned as soon as the restructure of the two divisions, Seeds and Rural Services, was announced. Before him, the General manager of transformation, Jason Dale left, causing the immediate secondment of a PWC partner to assist. The new directors from Agria, Xi Tai and Alan Lai have barely got their feet under the table when they have launched an insiders' bid.

Further, they have declared an interest in disposing of the Finance company which has only just appointed its independent directors, Mike Allen and Noel Bates. It is interesting to note that seasonal finance is fundamental to farm servicing. The finance company is performing reasonably well and currently holds a government guarantee. When Wrightson sold finance to Rabobank on a previous occasion, they had to work hard to reconstruct the activity because their farm servicing business could not provide a complete package without it.

We have serious doubts about whether a change of ownership will benefit the company. When selling a 51% share to just one party, surely there is a risk the other 49% is going to be in a disadvantaged position in the longer term. This is especially worrying when very little detail is being given to shareholders during the negotiating period. What faith can they have in a board of directors making such a recommendation? Those who thought there was some kind of boardroom power play in action which would extract a better price will have been sorely disappointed with the announcement this week that the only other interested party has withdrawn from the bidding process. This makes the assessment of the Agria bid all the more important.

Reading between the lines Messrs Smith, Anderson, and Thomas are equivocal about the transaction, and so are the independent advisors Grant Samuel. Both Fran O'Sullivan and Brian Gaynor have raised some very important issues regarding this proposal which shareholders and other interested parties should read before it goes any further.

We are selling some valuable agricultural intellectual property in this company. Do we want this to go overseas? We could lose a prime asset - an asset developed partly with taxpayer "Primary Growth Partnership" funding, which still has potential on the world scene.

We have been told by three of the directors that Agria will refocus on the core business. We would have thought that if the directors had focussed on the core business and had an active risk management policy in place from day one, the company would not be in the position it is to-day.

In summary, we agree with a number of commentators that this is a key New Zealand asset that should stay under New Zealand control. Surely we have the resources, experience and skill to run an agricultural company like PGG Wrightson? Or is this another case where the old boy club of directors has failed to foster the new breed of young entrepreneurs who can manage with both vision and prudence? Selling a 51% share right now surely can not be the best option for all shareholders.

Des Hunt and Alan Best

RENAISSANCE AGM 1ST MARCH

NZSA proxies 6 totalling 56800 shares.

It was interesting to note, at this 43rd AGM of Renaissance, that 78 million proxy votes in favour of the chair, indicated considerable support for the direction of the company.

Chairman, Colin Giffney explained that the company had completed the first year of a planned 3 year transformation aimed at developing its own intellectual property, focussing on customer needs, and moving away from wholesale distribution. The three main streams were all responding. The Apple agency had produced more sales for less contribution, and Apple had appointed another distributor. American multinationals are often criticised for their high-handed and patronising marketing, and agents now realise they should not wait around for a staff change. The new streams of Natcol and Magnum Mac retail are both growing. The growth of Magnum Mac contrasted with a sales decline in Dick Smith, and JB Hi Fi. The profit forecast of \$1million will occur mainly in the second half. We are holding our breath.

Rick Webb gave an interesting presentation which started with the global trends affecting the business – disintermediation (cutting out the middle man,) cloud computing, corporate down scaling (disintegration,) mobile computing for employees and students with multiple, free, application software.

The introduction of the new brand Yoobee was explained and stimulated both positive and negative comment. It will consolidate progressively the existing minor brand names. The intention to develop scaleable international offering is beginning to take shape, but as yet is not contributing. Investment in mobile servicing 24/7 is showing positive signs of profitability. This company still has a way to go in its recovery programme, and patience will be necessary before a reasonable return is achieved.

The issue of the Christchurch quake, and the challenges it has raised for South Island business hung over the meeting like uncomputed cloud. We joined with all shareholders in remembering the contribution of Director, Murray Wood, who died in the collapse of the CTV Building.

Alan Best

GENEVA FINANCE SGM 31ST MARCH

NZSA became involved with this company when hundreds of debenture holders, facing the complete loss of their investment, accepted the option of becoming shareholders in a listed company. Since that time the debts have been more difficult to collect than

originally planned, (surprise, surprise,) and the capital adequacy requirement has been raised by the Reserve Bank to 8% on property. So further absorption of noteholders as shareholders was proposed in this special meeting.

David O'Connell the MD outlined their plan which is to concentrate on the motor vehicle finance market. This is a good strategy as there are not many companies left, and yet the market is 50,000 per month, and they are doing 200 per month at present. He outlined their lending policies which are sound. If they stick to these they will do clean business. The share issues will put nearly \$5m into equity and satisfy their RB requirements, and reduce their interest bill \$600K pa.

Both the Note holders and Debenture holders voted for the share swop. 79.5% of Note holders carried their motion, and over 92% of Debenture holders, theirs.

Grant Diggle

MAINFREIGHT SGM 23RD MARCH

If it was not already assumed, it was clear when the chairman disclosed that he had 70million proxies in favour of the resolution to buy Wim Bosman Group of the Netherlands for E110m plus an earnout payment of E10m if profit targets are met, that this was to be a supportive meeting. The presentation followed the explanatory memorandum (available on the website,) closely but did emphasise the following points:

- Although a family company Wim Bosman is managed by a large group of professional and committed managers who are multilingual and will benefit the group.
- With 90% of its trade concentrated on Holland and Belgium, it is a springboard for Europe, offering great potential with a profitable base.
- Mainfreight's gearing moves from 17.5% to 48%, but projected cashflows of about \$80m (including \$30m depreciation,) will allow repayment, interest, and dividends.
- The new negotiated bank facilities up to \$415m will allow headroom for further organic expansion, though it is doubtful whether shareholders will want any increase in gearing above the post-acquisition level.

Questions over debt, interest rates (only 4% projected), the apparent geographical gaps in European coverage, clarified the proposal. Challenges over the employment of drivers by Wim Bosman as compared to the owner-driver contractor system in NZ and Australia were flagged, and the no-change branding policy allowing multiple brands explained. The Dutch requirement for local representation on the subsidiary board was claimed as an advantage to the group in achieving continuity of growth in Europe.

Des Hunt asked about the apparently higher gross margin in Wim Bosman as compared to the Mainfreight Group, and followed up in later discussion with Directors. It is caused mainly by the Bosman emphasis on logistics, ie full warehousing services including assembly, rather than Mainfreight's traditional business of freight and forwarding, and provides an additional opportunity for transplanting skills across the Mainfreight Group.

This is the largest acquisition undertaken by Mainfreight, at more than half the book value of assets, (only 28% of market cap,) potentially triggering buyouts for dissenting shareholders, and so before putting the resolution the Chairman sought an indication of dissent from shareholders. There being none the motion was passed unanimously on a show of hands.

Alan Best

AUCKLAND

The subject of the branch meeting of 16th February was **Kiwi Income Property Trust** CEO Chris Gudgeon guided us through an excellent presentation which is available on the KIP website. He began with broad investor motivations of liquidity, risk diversity and lower capital requirements, stimulated by an ageing population's demand for rental cashflows, lower volatility, and professional management.

He outlined the importance of the property investment (US\$555 billion) in the world's capital markets, with USA (US\$272b) and Australia, a surprising second with US\$76b, and New Zealand a higher-than-usual 12th with US\$3b. Chris promoted his own Trust, as NZ's largest listed property vehicle, with Assets of over NZ\$2b, and 73% owned by New Zealanders, although we note that it is managed by Colonial First State, a subsidiary of CBA Australia.

The graph of 5year returns was also interesting, showing Singapore's property sector with total returns of 62%p/a, New Zealand's 9.5%p/a, and Australia's at 40.9%, while KIP's was a comfortable 13.8%p/a, according to Goldman Sachs research.

KIP is obviously attractive to members as its spread of retail investors is 41%, - the balance at 59% being institutional investors.

Chris's explanation of the purchase of Lynnmall was also interesting as it was consistent with strategy, capable of development, showed a 9% yield and was immediately earning accretive. To one question concerning industrial property, Chris claimed that their research showed that retail was superior in return and spread of risk, and therefore they would continue to concentrate expertise in office and retail sectors. Members questions were probing – most concerned with the structure of property trusts. Chris's explanation was that after the '87 crash property trusts like KIP were set up with a more conservative gearing, and more professional management. He also claimed that the predominance of independent directors on KIP's board, with an independent chair meant that unit holders interests were foremost. However many present were conscious of the base fee at .55% of gross assets, the usual performance fees in units which dilute retail investors holdings, plus the disenfranchisement of shareholders at the annual meeting where voting is usually not on the agenda, and the entrenchment of management which appears impervious to challenge. Chris admitted that the structure was not ideal, but with CBA as a cornerstone unit holder, all levels of ownership and management were represented in decision making.

Sealegs visit 9th March

Auckland members were greeted by co-founder David McKee Wright, who had recently resigned as CEO in order to take up newly created position as Global Sales Director. He & sales manager Oceania, Greg Ewen then took our members on a site visit through their 1 year old plant.

While the concept of amphibious vehicles is not new, they started by using proven motor vehicle components & technology but soon found they had to change much to meet the harsher requirements of the marine environment.

The new components of marine grade aluminium are often patented, while the motors and inflatable tubes are out sourced.

The 6.1metre with aluminium D tubes and 7.1 metre amphibians with inflatable tubes have a single front wheel and 2 rear wheels, and have a land speed capability of up to 10 km/hour, but are not licensed for road use.

Several operate successfully around Waiheke Island. SLG foresees sales for sea rescue, and is looking for foreign manufacturing partners. SLG was listed in 1994, and produced a maiden profit in 2010, but has not yet paid a dividend.

Future company Visits:

FBU - Thursday, 19 May 2011, most likely am

Fletcher Building - Penrose wallboard plant. Should Jonathan Ling, CEO & MD of NZ's largest listed company not be available, presentation will be given by CFO.

Visit planned for Wed 6 or Thur 7 July 2011 - to be advised.

AIA - Tuesday, 16 August 2011, 2-4 pm at

Auckland Airport with presentation by CEO Simon Moutter & CFO Simon Robertson

APN - Tue 4 or Wed 6 October 2011

at the NZ Herald - date, venue, time & presenters to be advised

Vector - Tuesday, 6 December 2011 10 am - 12 pm at

Vector "House of the Future" with presentation by CEO Simon Mackenzie

Interested members register for participation by email with UliSperber: uksper@gmail.com
- final visit details will be emailed to registered participants approx. 1 week prior to visit

Uli Sperber

WAIKATO

The opening meeting of the year was addressed by John Williamson from Hellaby holdings. John's power point presentation is available at www.hellabyholdings.co.nz under Investor Centre_Results/Presentations. John was initially appointed to the Hellaby Board as a non – executive Director but has been CEO and MD since 2007. Jon Tanner kindly did the introduction as they had a mutual association with Hockey New Zealand both in playing and executive roles.

In 2007 Hellaby was highly indebted from acquisitions and generous dividend payout. John was critical of the previous regime for their acquisitions lacking clear strategy or vigorous due diligence. BBQ Factory was very value destructive and eventually sold off. The period of high debt coincided with the recession and consequent earnings decline. The survival phase avoided a breakup by tight financial operation and improved operational performance. The now streamlined portfolio is divided into the four divisions of Automotive, Equipment, Packaging and Footwear and run in a hands-on, focussed and competent manner by management and the Board.

Hellaby sees itself as a long term holder of assets with a variable ownership horizon. The portfolio will evolve and will wait for the right acquisitions. With only 26% gearing Hellaby is in good shape and well positioned for the economic recovery.

John answered questions from the floor and stayed on to chat with the members.

A new sound system was trialled at the meeting, which seemed to perform very well and consequently the Branch will purchase it. The committee will be prepared to look at the hire of this equipment to suitable individuals or organisations to offset some of the purchase cost. Please contact a committee member if you are interested in hiring.

Robert Foster

BAY OF PLENTY

Our 2011 year has got off to a brisk start.

The February meeting with about 40 participating hosted a member of Craigs Investment Partners staff who guided a discussion relating to opportunities for the coming year. Evidently it is thought that the year will have several difficulties that will test the skill of even the most seasoned investor. Howard Zingel also laid the ground rules for our "Pick 5" competition that will continue throughout 2011.

March saw the branch visit Newmont Waihi Gold Mine. Forty two participated in a most informative afternoon. Mining is a complex business requiring significant expertise in extracting this precious metal from quartz. The three staff who provided presentations during the afternoon ably demonstrated the capabilities of the company and its activities close to the small town of Waihi. They also spoke about their parent company who is one of the larger world gold producers headquartered in Nevada.

The parent has a turnover of \$9.5 billion US. Net profit of \$2.2 billion, produces 6.5 million ounces of gold at a cost of \$485 an ounce. In contrast the New Zealand operation turnover is NZ\$196 million with a net profit of NZ\$33 million. Newmont-Waihi Gold produces 106,000 ounces at a cost of NZ\$941 an ounce. In addition they produce over 800,000 ounces of silver. All refining and final separation is undertaken by the Perth Mint.

At present the surface Waihi mine ore bodies contain 2.2gms per tone of ore while the underground Favona mine contains 6.2gms per tone of ore.

As would be expected with Newmont Mining there is great emphasis on safety, care for the environment and ensuring the highest standards of water purity are adhered to on the site and any discharges into the Ohinemuri River.

This was a most informative afternoon with many probing questions asked of the presenters.

Tuesday 5th April the combined committees of Bay of Plenty and Waikato will meet together for a luncheon and general discussion.

The 27th May has been chosen for the Bay of Plenty branch AGM. Our guest speaker on this occasion will be Mr Cameron Watson.

The National AGM of the New Zealand Shareholders Association will be held in Tauranga on Saturday 6th August.

The venue will be at Club Mount Maungauai, 45 Kawaka Street .

Planning is well underway for this important occasion.

Allen Smith

WELLINGTON

This year we have a new venue for our monthly branch meetings – the historic Turnbull House on Bowen Street. The venue is working out well and I encourage all Wellington branch members to come along our meetings. Also a big thank you to First NZ Capital, especially Barry Lindsay, who hosted us for many years. It was much appreciated! We have a full programme underway in 2011.

In April Ray Jack, portfolio manager Australasian equities for ANZ National (and branch committee member) will be our guest speaker to talk about the outlook for New Zealand and Australian equity markets in a global context.

In May we have Geoff Davis and David Ware from Teamtalk, in June Gordon MacLeod from Ryman Healthcare and

in July Andrew Dinsdale, Partner Audit at KPMG.

Martin Dowse

CANTERBURY

The next function for Canterbury members will be a talk by Mr Don Elders, CEO of Solid Energy. This has been provisionally set for 7:30 pm on Thursday 12th May at the Fendalton Croquet Club. Mr Elders is a forthright and sometime controversial leader and we expect a stimulating evening. Light refreshments will be provided.

The Canterbury Branch committee plans to be represented at all company AGMs being held in the Christchurch area this year. The first will be that of Cavotec MSL to be held on 28th April. So please ensure that you return your proxy forms nominating NZ Shareholders' Associations for you proxy votes even if you are planning to attend an AGM

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MEMBERS' ISSUES

STATE ASSET SALES

We were delighted to see that John Hawkins' article on Asset Sales in our last issue provoked debate. Warwick Smith felt that we had not dealt adequately with Brian Fallow's contrary arguments in the New Zealand Herald. We cannot do justice to Brian's articles in this short piece, but some of his main points were as follows:

1. Adding big low-risk utilities would not do much for capital development and would not diversify investor choice as we are already top heavy in electricity stocks.

Editor: We do not agree. Conservative investors need more avenues for productive share ownership, or they will simply again flock into finance companies and property development schemes.

2. Floating Government assets would not solve the countries debt problems.

Government debt is forecast to double to 28% of GDP, but total foreign debt, held mainly by Australian Banks, will grow to 90% of GDP by 2015. Because USA and (other) Western PIGS will be seeking monstrous amounts of crown debt over the next few years, our government must reign in spending "the hard way."

Editor: We agree with this point but do not believe it negates the proposition that the large utilities should be partly privatised. Every little restriction of our indebtedness will help.

3. Brian torpedoed the suggestion that cash realised by asset sales could be recycled into assets producing a higher return.

Editor: Maybe, but the economic choice of developing new infrastructure, and leaving the more mature infrastructure to smaller investors (whether in super funds, or individual portfolios,) seems to be in the national interest.

4. Brian is also sceptical that the power utilities themselves would produce higher returns with the scrutiny from new investors. Finally he draws attention to the fundamental problem of "mark to market" valuations which lifts the value of the

power station in the books, and pushes up power prices, the lever for higher returns. Brian calls this the “circularity of measures like return on equity.”

Editor: We say that prices are about competition, supply and demand, and the cost of new sources, and that the valuation of power stations will inevitably be trimmed to fit these factors.

We are sure the debate will continue.

ENTITLEMENTS TO A RIGHTS ISSUE

MS Mathiasen raised a hardy annual. Quoting the AIA prospectus, he asks “why is it that institutional investors are the only ones able to purchase shares over and above their entitlements?” In a prospectus typically we see that eligible retail shareholders cannot apply for more than their entitlement, and then that those entitlements, in the bookbuild not taken up, will automatically be offered to institutional investors.

NZSA has always supported the right of the small shareholder to gain a prorata right to the shares in a share issue. Unfortunately there is nothing in the rules to prohibit companies from making special one-sided offers to their large shareholders, or to a target company in the case of a takeover. Underwriters often come to an informal arrangement with an issuer to “look after” an institution or large investor in the event of a shortfall, and this almost always excludes retail investors. It is difficult to see that a new NZX rule could be introduced without hampering the flexibility of issuers to raise capital. In the issuing company’s defense, it saves costly administration in scaling additional applications and refunding to have the shortfall shares “placed” with a large investor, and remember; this extra admin does fall back ultimately on shareholders.

Nevertheless we have seen many occasions in Australia where, admittedly the capital raisings are larger, of non renounceable offers which allow retail shareholders to apply for more shares than those allocated. In the event of oversubscription, scaling takes only a minute of calculation and the refund cheque is calculated and printed by computer. So it can be done and it is up to shareholders to make their opinion clear on this issue.

OF MERGING EXCHANGES AND HIGH FREQUENCY TRADES

Gary Fitzgibbons sent an interesting article from the Sydney morning Herald which paints a gloomy picture of global trends in the world’s stock exchanges, causing problems amongst investors. He asked for our view.

We cannot summarise the whole article here but the two major trends were (a) mergers of stock exchanges, and (b) short term trading.

(a) Singapore would like to buy out Australia, and Germany would like to buy out London. Will New Zealand be next, and should it?

Let’s look at relative size as measured in \$US. London is 3rd largest at 8% of the world stock market capitalisation, while Germany is 7th at 3%. Obviously Germany thinks it can add value to London, and improve its performance, which means doing a better job for its clients, the listed companies. Singapore at 0.7% likewise thinks it can do better than Australia at over 3%. The mergers would not necessarily be a bad thing. It is essential that the exchanges keep investing in technology, and in my limited experience both London and Australia could do with an injection of expertise. The same thing is happening amongst registries where Computershare has leapt to become a global force by virtue of improved efficiency to both client companies and small investors. New Zealand at 0.06% of world stock market cap, is tiny, only an eighth the size of Norway which has a similar population. I would love to see Singapore or Norway take an interest and inject some new technology, but alas I don’t think we would qualify as a target.

(b) The second part of the article talks of the rise of “non transparent” trading. Of the 3 types the first, transfers between large investors has been taking place for many years. We do find out about them after the event

and take them into account in our purchasing decisions (insider or institutional trades.) The second, internalised trading where a broker matches buyer and seller without bidding on the market, also occurs particularly where a cornerstone shareholder or takeover offer is being negotiated. These are trade sales and become public after the event. They are a normal part of the scene provided the takeover code is observed. The article called these non-transparent trades, “dark pool.”

So we are left with the third, High Frequency trades (HF), where traders hold stocks for a few seconds before selling and taking a very narrow margin. They claim 60% of US trades and 35% of UK trades are involved. This may be true of the number of trades, but in any one company, only a small proportion of the shares would be involved.

“According to the NYSE Factbook, the average holding period for stocks in 1960 was 100 months (eight years). By 1970 it had dropped to 63 months (five years). By 1980 it had dropped to 33 months, by 1990 to 26 months, by 2000 to just 14 months, and in 2010 just six months.” Now, it is even shorter, mainly, we believe, because of the “programmed computer traders.”

The NZSA view is that this is not part of responsible ownership in developing companies, and we do not support it. We don't teach it in our courses or promote it through our branch meetings. The idea of combining "dark pool" (broker's in-house trades) and "HF" trading, doesn't seem likely at present in New Zealand.

Alan Best

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