"The Scrip"
MANY INVESTORS; ONE VOICE
NZSA

December 2011

Happenings

"Things do not happen. Things are made to happen". So said John F Kennedy. Unusually for a politician, he was actually correct. Man did not get airborne by sitting on the ground hoping, and computers did not grow in the vegetable patch. And so it is with companies. They may sometimes seem to be a living, breathing creature, but in reality they are a giant aggregation of people making things happen – sometimes well, and sometimes not. Where is he going with this you ask? Well, it is that time of the year when the NZSA celebrates the doers (and the un-doers) with our Glob and Beacon awards. The Glob is of course given to those we perceive to be the villains of New Zealand business scene. They inevitably have done such a poor job for investors that it has earned them castigation by the NZSA. Regrettably, there have been no shortage of candidates over the years and 2011 is no exception - except that this year our chosen recipient is actually being dealt with by the courts. Now while we applaud the fact that years of pressure have finally woken the authorities to their duty, this has presented us with some difficulties. If we publish the citation and cartoon we have prepared, we risk being held in contempt, as the matter is sub judice. That could land your directors in the same situation as the accused liars and cheats and incompetents who have lost tens or even hundreds of millions of investors hard earned cash – ironic isn't it! Having no wish to join the recipient there, the board has decided to delay this award until such time as there is an outcome, and the person concerned is hopefully and deservedly cast into the Mt Eden Hilton.

The Beacon on the other hand celebrates excellence among our corporate leaders. Mostly they have been high profile. Last year for instance, the charismatic Air New Zealand CEO, Rob Fyfe was chosen. This year is very different. The 2011 award goes to Simon Challies. Simon is Managing Director of Ryman Healthcare and such a team player that few will have ever seen his name in the press. But his early history as an outstanding scholar, first fifteen rugby player and subsequent business achievements mark him out as a very deserving winner. Simon joined Ryman in 1999 at the tender age of 29 and was appointed CEO in October 2003. In 2010 he was made Managing director. During his tenure the company has increased market capitalisation ten-fold, and profits have grown from $6.2m to $100m. This has all been achieved organically – shareholders have not had to contribute extra capital. As a growth story, Ryman is an outstanding example of what is possible.

The recent announcement that the company will make its long anticipated first foray into the Australian market indicates that this story has a long way to run. Very occasionally there is someone not eligible for our Beacon Award whose contribution cannot be ignored. Retiring Minister of Commerce Simon Power is such a person. It is no exaggeration to say that his 3 years in the role have seen more progress than the previous 40. It seems extraordinary that someone dismissed by his political opponents as "a small town lawyer "could have changed the landscape so dramatically in such a short time. Simon himself

has provided the answer. Freely admitting to frustration with life as an opposition member, he said "once you are in office, you have got to do something. That is why having a plan matters." It must have been some plan because he has introduced or had passed 36 pieces of legislation including the formation of the FMA and a complete overhaul of the securities legislation.

More importantly and almost unprecedented for a politician, he consulted widely and in detail with all participants in the capital markets to arrive at solutions that everyone could live with. Your Association was a very important part of this process.

A gauge of his success was that the Bill establishing the FMA was passed unanimously by Parliament. This is probably the first time since MP's "improved" their superannuation scheme that this has happened. Consequently, for the first time in its history, the NZSA Board has resolved to give Simon a special "Merit" award. The cartoon we commissioned to mark this appears in this issue of the Scrip.

"Both of these deserving winners have succeeded because they did not wait for something to happen – they got on with making something happen.

Both of these deserving winners have succeeded because they did not wait for something to happen – they got on with making something happen. Perhaps the current Parliament could learn something from their approach?

Some of you may know that Patrick Flynn will be retiring from the position of National manager this month. Those of you who have interacted with Patrick over the past three years will realise we are losing a true gentleman. The board thanks Patrick for his contribution during his time with us.

Finally, while I know the "PC drones in the Department of Offending No-one" will disapprove, to the hardworking members of the National Board, the Committee members who keep the branches running so successfully, and to all our members who care enough to belong, a very Merry Christmas and my best wishes for a healthy and hopefully, wealthy 2012.

John Hawkins
Chairman

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New Zealand Shareholders Association named in defamation proceedings

The New Zealand Shareholders Association has been named as second defendant in a defamation proceedings issued by Messrs
Hotchins and Watson. The claim relates to media interviews conducted in 2009. The Association does not intend to make further comment on the claim itself as the matter is before the Courts. The Association however will vigorously defend the claim which it sees as completely without merit.

The Composition of a Board

NZSA has since its inception pushed for the inclusion of women on boards of directors. Most companies now accept that women should be included in the governance of companies at least in the same proportion as they are represented in the staff of the company. We are therefore stating the current policy of the Association, after having discussed the issues, and noting what is happening across the Tasman.
The issues raised in this subject are quite complex. For example, should trade union or worker representation be mandatory? Should government, OSH, Maori, or other sector interests be represented? Should there be targets for the number of women on boards? Should there be a predominance of independent directors? The independence of directors from management is an important safeguard to us. However once a director is appointed, we understand that he will bond with the team to aim for better and better results. So far NZSA has rejected prescriptive rules over these matters, and we have rejected the idea that a board should be in any way a representative collection of sectional interests.

We believe that governance is a different function from management, or technology, or working conditions, but that it demands a significant knowledge of these things, as well as financial knowledge. Because the funding, and financial reporting of a business is so important, there has been a tendency for financial expertise to dominate. However we recognise that a primary training in accounting, can be a good basis for the development of industry expertise, marketing, and other dimensions are present in each board. Board diversity in New Zealand has been slow to develop, and many believe that companies should be forced to admit a wider range of races, female directors and technologists.
We expect research to show the movement towards greater diversity is occurring, but in the meantime we do not wish to limit the choice of the most highly skilled and experienced people to our boards.
Alan Best

- The composition of a board should reflect the nature of the business' operations (manufacturing, service, technology, import, export, retail, wholesale, infrastructure, size, complexity, etc) and its strategic priorities.
- Skills, experience and ability remain the essential attributes but clearly board composition would vary from organisation to organisation
- All boards should include genuinely independent directors with the experience and willingness to bring an independent view to bear on all key decisions.
- There must be a regular review of the composition of a board to formally assess the appropriate mix of expertise, experience and independence to meet the organisation's objectives. The results of this review should be published in annual reports.
- NZSA supports voluntary change rather than imposed quotas in matters such as the proportion of women on public company boards. NZSA would expect that by improving board composition in terms of relevant areas of experience and expertise there would be an increase in the percentage of women on public company boards given women's representation in the professions and industries

What is BIWA?

For the past two years NZSA has endorsed the "Awards" made by Christchurch web designer, WIRED, for the "Best Investor Website." (BIWA) Most companies see their website as a means of defining services and product offerings, and promoting a front-door entry to prospective customers, staff, and business partners.

> " Company websites have become the default means of communication with shareholders

However NZSA sees that the website has now become the default means of communication with shareholders. Now that hard copy annual reports are not distributed to shareholders the website is our first port of call. We have been thinking about what should be presented for shareholders and have concluded that all those things which need elaboration should be readily accessible on the website. We need an updated description of business, and trend statements covering at least the past reported five years. Many members would like 10 years.
We need historical files of annual reports, and the powerpoint presentations of chairmen, and CEOs, a historical record of public announcements particularly those made under continuous disclosure to the NZX. The links to NZX, websites of subsidiaries, and important trade associations may also be useful. Statements of governance, practice and the biographies of directors are also important.

“Fletcher Building was judged best web communicator

This year judge, Bruce Russel, Christchurch lecturer in on-line communication, chose Fletcher Building as the best web communicator, and commended Goodman Fielder and Auckland International Airport. We think their example should be followed by many more companies.
Alan Best

Apprentice Directors

For some time NZSA has been concerned at the lack of new directors coming forward. As Oliver Saint has pointed out, with the increasingly onerous legal liabilities the job is not as attractive to well qualified candidates as it once was.
Directors we have consulted have also claimed that to have the “mana” to quiz members of a top management team a new director really needs CEO line management experience. While this can be overstated it is clear that most companies seek experienced directors to fill vacancies.
Then there is the legal problem. Under the NZ Companies Act “director” includes, for the purposes of director’s duties, a person to whom a power or duty has been directly delegated…. with that person’s acquiescence. Such a person participating at a board meeting even though not voting could be deemed a director, and accordingly is bound to exercise the same care and diligence as an experienced director.
NZSA is pleased to see that Lyttleton Port has not let this stand in the way of their Director’s scholarship, whereby a new director is awarded an internship to attend board meetings, and contribute to discussion. We are writing to the Port Company to find out more about this, but we understand that it is an opportunity for both parties to understand each other and to see if a positive future relationship can be built. This year’s award went to the aspiring Ngai Tahu Director, Liz Hirst. If this works we would like to see the pattern extended amongst other companies.
Alan Best

Company Meetings

Sky City Entertainment Group AGM 11th November

Des Hunt and John Hawkins had engaged with the Board over their proposed increase from $950k to $1.3m, and suggested another way to achieve an equitable outcome. That is: they take half the increase now to reflect inflation over the period in line with what most wage and salary earners have received, and the other half in the 2012 year, provided they have achieved an improvement over the 2011 results. This is what we had secured in the case of Auckland International Airport in 2010. Alas, Sky City directors were resolved to take an immediate fee increase, in the face of flat results over several years. The NZSA does not oppose increases in Director Fees, or CEO/Senior Management remuneration per se, provided they are in alignment with returns to shareholders.

“The NZSA does not oppose increases in Director Fees, or CEO/Senior Management remuneration per se, provided they are in alignment with returns to shareholders

The meeting went well until we got to the Non exec Directors Fees. Rod had put up the proxies at the start of the resolutions. The For vote was 90%. Noel Thompson and another member spoke against the increase . As NZSA proxy holder I stuck to the script I had agreed with Des, but added that NZSA believed there should be some alignment between Total Shareholder Return and Directors Fees, and in this case the planets were not in alignment. Rod acknowledged me and told the meeting that he had discussed the matter with NZSA prior to the meeting but he felt that as Chairman and outgoing Chairman he owed a responsibility to the ongoing Directors to correct the current shortfall. So the motion was passed and the fees march on inexorably.”
Grant Diggle

The Warehouse AGM 25th November

Warehouse Group, the biggest retailer on the NZX 50 Index, expects adjusted annual net profit to fall about 8 per cent, to $70m from $76m, reflecting the shorter-term impact of the company's strategic plan and reinvestment program, chairman Graham Evans told the annual shareholders' meeting.
He expects consumer spending in the non-food sector will continue improving over the next 12 months but the extent of any underlying growth remains uncertain, and dependent on Christmas sales.
Evans said Warehouse had failed to grow top line sales and market share in the past two years. "Whilst the economy and competition have made our life more difficult, we have also failed ourselves in the standard of our retail outlets and the quality of our shopping experience," he said. "In fact, we haven't measured up to what is expected of a well-operated discount department store." However he did confirm that the board intends to continue paying 90 per cent of adjusted net profit out in dividends.
Chief executive Mark Powell took over the top role from Ian Morrice on the same day Evans assumed the chair. He said the company plans significant capital investment of about $450 million in modernising and refitting stores over the next three to five years. It is aiming to triple online sales over the next five years and to increase Warehouse store numbers to 93 stores from 86 by 2016 and Warehouse Stationery store numbers from 51 to 60. Non-strategic assets worth between $75 million and $100 million will be sold over the five years.
Questions from the floor.
Ian Morrice stepped down as managing director and group chief executive officer in May 2011 and was to remain as a member of the senior executive until the end of this month. What was or what will be the total amount of the payment including cash and shares he receives on his departure? The Chairman replied there was no redundancy payment and he only received what was in his original contract.
The company has announced a recent capital investment programme of $430 million over the next 5years. In September 2010 the board announced a dividend policy to distribute 90% of adjusted net profit to shareholders. Will the board maintain the 90% dividend policy when the company intends also to spend up to $80M per year for the next 5 years on capital investment and if so how?
It was confirmed the company planned to continue the current policy of paying out 90% of NPAT. Most of the capital expenditure would be covered either from cash flow or the sale of assets.
In 2006 144 team members received remuneration over $100,000 totalling $23 million. In 2011 230 team members received remuneration over $100,000 totalling $43.5 million. NZ Sales totalled $1.72billion in 2006 and $1.66 billion in 2011. We have a team of extremely well paid people who are not performing on any measure.
They claimed there had been some redundancies but there was a need to pay competitive salaries to keep good employees. Last year there were no bonuses paid out and to achieve a bonus this year NPAT would have to increase by a large margin.
Why does the company maintain a listing on the ASX when the daily trading volumes are miniscule and shareholders in Australia own only 3.58% of the company's shares? The chairman confirmed this issue is currently being reviewed.
We supported the resolution to increase the directors' fees subject to the company appointing some new directors. It was asked of Keith Smith would he step down before his next term ends should a suitable replacement come along. Keith replied he had no plans to do so but lets wait and see if he still stays should it be necessary for a director to resign to allow new talent to come on their board.
Des Hunt

Kathmandu AGM 11th November

With a good result and rising share price Kathmandu's 2364 shareholders seem content with the direction of their company. Less than 30 attended the company's AGM in Auckland – up from the number at the AGM in Sydney the year before.
Director Sandra McPhee, who chaired the meeting in the absence of James Strong, and CEO Peter Halkett reported on a strong result across New Zealand and Australia for the year ending July 2011. However, increased VAT charges led to disappointing results in the United Kingdom.
The company's growth strategy is based on a continued store roll out in Australia and New Zealand to lift the current 11 stores to 150. Much of that growth will be in Australia and through the redevelopment of the company's on-line business. Dividends are fully imputated or franked for New Zealand and Australian shareholders.
Peter Halkett observed that there were opportunities in a tough retail environment for vertically integrated companies like Kathmandu. For the current first quarter, same store sales are up 7.6% but the first half-year profit will be entirely dependent on Christmas and January trading. Further out, there is more downside risk and it was difficult to provide specific guidance, but continued growth is planned.
All resolutions were passed without debate. They included the re-election of Mark Todd and Sandra McPhee as directors and an increase in the director's remuneration pool by A$200,000. This increase will provide room for the appointment of a further non-executive director.
Bruce Parkes

EBOS AGM 20th October

Chairman, Rick Christie welcomed the large turnout of shareholders, and acknowledged Mrs Munro, the earliest shareholder in Ebos ancestor, Early Bros. He said that although Ebos operated in two countries with sound banking systems, political stability, and good prospects, conditions are rugged and competitive. Ebos is keen to make acquisitions but does not want to purchase a company because it is cheap and then spend millions over many years to bring it up to scratch. They have looked at a number of companies but none have made the grade. Despite three major earthquakes in the region, major floods in Queensland and NSW, Ebos has not missed a beat, a tribute to Mark Waller and his team.

The announcement that Mark Waller had won the coveted Deloitte Management magazine Executive of the Year award for 2010 was received with applause.

Continuing operations revenue was $1.34 billion, EBITDA 41.1 million, profit for the year of $23.4 million an increase of 18.8% on 2010. Dividends have reflected the company's result with a total of 51.5 cents per share (including a special dividend from the sale of the scientific division), which is a record high.

Mark Waller observed that although Ebos likes to be master of its own destiny, it saw potential in working on public private partnerships with Government. Given the staggering rates of change in China since 1981, with poverty declining from 53%, to 2.5%, there is an equivalent range of high quality medicinal products being produced by China, which is drastically changing the landscape of multinational drug companies. Ageing population is a worldwide phenomenon, demanding extreme customer focus, and new attitudes to recycling and waste. Reposable instruments are saving up to 85% of the initial cost. The health sector situation in Australia is not as coordinated as in New Zealand, where Pharmac has kept drug costs down. Hence US negotiators for the trade agreement with New Zealand are keen to get Pharmac's role constrained.

The Australian version of Pharmac (Pharmaceutical Benefits, PBS) declared that all drugs must drop by 12% by May 2012, however in one case a drug which will cost AUD$1.22 after the discount, currently costs $0.08c in New Zealand! He sees big changes in the Australian health system over the next five years and this will create the ideal platform for Ebos with its efficiencies, refined highly organised systems and low costs.

Mark also predicted changes also in the number of DHB's (currently 20) with fewer duplicated systems such as IT. Ebos is in good shape with no debt.

Question from the NZSA requesting that their voting choices add Proxy Discretion and Abstain were accepted and it was confirmed that these would be included in the 2012 proxy form.

A further question suggested that Ebos should look at using its capital to repurchase their shares. This had been considered but upon reflection it was decided that making a suitable acquisition was preferable for the company and the shareholders. Past successful acquisitions have born this out.

Both Mark Stewart and Peter Kraus who were seeking re-election to the board then spoke to the shareholders to outline their backgrounds and roles they would play; both were re-elected.

Robin Harrison

Telecom Group AGM 26th October

Several hundred shareholders rolled up for this last meeting of Telecom, prior to demerger into Chorus and "new" Telecom. Despite the significance of the event, the mood was positive with little sign of opposition to the proposal.

Chairman Wayne Boyd started by reminding shareholders that the company had significantly increased its cash generation enabling the payment of a special dividend. He then went on to call 2011 a "pivotal" year and described how difficult the demerger strategy had been to plan and implement. He introduced the new Telecom and Chorus board members that would take their place following the demerger and confirmed his earlier announcement that he would be stepping down as soon as the demerger was effected.

CEO Paul Reynolds spoke strongly and at length about the 2011 results and the demerger proposal, although it was obvious he was preaching to the converted on this last issue. He said he was committed to seeing the process through to the point where the new Telecom was bedded in at which point he would step down – probably by mid 2012.

One questioner wanted to know more about forward projections for the two demerged companies and the likely share price after a demerger, but this is disallowed under the current securities regulations. The Chairman could only point them to the sparse and rather unhelpful information in the 535 page official demerger document.

The NZSA made comments on three issues. Firstly, while acknowledging that progress has been made in the last 12 months against a very difficult regulatory environment, we pointed out that this was off a low starting base and investors would expect the momentum to continue via the new companies.

"Many shareholders were concerned that the rewards for executives and directors had not been well aligned to investor returns for some time

Secondly, we noted that many shareholders were concerned that the rewards for executives and directors had not been well aligned to investor returns for some time and would expect to see much closer attention to this going forward. Finally, Wayne Boyd was thanked for his guidance over the last 3 years. There has been a sea change in the attitude and focus of Telecom in that time, for which he deserves a great deal of credit.

The main business of the day was to approve the demerger proposal. This was duly passed in a poll with 98.8% of votes in favour. Murray Horn and Kevin Roberts were both re-elected to the board with 99% and 91% approval respectively.

John Hawkins

Fletcher Building AGM 16th November

Fletcher Building's vital statistics are well covered in the press and on the website and so we will skip to the questions and resolutions of this large meeting.

The news was not encouraging. The forecast from the March quarter which saw the lowest level of housing starts since records began, was confirmed at $350m before abnormals, and a NPAT 10% down on 2011. On the positive side Johnathan Ling, CEO, reported that the Crane Group was integrating well and $20m of savings would result from the closing of their independent head office, as well as increased pipe work from coal seam gas projects.

Laminates. (Formica and Laminex,) now combined under one manager, were operating profitably and a new plant is being developed in China.

Fletcher's EQR section in Christchurch is now working from 19 hubs around the city, and has managed 23000 approved reinstatements and 28000 emergency repairs.

The departure of the CEO of infrastructure has resulted in the splitting of concrete and construction division under separate management. Fletchers is underwriting some of the work of its trade customers, to stimulate construction lagging for lack of insurance, but both Laminex and Steel division are facing depressed trading conditions.

Questions over whether a Christchurch director would be appointed, or whether the Gold Coast Olympics would supply a boost were both answered in the negative.

Des Hunt's question over what level would see a return to normality was related to housing starts, a return to 30,000 pa would see massive profits, but 25000 with the equivalent demand in Australia would yield above average returns.

Ms Van Camp enquired about the lack of due diligence in the purchase of Crane Group, and was given a clear explanation of the difference between a family buyout and hostile takeover. Crane it was pointed out had been assessed every year for the past 10 until the figures were finally acceptable.

Bill Jamieson's question on Total Shareholder Returns (stated to be 14% for the past year) was misunderstood and we were treated to an explanation of the LTI (long term incentive) plan – 50% on PWC's basket of 10 Australian and 6 NZ companies, and 50% on absolute shareholder returns. However, Bill obtained a more precise explanation after the meeting: "the 14% total return to shareholders for the June 2011 year was comprised of 4.36% in dividends, and 9.81% share price appreciation (opening share price $7.85 on 1 July 2010 and $8.62 closing share price on 30 June). Total return was 14.17%." That is all very well, but it ignores the precipitous drop in share price subsequent to balance date.

The resolutions approving the appointment of R Waters, J Ling, and Cecilia Tarrant were passed and the FBU staff share plan modified to admit Californian and other overseas employees was seen to be open and fair to shareholders.

The vexed question of an increase in the directors pool received overwhelming support, even though returns to shareholders (a drop in dividend from 45c in 2006 to 33c) have fallen well below the massive increases in directors' pool from $600,000 in 2006 to a proposed $2m allowing for headroom over the next few years.

Chairman Ralph Waters was well versed in his operating environment and showed that FBU is paying below the market. Nevertheless we wonder if these massive increases will ever stop, or will they simply be driven on by fear of deterioration if we fail to pay at market rates?

After the meeting, Ralph Waters said that although directors fees are reviewed each year Fletchers prefers a significant increase over five years allowing for headroom and new appointments rather than 2 yearly reviews as suggested by NZSA.

He also made the point to Des Hunt that the Australian Shareholders Association was concentrating too hard on the issue of directors pay, and that this was preventing major companies from engaging with it on other and more important issues.

It is important that we keep directors' pay in perspective. That is why the Association criticises when it varies so widely from total shareholder return.

Alan Best

Pyne Gould Corporation AGM 1st November

NZSA Proxies: 1.15m votes from 30 members

This was always going to be a fractious meeting. PGC's performance has been abysmal over the last three years and a clean out of directors and top executives two years ago has yet to produce good results despite the $272m capital raising in 2009. The announcement of a takeover bid for 100% of the company occurred just days before the AGM by director George Kerr and US hedge fund Baker Street, and was described in the media as "low ball" at 33c/share compared with its net tangible Assets of 60c (in their 2011 Annual accounts). There had also been growing criticism of the interlocking directorships between PGC, Heartland NZ and PGW and the perceived lack of "independence" of the two independent directors, Bryan Mogridge and Bruce Irvine. However, prior to this AGM, Bryan Mogridge had resigned from directorships in Heartland and Torchlight, while Bruce Irvine had announced he would seek re-election as a transitional arrangement but be resigning his PGC directorship before the end of February 2012 after the takeover bid had been resolved either way.

Chairman Bryan Mogridge gave a detailed review of the company's progress during the past year including their divestment of Marac to Heartland NZ. He reported that PGC had now received a formal notification of the takeover bid and had just issued a "don't sell" notice to shareholders pending the completion of the "target company statement".

There were a number of questions on the Annual Report and Financial Statements therein, including several from NZSA, directed at the Chairman:

- P25 has a whole page of new standards, which were not met in the 2011 accounts. Can the auditors confirm that these will have little impact on the PGC position in 2012? Yes the auditors can confirm this.
- P26 notes the major problem areas as Portfolio Management $35m loss, and Head office $61m loss. A detailed breakdown was given of these largely past asset losses and indicated that Head Office losses were now expected to drop below $3m
- P55-6 show a large number of inactive subsidiaries which all require directors from the company. Can you confirm that directors receive no remuneration for these subsidiaries apart from the totals disclosed in the Group and approved by shareholders? Are there any plans to reduce the number of these entities? The directors do not receive payment for these subsidiaries and although PGC would like to reduce their number many are required by the Perpetual Trust subsidiary.
- Are there any golden handshakes due for senior executive contracts in PGC? (a la PGW?) No.
- Are you actively developing executive talent in PGC to avoid hiring expensive outsiders? The Chair indicated that Perpetual which forms the bulk of PGC is very active in nurturing their staff with good growth opportunities in prospect. There was a negative interjection from George Kerr asking if we were proposing that PGC should be paying them less!

Shareholder Reese Hart (formerly Chairman of Silver Fern Farms) delivered an eloquent and impassioned speech in which he criticised the board for:

- reneging on its previously stated policy to return surplus funds and shares to shareholders but had invested $16.5m in a 6% stake in Heartland and taken over $14m of debt in EPIC.
- failing to keep shareholders informed.
- not returning shares in Heartland and PGW to shareholders.

Bryan Mogridge responded that in the board's December 2010 report indicated that proceeds from the sale of PGW shares would be used for PGC working capital and equity in Heartland.

Mr Hart criticized George Kerr who many shareholders now considered was looking after his own affairs rather than shareholders' and appeared to have "a callous disregard for shareholders". He asked the Chairman to produce a report for shareholders on the role George Kerr had played leading up to the takeover.

Mr Kerr delivered a lengthy, sometimes rambling, statement covering his family company's involvement for more than a century and his personal substantial financial support in the 2009 capital raising. He noted that he held 14% of PGC and had no dealings with Baker Street until he discovered they had reached 19% ownership, and thought it time to talk. It transpired they had a long-term philosophy which aligned with his own. Their takeover offer would appeal to shareholders not wanting a long wait before dividends nor face future rights issues.

Two of the four directors (Managing Director John Duncan and Bruce Irvine) were up for election. Both addressed the meeting in support of their election and answers questions from the floor, which included questioning the wisdom of the MD being included on the board. There was a call for voting slips to be counted rather than rely on a show of hands. The results subsequently showed both elected but with some 25% voting against.

Robin Harrison

Editor: *The formal takeover offer was received shortly after this AGM and subsequently raised to 37c/share with an extended deadline. The independent Target Company Statement placed the company valuation at between 49c and 57c/share. Prior to the meeting several members raised concerns with us, and we were able to take these up directly with the Chairman, but our thanks go to Christchurch branch for their careful questions and reporting of this meeting.*

Heartland NZ's 1st AGM 28th October

NZSA proxies 27 shareholders with 637,000 votes
Chairman, Bruce Irvine, welcomed everyone to Ashburton, the original home of Canterbury Building Society. He reported in spite of the difficult trading conditions, that Heartland was in an excellent liquidity position with $2.1 billion in assets, $1,86bn of liabilities and $300m funded through equity, The BBB- investment rating has a 1/3 chance of being lowered.

Their diversified portfolio includes home and vehicle loans. 97% of new deposits were either "non-guaranteed" or had due dates beyond the end of 2011 when the government guarantee concludes. "In short, Heartland is in good heart."

Jeff Greenslade, the Managing Director, spoke about the current strategy and ongoing work. On Feb 22nd there were 12 of their workforce in the PGC building and we remembered the four who died that day. He reported that the mergers had gone well, the company was now listed in the top NZX50, and progress is being made on obtaining a banking licence. Jeff spoke about their vision for this "bank" explaining that it is time to take responsibility for our own financial services in NZ, with this locally funded organisation, and as a country, we need to shift away from speculation. The "bank" will stand up for the productive sector, for small businesses and, importantly, the rural sector.

They intend to support the community through their three divisions (business, rural and community), completing the bank registration process and providing acceptable earnings for the shareholders. The company has not been severely impacted by the earthquake, with less than 12 properties in the Christchurch "red zone". Heartland's lending performance has been mixed; with good returns from car loans but impaired by some mortgage lending (some of which were non-core inherited risks).

The year 2012 will be a transition year. The management team has employed experienced people. They recognise the need to improve their margins, lower the cost of funds, get the right balance between the three divisions, maximise efficiencies, and manage down their impairments. The end of the government guarantee will save costs and bank registration will be the most important aim.

Sean Kam, the Chief Financial Officer, reported briefly on the financials. He says they aim to do better. The reinvestment rate is 74%; the impaired loans are down to just 1% of the company business. Carrying the extra liquidity comes as an investment cost to the company. Once the bank registration is completed they intend to maintain liquidity at a safe margin. Everything is going according to plan.

It was reported that Brian Mogridge was not present, having just that day resigned from the board to take effect immediately, and he was not seeking re-election. He believed this decision was made in the best interests of the company following significant criticism about perceived conflict of interests. He felt that the perception overtook reality but did not want the board to be overshadowed. Bruce Irvine recognised there had been objections to his "independent" status but he rejected these objections and feels that, as an independent director, he is well positioned to give his view on the contentious take over offer of PGC.

Robin Harrison of the NZSA said that their reservations about these matters would be put to the AGM of PGC but they would be supporting his re-election to this board.

Bruce Irvine was re-elected.

Some interesting questions were put to the Chairman by shareholders: -

Q. Why was it downgraded to BBB-?

A: Not downgraded, put on negative watch. Standard and Poor's comments focussed on (i) profitability and (ii) assets. The board is hoping for an improvement in the quality of the loans and assets and they are working hard to rectify the negative outlook in the near future.

Q: I am not very enthusiastic about any of the three merger companies, as they have not paid a dividend in the last three years (except for PGC last year).

A: This has been the motivation of the merger and they hope to re-implement dividends post the registration.

Q: I hate banks! Boards are overpaid and they cause recessions around the world. However, having inherited some shares I am depressed by all the negative comments in the press. Why are we not hearing all the good news?

A: Talk to Marta Steeman! (Business Editor of The Press who was attending).

Q: (from NZSA): Do you have any concerns about the new regulations covering non-bank deposit takers?

A: We already meet the required standard.

Q: There has not been much guidance about this year's results. It is difficult times but more information should be given.

A: The latest results will be going to the next board meeting. Continuous disclosure means that if previous guidance has changed then they must be reported.

Q: A shareholder who had business with Marac in Auckland was happy to report that the help given could not have been better and he was very pleased with his dealings there.

Q: from NZSA: There are no women currently on the board of Heartland NZ, although MARAC had women on its board at the time it was absorbed. Would they be considering adding some younger more attractive women board members in the near future?

A: (To laughter from those attending). We shall see!

Pam Hurst & Robin Harrison

Cavalier Corporation AGM 18th November

When Cavalier cancels the dividend after many years of paying 4 monthly on the dot, you know the future is certainly, uncertain. In spite of the acquisition of Radfords and Norman Ellison, and improved results from scouring, Cavalier has experienced a very poor start to the year, and is forecasting a 50% reduction in profit provided that conditions improve in the second half. However unsustainably high wool prices have moved wool carpets well above equivalent synthetic, and forced further action on cost management, capital management, and sales into new market segments. If interest rate cuts in Australia, rebuilding in Christchurch, and more competitive house prices don't do the trick the resumption of dividends early in 2012 is doubtful.

Questions ranged over location of the AGM, plant visits, the fully compliant offer by Zero for small parcels of shares, a staff share scheme modelled on the Fletcher Building scheme, but the suggestion that the scour, Cavalier Wool Holdings, be offered for sale was met with the reminder that it had produced a 20% return on investment, and improved its position in the NZ market. Also the suggestion that Cavalier look to acquire a European manufacturer was rebuffed with the observation that we are experts in the processing of wool; we can process wool and sell it into Europe better than a local plant would.
In the selection of directors and board renewal Alan James reminded shareholders that Cavalier runs a non discriminatory selection process based the mix of skills that serve the company. No sign of the grey haired men opening the ranks there! MD Wayne Chung also answered "Do you foresee a time when wool will not be used in carpets?" with a firm "No." Alan James, Victor Tan and the usual auditors' resolutions were all passed without dissent.
Alan Best

Nuplex AGM 18th October

With a tiered auditorium and agitated audience, Nuplex's 2010 AGM resembled a bear pit. This year, with a changed location and the withdrawal of a motion to increase directors' fees, the meeting was far more relaxed.
Chair Rob Aitken and CEO Emery Severin in their addresses reported increased sales but lower earnings on a high NZ$. They forecast moderate growth in a flat market. European sales have held up mainly because they focus on Northern Europe.
The company has a $75 million capital program planned over the next three years. Because Asia is seen as a growth region, a third factory will be opened in China in 2013 and a research facility set up in Singapore to compliment the one Nuplex has in Holland. Other growth opportunities being investigated are Russia and India; to which they already export.
Growth through acquisition is being funded by bank debt and there is no intention to seek more capital – to this end the Dividend Reinvestment Plan is in abeyance. Shareholders seemed happy with all this - as was the market. Shares inched up after the meeting.
In answer to questions Aitken confirmed that the company sees itself as a NZ company operating in a global environment. The reality is that with the majority of the directors being Australian and the company senior management based in Sydney, the company is being driven from Australia. What shareholders see is franking credits for Australian shareholders but no imputation credits for those in NZ - because NZ sales do not allow it. All directors' fees are paid in Australian dollars to ensure they are treated equitably. Directors' fees will be back on the agenda next year when the resolution will seek smaller but more regular increases.

The re-election of directors Peter Springford and Jeremy Maycock passed without comment. Both spoke to the meeting – Moyock via a video presentation. Of passing interest, 12% of proxies abstained in the voting for Springford and 5% in the voting for Maycock – the difference in the two numbers was transferred to votes against Maycock. Is there an anti Australian bias against Maycock, despite his lengthy NZ work experience?
The fog around director fees is not clearing. Post meeting, one director confided that they had not intended to raise their individual fee. Why then wave a red flag in front of shareholders? Further, director Michael Wynter is retiring and has not been replaced. Is the intention to make an appointment mid year when shareholder attention is elsewhere, or use his tranche of fees to increase those for others?
Responding to NZSA questions, Aitken promised next years report will include a 5 year summary of shareholder returns and director/senior management remuneration; and the investing scheme for senior management is being activated at 50% of performance targets, not the 40% proposed and objected to at the 2010 meeting.
Bruce Parkes

Freightways AGM 27th October

As usual, this was a relatively quiet affair with about 100 shareholders in attendance. The company has continued to do well despite the difficult economic conditions. Chairman Sue Sheldon gave a polished performance including covering the years financial highlights, one of which was adjusted NPAT 7% higher at $31m.

She confirmed the company had suffered little loss in Christchurch (approx $1.5m) with no staff being injured. It is expected that insurance will meet most of this cost.

In his overview, MD Dean Bracewell gave a comprehensive segmental summary of performance. Looking at the longer-term picture, he pointed out that the company had 10 year compound revenue growth of 7% and 10 year compound EBITDA growth of 9%.

The increasing importance of data storage and the completion of pan Australia coverage in this area with the acquisition of Iron Mountain were highlighted. This new bolt-on operation is expected to be EPS positive from year one.

There was great interest in the latest trading update as Freightways is seen as something of a barometer for business activity. Again the company did not disappoint with revenues up 9% and NPAT a stunning 19% over the comparable period last year. This is a record first quarter result for the company.

Mr Bracewell was a more guarded in forecasting the full year, but said he expected a gradual improvement in activity. However a step up in lease cost in the information management division (to add additional capacity) is likely to impact on margins in the short term, however NPAT is set to continue to grow.

"The increase in director's fees was supported by NZSA.

The company sought an increase in director's fees, which the NZSA supported. We pointed out that Freightways had performed consistently well. The current fees were at the low end of the scale and the request was clearly aligned to shareholder returns. The Chair had also discussed this issue with the Association three weeks prior, and fully satisfied our queries at that time.

Retiring directors Roger Corcoran and Sir William Birch were re-elected.

John Hawkins

Marlin Global AGM 4th November

The meeting went by without any real issues being raised by shareholders. Total shareholder return for the year was 25.5% and 6.8% since inception. Total dividend for the year was 8.83 cents. The managers visited some 500 companies in 25 different countries during the financial year. Three of the companies in the portfolio were taken over at prices acceptable to the managers of Marlin. It is the policy of the managers to take some profit when prices on some companies go above what they feel is fair value. This then frees up capital to buy companies, which they believe are under valued.

The last quarter has been difficult for the fund with widespread uncertainty. However it has meant values have dropped, which does offer some buying opportunities. The manager stated many smaller stocks in Asia look very cheap at present.

Ken Applegate gave the example of a recent purchase of Dolby in the USA at an average buy in price of US$28.73 per share.

It was trading in December 2010 at US$67 on a P/E of around 26. It is now trading on a P/E of around 10 with free cash flow of 12%.

The fund in US dollars is unhedged against the NZ dollar whilst it is at these levels. New investments have been made this year with 3 companies in the USA, 3 companies in Europe, 5 companies in Asia and 1 company in Brazil.

The fund is currently holding 17% of its total funds in cash, and the manager is reasonably confident with the investments held.

Des Hunt

Auckland International Airport AGM 27th October

With an increased share price, increased dividend and forecast growth in the year ahead, Auckland International Airport shareholders were in a complacent mood. Chairwoman Joan Withers and CEO Simon Mounter both emphasised their expectation for growth growing forward with a better bottom line result (circa 130 million against 120 million for the past year). As the 'Great Financial Crisis' and extreme natural events continue to dog us, there was the usual caveat "subject to external environmental circumstances".

Directors James Miller, Keith Turner and Sir Henry van der Heyden were re-elected without dissent.

Shareholder question time was congratulatory in tone.   There was time for management to emphasize that the company has three core businesses: aeronautical, property and retail with aeronautical accounting for only 45% of the business. Development of a second runway ranks behind creating domestic terminal capacity to handle the overcrowding that is being experienced in the present outdated facility.

After 27 minutes shareholders were content to file out for refreshments.

Bruce Parkes

Contact Energy AGM 19th October

Chairman, Grant King Announced a change to the directors share scheme. Instead of being issued shares instead of fees, each director will buy at least 20,000 shares within 3 years of appointment.

Underlying (EBITDA) earnings increased by 3% in the 2010 year while after tax earnings of $150.0 million increased by (just) 1%.

Net debt was $1,194.8 million compared with $1,347.1 million in previous period. Late in FY11 Contact raised $351 million via a one-for-nine renounceable Entitlement Offer to strengthen the balance sheet for further investment growth opportunities. The first part of that investment strategy is the 114 megawatts Te Mihi geothermal development near Taupo.

Current term debt comprises (US$330 million) of USA private placements with various maturities. Plus $550 million of fixed rate retail bonds and a further $100 million of fixed rate wholesale bonds which mature in May 2014 and 2017 respectively. Contact also has available additional liquidity of $450 million of which had not been drawn as at 30th June 2011.

The Chairman announced the final dividend for the year of $0.12c/share, giving a total share distribution of $0.23c/share, a reduction of $0.02c/share from the previous year. This distribution represents a payout of 100% of Contact's underlying earnings.

New Projects: During FY11 Contact completed two significant projects. "Stratford peakers" and its associated "Ahuroa gas storage facility" which provide greater flexibility and security of gas supply. These facilities have already had a positive impact by reducing costs during periods of low wholesale spot prices and delivered high earnings during periods of high wholesale spot prices.

New Resource Consents: During FY11 Contact received resource consents for three significant renewable generation developments, comprising two wind farms plus a further geothermal plant.

Management Changes: During FY11 Contact Energy had several changes in top management. Managing Director, David Baldwin resigned and returned to Origin Energy, Mr Baldwin remains a director of Contact Energy.

Mr Dennis Barnes joined Contact Energy as the new CEO. Dennis was also previously employed by Origin Energy. The main points of his report were

Customer's electrical consumption has been flat.

Company employer safety record has been improved

Community relationship with IWI has been a focus.

The new gas storage facility provides increased flexibility plus added profits within their "Take or Pay" gas contracts.

There were three questions from shareholders:

Q: What is the company's projection to "return on equity"

A: by Grant King. To increase it - no figures were given.

Q: Regarding geothermal energy. Does Contact have insurance against land subsidence in their geothermal fields.

A: by Grant King Question was "taken with notice".

Q: On behalf of NZSA:"What is the competitive advantage to shareholders in owning shares in Contact Energy Ltd given the continuing decline in both "Underlying EPS" and "Underlying Return on Total Assets", plus the very considerable sums paid to their parent company Origin Energy and its subsidiaries for management, consultancy and development fees".

A: by Grant King. To the first part: The past period has been a difficult trading time. To the second part: All Contact Energy's fees are vetted by the (independent) directors.

This NZSA Member's personal comments:

Contact Energy's share price remains stubbornly below its resistance line of $6.00 since Jan 2009 and current trends do not offer any encouragement that it will appreciate any time soon.

All but one of Contact Energy's directors are employed by, or have strong links to Origin Energy Ltd.

Impressions from the AGM and considering the composition of the board, plus the level of fees paid to the parent it is clear Contact Energy Ltd is controlled by the parent Origin Energy for their own strategic benefit, small shareholder's interests are a secondary consideration.

Shareholders should consider this view together with the prospect of the governments offerings of other energy companies.

Max Lewis.

Abano AGM 22nd November

39335 proxies held

Despite a gloomy short term forecast, both directors and shareholders were remarkably upbeat at the Abano AGM. Outgoing chairwoman Alison Paterson said that natural disasters (floods and earthquakes) had created tough economic conditions on both sides of the Tasman and caused significant financial and human impacts. These events had directly depressed earnings by about $500,000.

With increased pressure on public health funding, a more restrictive ACC environment and a lack of consumer confidence, ongoing economic headwinds are likely to cut NPAT to $200,000 – 700,000 compared to the $2.2 reported last year.

This drop in NPAT comes despite forecast growth in EBITDA and revenue. EBITDA is expected to be between $11-12 million for the year ending November 30, 2011, up on the $10.3 million reported last financial year.

Revenue is forecast to increase from $86.7 million to $101.5-103.5 million. These growth increases of up to 20% are on track with ABANO's targets of 20% growth each year to make it a leading healthcare investor and operator by 2015. By then, 50% of revenue will be from outside New Zealand.

“Dental is now the primary revenue generator for the Group. ABANO’s emerging audiology networks in Australia and Asia are still in an early development and investment phase and it will take three to four more years before they achieve break even and start providing positive profit contributions.
New IFRS regulations have had and will continue to have a significant impact on reported results as they affect how particular payments, costs and charges related to acquisitions accounted. These are required to be expensed rather than capitalised. These accounting requirements, which are a timing issue, will have a negative impact on reported NPAT. To provide a more accurate picture, ABANO are providing reconciliation statement in their report to provide a more accurate picture
In response to a shareholder question, we were told the company has no currency hedging as currently there is no income coning back to New Zealand from off shore development, (which is being funded by off shore bank loans). Hedging will be reviewed as those investments start providing a positive return.
Directors Danny Chan, Susan Paterson and Ted van Arkel were re-elected without dissent. On behalf of NZSA I thanked Alison for her leadership of the company.
Bruce Parkes

Hellaby Holdings AGM 2nd November

A very satisfied group of around 120 shareholders made the pilgrimage to the Rendezvous this year.
Chairman John Maasland had the happy task of reminding investors that the turnaround plan commenced in 2007 had produced a 49% increase in net profit and a reduction in debt to $24.5m from its peak of $165.6m in December 2007. In addition the total shareholder return for the year was an astonishing 87%.
Mr Maasland left MD John Williamson to deal with the strategy and detailed financials. However he did comment at some length on the company’s long-term incentive scheme (which is modest compared to many). He then went on to the director’s fees increase that was sought. This was partly in recognition of the progress made, but also to allow an addition Australian based appointment if a suitable candidate can be identified. It was clear that the meeting had no problem with either matter given the performance improvements since the board was rejuvenated and Mr Williamson appointed.
For his part the MD impressed as a steady “no frills” leader, and lacked the inflated ego that we sometimes perceive at these meetings. He highlighted the 25% return on funds employed and the $35m of free cash flow generated. The company strategy was described as “Buy, Build, and Harvest.” Mr Williamson said management were now actively pursuing potential acquisitions including a much greater emphasis on Australia. The preferred growth areas are in automotive and packaging with fewer opportunities seen in equipment or footwear. Describing his approach as “patient and selective’, the MD said there was the opportunity now to consider one or two new areas of business, but was at pains to point out that any acquisition must meet strict return criteria.
The company gave a cautious forecast, saying that the NZ economy remained very sluggish. First quarter results were ahead of last year (by an unspecified amount) and Mr Williamson expected the full year profit to increase, but would not be drawn on any amount.
The only question of note related to the company’s use of the same accounting firm for both audit and some other advice. The Chairman replied that changing auditors was expensive and the options limited, which brought the retort that they could change accountants rather than auditors.
The resolutions to re-elect Mr G K Mollard and Mr S J Smith as directors was passed on a show of hands.
The increase in director’s fees also passed unanimously on a show of hands.
John Hawkins

Tourism Holdings AGM 22nd November

Chairman, Keith Smith said they will exceed forecast in the first half, but be under in the second, and will make budget for the year. He said 2013 will be an improvement on 2012. Most of the loss was a goodwill write-off, and so non-cash. They don’t anticipate any more goodwill writeoffs.
2012 EBIT forecast: $17.2M. NPAT forecast: $5.9M. Dividend: 2cents for the first half (pity the poor shareholders!)
Keith spoke about the partial takeover by John Grace. He said all parties were comfortable with the result. Gerry Ryan has taken just over 10%. They have applied for exemption from the related party rules as his company supplies THL with chassis in Australia. The Remuneration Committee has done a 360 review of the board as per IOD guidelines, and the results are encouraging.
Grant Webster spoke about the Road Bear acquisition in the USA and said there had been no surprises post acquisition. This company is performing well, up 25% on last year. Grant said they will be concentrating on increasing new and near new sales of camper vans and lowering the build costs. CI Munro is now called Motek. They have the contract for St John’s Ambulances and some other specialist vans as well. He said when Katy Perry visited the black water rafting, she tweeted 7 million fans and bookings were up 50% the following month. They have launched a new website and are also pushing social media for younger customers.
Daniel Schneider the former owner of Road Bear and now President and CEO (don’t you love the American job titles) explained the Road Bear operation in some detail . It looks a good acquisition from the detail he provided.
Grant Diggle

Michael Hill International AGM 4th November

The chairman started the meeting with a detailed introduction of his colleagues on the Board. Also provided was advice that 187 proxies had been received covering 272 million shares.
The Association received proxies from 27 shareholders for around 600,000 shares.
"It should be a standard practice for every shareholder to complete a proxy as soon as it is received whether or not attendance is contemplated.
I find this number of proxies received (out of 3,494 shareholders) extremely disappointing and I believe our Association and its members should become aware that, these days, a right, if not used, can be withdrawn by legislation without much difficulty. Politicians with their propensity for new legislation are always keen to find and eliminate rules that are not used.
Forwarding a proxy DOES NOT mean that you cannot attend a meeting. Simply go to the Registrars desk on arrival at the AGM venue and advise you have sent in your proxy and now wish to use your vote in person. The Registrar will do whatever is necessary.
The meeting that followed was somewhat messy in that the chairman refrained from seeking questions from shareholders following his address and that of the CEO.
What should have been a series of congratulatory remarks of appreciation for providing shareholders with a superb effort in difficult times turned rather flat when the audience was overlooked.
Some interesting comments were made during the meeting.
Mr Parsell, the CEO, advised that 60% of goods sold represented diamond products. The company was the largest manufacturer of diamonds in Australia. A feature of recent trading was the significance of large jewellery sales and the recent introduction of a Professional Care Plan, which, it is hoped, will develop into a complementary feature of the jewellery business.
Oliver Saint

Editor: T*he Chairman completely lost his way in this meeting, and this does raise an important issue. The job of a chairman is not only to chair the AGM, though this may be an indicator of the need for change. Michael Hill is still an undoubted leader in his company, and a key motivator of both staff and investors. This company could not be as successful if it were to become a bureaucracy of good governance without its significant flag bearer.*

Port of Tauranga AGM 27th October

Port of Tauranga has an enviable record, aided by a history of very good chairmen and directors. More growth is predicted for the current year. The management model of the company may be unusual in that the top management team attend the directors meetings. Environment BOP has a 54.96% holding in the company and keeps a watching brief, but lets the team get on with the management. The grounding of the Rena is a reminder that problems do crop up from unexpected quarters, but despite a good deal of comment to the contrary POT had extensive risk management programmes in place. As the Chairman said," risk management is taken seriously by this company".
From Mark Cairns, CEO, about the Rena. "Our risk profile is regularly reviewed by Management and Board. It will always be difficult to demonstrate to the general public that adequate procedures are in place to handle low likelihood, high consequence risks such as this grounding."
Information from the address to shareholders by Mark Cairns, CEO
Year to 30 June 2011:
Container volumes increased 15%. Container volumes railed from MetroPort Auckland increases 20% .As the role of being a national hub port continues to grow transhipment volume increased by 52%
Other imports and exports also increased, but kiwifruit volumes will decrease this year.
The port continues to be the most productive in Australasia and achieved global upper decile crane productivity.
For the future:
Further development of twin lifting operations with twin lifting straddle carriers and a new container crane.
Expecting 186 additional ship visits this year. Two of these services will call only at POT.
Capital expenditure over the next few years to cater for growth and larger vessels. Resource consent is being sought to widen and deepen the harbour to accommodate ships up to 14.5 metres draught at low water, with an overall length of 347 metres. Allowing ships of 8000 twenty foot equivalent units (TEUs) to use the port.
A further 170 metres will be added to the wharves for a total of 770 metres.
Trading for the quarter to 30 September
Compared with the same period last year total trade is up 13%, container volume up 11% and Group Earnings After Tax up 16%.
Provided there are no significant market changes the expectation for full year earnings is between $64 and $67 million

Kerry Drumm and Howard Zingel

Skellerup AGM

Chairman Selwyn Cushing, opened this 10th AGM, by advising that the board held proxies for over 90% of the voting power in favour of all resolutions. He reported on the transformation from an agglomeration of subsidiaries with little organic growth into 2 specialised divisions both niche marketing into international markets, from which 75% of revenues were generated outside New Zealand, but staffed by 700 people of which 300 lived in New Zealand.

CEO David Mair described the Skellerup organisational strategy as

- better for manufacturing customers who demanded higher speed response in product development to make quick sales gains,
- simpler for staff who were moving from monthly forecasts to weekly forecasts and more frequent orders,
- clearer low cost deliveries using Chinese and Vietnamese facilities as a block to competitors.

Wayne Macauley explained how his dairy industry marketers integrated the activities of chemists, design engineers, CAD-CAM technicians, and tool makers to keep over 100 moulders for dairy liners busy. Questions on the report ranged over the exchange rate (neutral effect,) and potential for expansion once debt had been paid down using cash flows of over $25m pa after organic growth.

NZSA welcomed the resolution to appoint Ian Parton with his engineering background, as a director.

Speaking about the proposed increase in directors fees, John Hawkins pointed out that although much had been made of the 140% total shareholder return this off a very low base and the share price today was very similar to what it had been 6 years ago. He also suggested that that while mention had been made of a consultants review this was not named or summarised. Nevertheless, by the narrowest of margins, NZSA decided to vote its proxies in favour of the increase, which was in step with improved performance by this company.

The Chairman handed over discussion of the CEO long term incentive scheme to remuneration consultant, Peter Simmons, an interesting move that backstaged himself as chair of the remuneration committee.

NZSA questioned the scheme which did not seem to give Mr Mair any incentive to increase shareholder returns above the rate of inflation. While it bound the CEO more closely to the company with shares issued at the money, and exercisable 4 years after issue, it meant issuing shares instead of buying them on market, was not benchmarked with any other index, and there were no hurdles related to total shareholder returns, and the shares would lapse in the event of a fall in price.

Peter Simmons said there were no perfect LTIs. We agree but it would be nice to see some real targets instead of soft additions to the pay packet. It would also be good to see a scheme which included several other ranks of employee.

Further questions concerned the Christchurch site which is damaged but in operation, and leasehold awaiting action by the property owner.

This was the most successful performer on the NZX last year, but it is still a recovery situation and shareholders are hoping for further growth.

Alan Best

Vector AGM 28th October

While the Maui Gas pipeline break had no material financial impact on Vector's bottom line, repair activity was the major talking point at the AGM. A video from the scene gave shareholders an appreciation of the engineering challenge being faced and confidence that repairs were being handled effectively.

Chairman, Michael Stiassny, was quick to point out that installing another line to provide redundancy against further outages was an expensive option for a field with a limited life expectancy, and no one would do that unless they could recover their costs.

Both Mr Stiassny and CEO Simon MacKenzie in their presentations made confident predictions for growth. Although gas consumption is flat, electricity consumption is growing. The down side is that 62% of revenue is regulated. Vector is currently taking legal action against the Commerce Commission to gain regulatory certainty in the sector. Legal costs of $17 million have been incurred to date.

On a positive note, following NZSA comments at the last AGM, key financial data has been summarised in the annual report in an easily understood form.

Openly declaring his backing by 75% major shareholder (AECT) Mr Stiassny runs his meetings with imperial certainty. However, shareholders were stirred into life when he moved the reappointment of retiring directors Hugh Fletcher, James Carmichael and Karen Sherry without inviting them to speak. In the end, Mr Fletcher spoke eloquently and in doing so said that there is a swing in Australia against directors speaking in support of their bid for election.

Mr Carmichael grudgingly offered a few words; Ms Sherry did not speak. I found this a little surprising as the last two are elected trustees on the AECT and presumably will be canvassing us for our votes in the future.

General question time identified that some shareholders have not grasped that Vector is a lines company and not an electricity retail supplier. Although Vector is keeping its increase in charges to, or below, CPI increases; Transpower and electricity generators are not. We must expect an increase in the cost of our electricity.

Bruce Parkes

NZ Windfarms AGM 22nd November

NZSA Proxies 188,903

With a trading price of just under 15 cents NZ Windfarms is an ugly duckling in the eyes of the market. However, chairman Wyatt Creech and CEO Chris Sadler had some positive news for shareholders at the company's AGM. Mr Creech noted that the Te Rere Hau Windfarm project was now completed and all 97 turbines are in operation and generating electricity into the national grid. The company has no debt and is in a position to begin generating positive cash flows. A dividend may be possible in 2012.

With uncertainty over the continued viability of Windflow Technology Limited, the company has acquired TRH Services (TSL) from Windflow to ensure the continued smooth operation and maintenance of the wind farm. Windfarm has also asked Goldman Sachs to advise on strategies to maximise the value of the company.

On the down side, the company has lost its offices inside the Christchurch CBD red zone and is looking to relocate to Palmerston North. Being completely weather dependant with no storage capacity the revenues of wind farms are always going to be volatile. For the past year, operating cash flows have been depressed by too little wind to power the wind turbines and too much water in the dams of hydro generators. The result: low generation and low price.

The company also has a hearing in the Environment Court in December over noise levels in part of the wind farm. A decision is expected in the first quarter of 2012. The company is confident of a successful outcome.

Directors Wyatt Creech and Derek Walker were re-elected without comment. A resolution by shareholder Paul Pratchett for the Windfarm board to approach Windflow to discuss a merger was given a fair hearing. The mood of shareholders present and the votes cast were not in favour. A number of shareholders spoke questioning the technology of the wind turbines and suggesting alternative systems. Given that the farm has been completed and he units have a 20year plus life cycle, this was akin to tilting at windmills.

Bruce Parkes

Sky Television AGM 20th October

The only items on the agenda were Appointment of Auditors and re-election of Directors Humphrey Rolleston and John Waller.

The accounts to 30 June 2011 were not formally presented, but Chairman Peter Macourt and CEO John Fellet both spoke to them. The year had been successful, with revenues increasing by 7.4% and profit after tax increasing from $103m to $120m. Main reasons were an increase in subscribers to 829,000; a swing from satellite receivers to MySky, which increased by a massive 47%; a slight recovery in advertising revenue; and a churn rate holding steady at about 1% per month.

Dividends for the year were increased to 18 cents per share, with a one-off special dividend of 25 cents also being declared.

Forecasts for the 2011/12 year were an increase in subscribers of 30,000, continuing growth in MySky, EBITDA of $335m to $340M (2011 $322m) and net profit after tax of $120 to $125m (2011 $120m). The company thus predicts a flat result for 2012, although it has a reputation for exceeding its forecasts.

Questions from the floor covered a request to include inclusion of earning per share and dividends per share in the 5-year summary of results, which the company undertook to do in future.

The disappearance of Jon Stewart's Daily Show from the Comedy Central channel was ascribed to excess costs, despite its obvious quality. The supplementary dividends to overseas shareholders were offset by a credit to the company's tax liability, and major donations comprised sums to Starship Hospital, the Olympic and Commonwealth Games Committee and the Christchurch Earthquake relief fund.

The formal resolutions on the agenda were passed without comment.

The experience with MySky shows the continuing need for Sky TV to respond to new technology. Among these is the rollout of fibre-based Ultra Fast Broadband in the next few years. CEO Fellet covers this in the Annual Report regarding it as an opportunity rather than a threat; similar to the many changes the company has successfully negotiated over the years.

Bill Jamieson

Caught on the Net

Australian Banks got US Fed bail out

Throughout the Great Financial Crisis and beyond we have been reassured that our (Australian) banks were different. They had been prudent, were not over exposed and safe from collapse. Perhaps they were in worse shape than we were led to believe. Money Morning has reported that NAB and Westpac borrowed USD$4.5billion and USD$1.09billion respectively from the US Federal Reserve during 2008 and 2009, at least some of it at an interest rate of 0.6%. At the same time NAB went to the Australian Stock Market to raise $3billion to bolster its capital.

www.moneymorning.com.au/20101203/nab-and-westpacs-secret-bailout-revealed.html

A special trick to help identify dodgy stats

Using Benford's law, forensic statisticians can spot suspicious patterns in raw numbers and estimate the chances figures have been tampered with. While numbers give many of us a headache, there are times when we need a tool to help us

check out those presented to us. Ben Goldacre from the Guardian explains more at
www.guardian.co.uk/commentisfree/2011/sep/16/bad-science-dodgy-stats

Farmers dump snakes in tax office

Two farmers fed up with alleged bribery demands emptied three bags filled with slithering snakes in a busy tax office in Basti, about 300 kilometers southeast of Lucknow, India.

The 40 or so snakes of different sizes and species — including at least four deadly cobras — sent clerks and villagers climbing atop tables and scurrying out the door to escape the office

No one was bitten or injured in the incident and police and forest officials captured the snakes.

http://news.yahoo.com/indian-farmers-dump-bags-snakes-tax-office-090559886.html

Eating fish reduces risk of Alzheimer's disease

People who eat baked or broiled (but not fried) fish on a weekly basis may be improving their brain health and reducing their risk of developing mild cognitive impairment (MCI) and Alzheimer's disease, according to a study presented at the annual meeting of the Radiological Society of North America (RSNA).
http://medicalxpress.com/news/2011-11-fish-alzheimer-disease.html

Energy efficiency doesn't work

The word efficiency carries a meaning immersed in all things positive – you never hear that being more efficient could possibly be detrimental. Yet way back in 1865 William Jeavons observed that greater efficiency led to greater consumption (in coal). Cameron Murray discusses Jeavons Paradox in a non-technical Macrobusiness article on the carbon economy debate.
www.macrobusiness.com.au/2011/10/energy-efficiency-doesnt-work/

Australia has Baumol's disease

Why does the wage of a musician in a string quartet rise over time as roughly the same pace as wages in other areas of the economy, despite the lack of productivity gains in the performance of music? In the 1960s William J Baumol thought he had the answer. His insight, known as Baumol's cost disease, is fundamental to understanding changes in the economy over time. You won't find Baumol's ideas in an introductory economics textbook. Macrobusiness fills the blank
www.macrobusiness.com.au/2011/09/australia-has-baumols-disease/

Gamers solve AIDS puzzle where scientists fail

Using an on line game called Foldit, which allows players to collaborate and compete, online gamers successfully deciphered the structure of an AIDS like retrovirus enzyme in just three weeks after being called in by biochemists who had struggled with the problem for a decade. The researchers say their results indicate the potential for integrating on line video games into real world science. Economic science could do with some help.
www.tgdaily.com/general-sciences-features/58533-gamers-solve-aids-puzzle-where-scientists-fail

What is your Donor Giving Style?

Most of us give to a diverse range of not for profit organisations seeking funding for their stated purposes. Rockefeller Philanthropy Advisors believe it is most important that donors discover the giving style that best reflects their values, respects their wishes, and inspires continued giving. They offer a thoughtful short guide at
http://www.rockpa.org/page.aspx?pid=431

Bruce Parkes

Branch Reports

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AUCKLAND

Branch meeting dates for 2012 are on the following Wednesdays:
15/02/12,
18/04/12,
20/06/12,
19/09/12,
21/11/12.

Dates for company visits haven't yet been finalised, but will be soon. Only the February meeting is finalised so far with presentations by Infratil and Carmel Fisher organised. Others being considered for meetings during the year include TradeMe, Summerset Group, Xero, Chorus and Telecom and the soon-to-be listed SOEs depending upon the order in which they are listed and the timing of that listing Also sometime during the middle of the year Auckland will be the venue for the NZSA National Conference.

Andrew Reding

BAY OF PLENTY

Over the past two months our activities have continued to keep our Bay of Plenty Committee on its toes as 2011 draws to an end.

During October the branch had a visit from Craig Gibbs Manager of Investment Services at Trustees and Executors Ltd, Wellington. He discussed the vexed topic for some relating to Asset Allocation within a portfolio. The important aspect with investing is to have a set of written goals that endeavour to chart your future course of action. Craig indicated that all serious investors had varying ideas and attitudes toward asset allocation. He stressed the need to review one portfolio at least once a year, don't just sit there and be one of these passive investors. Most investors have a favourite stock and are on occasions reluctant to make the difficult decision to sell. Craig's was a thought provoking delivery with many interesting ideas for our members to digest.

On Thursday 1st December Australian Foundation Investment Company visited Tauranga to provide their biennial briefing to their shareholders and members of the BOP branch. The company, lead by Ross Barker, Managing Director, and Geoff Driver, Manager Investor Relations provided a comprehensive review to the 120 attendees.

They stressed that these were quite difficult times but stressed that they are long term investors. The company continues to position its self in the belief that times will eventually be reversed. Several examples of their present activity were provided

1. Continue to invest in quality stock.
2. Ensure that debt levels are reduced / reducing.
3. The company has a good cash flow.

Their top 25 stocks were discussed in greater detail by sector. These 25 stocks make up 82% of their portfolio.

Mining – BHP, Rio Tinto - account for 16.7% of their total portfolio

The top four banks – CBA, Westpac, NAB, ANZ - account for 26.8% of their total portfolio

Energy sector – Woodside, Origin, Santos, Oil Search, AGL - make up 9.3% of their total portfolio.

Retail Sector – Westfarmers, Woolworths account for 9.2% of their total portfolio.

Comments made about their recent reporting season indicated Balance sheets continued to strengthen.

a. Dividend were slightly ahead of expectations – payout ratios increased
b. Margins were maintained
c. There was a continuing demand for resources.

However there are issues on the horizon.

a. Increasing cost pressures on capital items and wages.
b. Industrial relations climate making it difficult to achieve productivity gains.
c. The high Australian dollar is having a negative impact on business.
d. Economic conditions very patchy outside the resource sector.
e. Many are wishing to shed labour to reduce costs.

This was an excellent presentation with a good commentary on the present Australian investing scene. Their graphics were first class.

Our annual Christmas function was held on Friday night 2nd December at Daniels in the Park. Fifty eight attended for a night of light hearted activity. Our visiting speaker was Mr. Keith Woodley Manager of the Miranda Shorebird Centre on the Firth of Thames. Keith is an authourity on and an author of a book dealing with the habits of Godwit migratory flights to and from New Zealand. His lecture was well illustrated and provided a brief history relating to the proof that these amazing birds do fly each year a round trip of some 29,000kms from Alaska to Miranda – a one way trip taking about 7 – 10 days. Actual proof was finally gained with the famous bird E7 who was tracked by satellite on this historic and epic trip just a year or two ago.

There was a presentation of The Pick 5 Awards for those who entered the competition to show their prowess in choosing five New Zealand listed stocks at the commencement of the year and have them tracked until just prior to our Christmas function. The winner was Mrs Marjorie Anderson who managed a respectable 23% gain during the year. Second place went to Ted McDonald with 17%. However it must be said while their efforts were commendable the vast majority traded this mythical activity in negative territory with figures showing a maximum 28% loss.

The BOP branch has had a busy and productive year. We wish you all an enjoyable festive season and superior investing results in 2012.

Allen Smith

WAIKATO

Our September meeting was presented by the CEO & CFO of Methven outlining the company's performance & aspirations for the future, with great enthusiasm, as a premier shower and tap producer to the world. - An interesting look at plumbing production.

In October we had our Website Evening when six people explained a particular financial web site they used and why. They were:

Ross Flett - craigsip.com,
Kane Ongley - morningstar.com.au,
John Davies - asbsecurities.co.nz,
Helen Glyde - sharesight.co. nz.,
Joe Carson - ft.com/home/uk.
Martin Watson -afr.com.au

A highly successful evening where we all learned something. Martin Watson was the instigator of the event and handed round a printout of 39 financial websites for us to look at!

Programme for the first part of 2012:

28/2/12 Mark Lister, Craigs Investment Partners.

27/3/12 Ross George, Direct Capital.

17/4/12 John Dakon, Goodman Property Trust.

22/5/12 Gen X/Gen Y investment strategies and approaches.

Roger Jennings

WELLINGTON

For our last branch meeting of 2011 we went to Times Cinema in Lyall Bay for our traditional end of year function. First up was a selection of historical advertisements and cartoons – as always very entertaining. Thank you to John and Margaret who run Times Cinema.

The main feature for the evening was the 2010 Matt Damon narrated documentary on the GFC – Inside Job. It is sad to believe it is a documentary. The US government appears to be a puppet of the large financial institutions in America. The institutions themselves are considered too big to fail so the taxpayer will always bail them out.

Their clients lose, the taxpayer loses, mortgage holders and homeowners lose - everyone loses except the people responsible, those that run the institutions. They keep getting paid and the bonuses keep rolling.

It does reinforce to me that as investors we can't afford to outsource our investment decisions. We must educate ourselves and make our own decisions, at least that way if we lose money it is our fault only, and we had a bit of fun along the way. In actual fact individual investors who do their homework are much more likely to be successful than someone who lets a fund managers to look after their money.

As individual investors we have real advantages, we usually keep it simple, we can invest in what we like, we can be 100% shares or 100% cash, we can hold for as long as we like, and the only fees we have to worry about are those minor fees we incur when we execute a trade.

Don't under estimate the layers of fees you are paying when you outsource your investments, the fees you see are just the tip of the iceberg. A lot of professionally managed investments end up in funds of funds of funds, each fund with its own fees – and yes there will probably be some PIE's in the mix too.

For 2012 we will run our usual programme of ten branch meetings, plus the odd company visit with the emphasis on DIY investor education and getting to know our local companies. Meeting will be held at Turnbull House on the Terrace on the second Tuesday of each month (February to October) from 7:30pm to 9:30pm. The final meeting for the year will be the November meeting at Times Cinema where we hope to watch an uplifting film for a change.

All the best for Christmas. I look forward to seeing some of you at our next branch meeting in February 2011.

Martin Dowse

CANTERBURY

Members of the Branch committee have been busy attending company General Meetings: Solid Energy, EBOS, Lyttelton Port, Pyne Gould Corp, PGG Wrightson and Heartland NZ. We acted as proxy holders at the meetings of the listed companies and reports on all the meetings are given elsewhere in the Scrip.

We held a meeting for our Branch members on 17th November where Glenn Boyle, Professor of Finance at the University of Canterbury, gave a talk presenting results from his recent research on the Evolution of NZ Company Boards. This was a lively meeting with lots of questions from members and some fascinating statistics on the changing composition of company boards since 1995. It was an enjoyable and informative evening concluding with our usual tempting refreshments.

Our Branch Newsletter is now established as a regular feature thanks to Tim Kerr its editor. We distribute this newsletter to our members by email. Member's contributions are most welcome.

Our next and final meeting of the year will be our traditional Christmas function on Thursday, 8th December at 7:30pm in the Fendalton Croquet Club. It will be a fun quiz night with prizes and seasonal refreshments. All members and their partners are welcome.

Robin Harrison

Members' Issues

1. AN UNWELCOME SURPRISE FOR DIRECTORS.

Our admin chief, Chris Curlett has highlighted a couple of interesting side shows to the current proceedings involving Bridgecorp.

The first is the liability of a family trust for the legal costs of an insolvent defendant. This goes right back to the original structure and intent of a family trust, and many in our land are deficient. The settler, the trustees and the beneficiaries should be independent of each other, or at least contain the elements of independence. In the Petrecvic case, the settler, Rod was also a trustee together with his wife, and his wife was the chief beneficiary. It was all too close for the judge, who could see that Rod was indirectly but clearly a beneficiary of the trust, and so he did have access to sufficient funds (for the meantime) without the need for legal aid.

So maybe members should check on the structure and intent of their family trusts, or maybe it would be better to keep out of trouble in the first place.

The second issue was an unwelcome surprise for company directors. On the collapse of Bridgecorp the receivers asserted a charge over the proceeds of the Directors and Officers (D&O) insurance liability policy.

The company owed $450m, and the statutory liability policy was for the usual $2m, and when the directors sought to apply the D&O cover to defend criminal and civil proceedings the court upheld that the prior claim of the receivers. So we now expect an increasing trend to higher insurance cover for directors and an attempt to ring fence that cover to legal defenses of actions against directors. It would then be outside the claims of a receiver or liquidator.

Watch the Bridgecorp action because we are sure there is more to come.

2. HOW EVIL IS INFLATION?

We are accustomed in New Zealand since the Muldoon era to regard inflation as the major economic evil, to be fought by the heavy hand of central bank interest rates at a high cost. As a marketing manger in the 1970s having to increase prices continuously, I was a strong supporter of this battle. However it is interesting to reflect on the recent landslide election victory of Christina Fernandez de Kirchner credited with halving the income gap between rich and poor in Argentina.

By contrast with USA and Europe, Christina's government boosted wages, and kept private spending and jobs alive. The success was at the ballot box; the cost of course was inflation – 20-25%, and the problem is how to apply the brakes. In her second term she is hoping to get inflation back to ….15-20%! Which would you tire of first – increasing your prices every month, or paying the unemployment benefit? For the moment Christina says: "Get wages up, maintain equal opportunity, keep the economy moving, and sort the rest out later."

Another story to keep your eye on.

New Zealand Shareholders Association Inc.

NZSA

Many Investors, One Voice

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