"The Scrip"
The official newsletter of the New Zealand Shareholders' Association Incorporated

June 2008

NOTICE OF ANNUAL GENERAL MEETING

Notice is given of the Annual General Meeting of The New Zealand Shareholders' Association to be held on the 12th of September 2008. This will be preceded with a General Meeting of the Auckland Branch.

The Annual General Meeting will be held in Auckland and the Agenda, Annual Report and Accounts will be sent out nearer the meeting time.

Notices of Motion and Nominations to the Board must be received by the Secretary (Chris Curlett, PO Box 42-139, Orakei, Auckland) 60 days before the AGM. If nomination forms or other information are required, please contact Chris Curlett at chris.curlett@xtra.co.nz

GREENFINGERS OR LEAF FALL

Dorchester is the latest finance company to look like it might be in difficulty, impaired assets and investors asking for their money back. An industry-wide phenomenon, and easy therefore for the board to blame market conditions for their demise. But as I said in an earlier article, good managers make their own luck, bad managers take the market. Dorchester's board and management over the last three years have fallen into the later category, and the result is a significant destruction in value for shareholders.

The root of this company's steady fall from grace goes back some time, and it is worth pulling together the litany, from the board and major shareholder Green, who until recently many regarded as having green fingers,- everything he touched, grew.

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It all started when King the CEO for nearly two decades decide to sell down his shareholding, by selling to an alleged competitor Bridgecorp 20% of the company at over $4 per share when the market price was around $3 per share.

The board then had to deal with a major new shareholder, who they regarded as a competitor. At the time Bridgecorp obtained its funding from financial planners and Dorchester obtained its funding direct from investors, no competition there. Bridgecorp was a significant property lender, most of Dorchester's loans were in the consumer sector, and Dorchester was diversified into stock broking and other activities, some over lap but arguably not much. Bridgecorp were seen by the industry as undesirable cowboys, but investors were still piling money into Bridgecorp.

The board were also concerned over process, and the possibility that King had disclosed confidential information to Bridgecorp as part of the sale process. King disputes this. No matter. What the then Board had to deal with was its CEO over sensitive issues while still expecting him to remain engaged with the business. Hard balancing acts that then Chairman Murray Radford had to contend with.

In the meantime, Bridgecorp attempted to force upon Dorchester a board appointment and were blocked in this endeavour at an EGM, and Bridgecorp were thus very pissed with the Board of Dorchester.

At the next AGM, the Chairman Radford and William Birch were up for re election, and obviously Bridgecorp were going to extract there revenge by voting against their re-election.

Enter now Green, who was green with envy over the favourable price achieved by King. I too was envious as I was a shareholder at the time. But envy is a deadly sin as even an Irish Catholic knows, so I guess that when Green took his revenge he spent a Sunday in the confessional to redeem his sins.

Two directors get dumped and enter Barry Graham the current chairman.
Shortly after the CEO King "resigns". Now like him or not he was a CEO who built the company out of nothing, into a stable respected participant in the industry. Sure he will have broken a few eggs and thus is not universally liked, but mostly he was respected. For King, Dorchester was his baby and he still held 6% of the company. Resignation is a useful but probably inaccurate description of what happened. Perhaps it was Green fingers again.

Now, enter Andrew Walker the second CEO in Dorchester history to resign.

Now Andrew was an interesting choice, young, academic, green behind the ears, (green again, Dorchester could almost be green company, maybe it can get carbon credits), a man who likes to introduce himself as Ralph Norris's son in law,- can't say that impressed me particularly.

The first thing he does is look under every hood and pull out every conceivable piece of crap he can find, blame it all on King, as he called it "legacy issues" and supervise a major profit reversal to which his initial answer was a rebrand. New letter head new company, feel a tui coming on? Then you have the flight of middle management, a number of talented people leave.

A new CFO gets appointed, another interesting choice, he doesn't last long, he too resigns.

Then Andrew decided the best thing to do is something big (read stupid).

In the meantime Bridgecorp has found its way to the knacker's yard, and St Laurence becomes a 20% shareholder.

Our own credit crunch then gains momentum. What do you do when you face a liquidity crunch, if you are rational? You husband cash and focus on collections. What does Andrew do? He goes out and buys St Lawrence and becomes a 25% shareholder. At the half year he reports a profit in the group, mostly from the sale of property assets and equity accounted St Lawrence profits who probably also equity accounted Dorchester's so a 1980's style merry go round is created. In reality Dorchester lost money.

As the credit crunch bites, Green the philanthropist and St Laurence each lend Dorchester money to bolster up the liquidity squandered on purchasing St Lawrence. Much public fanfare is attached to this move, in an attempt to window dress investor confidence. Funny, nothing much was said when they both pulled out shortly later.

Just prior to the last AGM, Drummond, another recent appointment to the board resigns, for personal reasons, see a pattern team? Graham commits to the meeting that new quality appointments will be made shortly, fast forward 10 months, noticed anyone new joining the team?

Now we have Walker resigning. At an AGM two years ago shortly after Andrews appointment Green was overhead talking to a bunch of shareholders on Andrews appointment, obviously they were concerned…."Give the boy a chance" Hugh said.

Now he too has gone, perhaps Hugh has realised that he was a boy, and that he had used up his chances, see a pattern of Green fingering anywhere in here?

Where too from here for Dorchester?
If you believe Graham (I don't) the operating profits are $3 to $4m, write down on property book $8m (total book $90m) so profit guidance net of tax credit on loss should be $2m to $3m loss. Now this is before you consider St Lawrence, which also looks to be impaired, so that is another non deductible write down of up to $25m.

So let's assume the property book after the write-down is $82m, any punts on how much of that will be collected. The economic consensus is that property has another 10 to 30% to come off it, and some who should know thinks it could be 50%. Regardless of what happens to property however, when you need cash to fund redemptions, and this is Dorchester's fate, you actually have to meet the market, and if any of you have been to any auctions lately there is the really bad news; there aren't any buyers.

So if you think Dorchester is ugly now it is just going to get uglier.

Hugh Green's golden touch seems to have passed as he has moved into his golden years; the jury is still out on his other major public coy asset Hellaby. Both of his trees have moved into autumn and the leaf fall is deep on the ground.

Bruce Sheppard

ENFORCEMENT – I wish!

The following is an extract from the 31 December 2007 annual accounts of New Zealand Exchange Limited (NZX):

> *"Contingent liabilities*
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> *On 6 September 2005 Access Brokerage Limited was put into liquidation. There is no provision held in the Balance Sheet at 31 December 2007 (Dec 2006: nil). A contingent liability of $9,555,297 plus interest and costs has arisen from legal proceedings against NZX brought by Access Brokerage Limited for $4,310,594 plus interest and costs (in Liquidation), and Bank of New Zealand Limited for $5,244,703 plus interest and costs. NZX has received assurance that the insurer will meet all cost for this matter after the policy excess of $100,000, which was paid in 2005. The contingent liability arises in the event that the insurer does not meet any costs that may arise."*

It has taken at least two years for NZX to acknowledge that there is any need for the inclusion of such a note in their annual report. This is, despite the prompting of our Association each year that the contingency should be spelt out in view of its potential significance to the Company. At one stage we sent copies of our correspondence to the Securities Commission. We are tempted to praise NZX for at last 'coming clean'.

We willingly give them credit for the change of attitude and under normal circumstance it would be tempting to do this and let the matter pass. However NZX has a unique place in the equity investment scene of New Zealand in that it has powers of rule setting, enforcement, judge jury and executioner. In this situation actions by Board and management of NZX must be whiter than white and beyond reproach. That it has been found wanting in carrying out its legal requirement is a matter for concern.

However there are other organisations that are just as culpable and who should have been aware of the lack of action. We list all their names to complete the picture and so that we place on record our extreme disappointment. The names, in alphabetical order are:

- The Board and Management of NZX
- The Companies Office section of the Ministry for Economic Affairs

- The New Zealand Institute of Chartered Accountants
- PricewaterhouseCoopers, the auditors
- The Securities Commission

Our government has recently set aside more funds for the enforcement activities of the Securities Commission and it is my view that these funds are now urgently needed to give confidence to investors that laws will be enforced. If necessary a review of enforcement procedures should be instituted. In the view of this writer, a major reason that investors are avoiding equity investment in New Zealand is lack of evidence that enforcement is contemplated. In the nearly three years since the Access Brokerage debacle there has been a deafening silence from the authorities listed above.

One of the very first indications I came across that corporate New Zealand view of business left much to be desired was in 1981 when Justice Peter Mahon reported on The Crash on Mount Erebus. The temptation is to quote from that brilliant report[1]. By changing one word in the now famous comment summing up the evidence of Air New Zealand, I can provide a fitting summation.

I am forced reluctantly to say that I have had to listen to an orchestrated litany of silence.

Change will not happen overnight but surely it is now time to ensure that we enforce the laws that we have rather than to produce more and more legislation, and find that it really makes no difference since it is routinely overlooked.
Oliver Saint.

True independence of chairperson and directors

If we are to encourage the general public to invest in listed company shares, there are a number of issues we need to address to win its confidence. Not the least is the appointment of an independent chairperson and independent directors. In the past major shareholders have often influenced directors in the appointment of the chairperson, and also have had far too much influence in the appointment of the independent directors.

We believe the chairperson should not be an employee of the company, and should not be associated with a majority shareholder of the company unless it gets the support of the independent directors. The New Zealand Shareholders Association will not view directors as truly independent if they have not obtained the support of a majority of minor shareholders.

We believe majority shareholders should not vote on the election of independent directors. Rather they should leave their election to the minority shareholders. If “independent directors” hold their position only as a result of the majority shareholders` vote, as is the case with Tim Saunders and Phil Pryke at Contact Energy, it will be far more difficult for them to maintain a truly independent perspective on issues involving the majority shareholder.

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[1] Paragraph 377 of the Report of the Royal Commission to inquire into The Crash on MOUNT EREBUS, ANTARCTICA OF A DC10 AIRCRAFT operated by AIR NEW ZEALAND LIMITED 1981.

It was for this reason the NZSA strongly opposed the re-election of Saunders and Pryke to the Contact board. Whilst companies continue with this policy the NZSA will question and challenge issues involving the appointment of “independent directors” where they do not have the support of the minority shareholders.

The position at Contact Energy is one of the worst situations we have come across. I am sure majority shareholder Origin Energy will claim Pryke and Saunders have carried out their duties in the interests of all shareholders. This is the normal reply when you ask any majority shareholder that question.

They seem to ignore the fact that the minority shareholders do not often vote against the recommendation of the board. So when they do take such action it should be taken seriously both by the company and the independent director concerned. When an independent director loses the support of the minority shareholder, it is very difficult for the minority shareholders to vote on critical decisions being put forward by the company. That is what Origin should consider. When it really needs to persuade small shareholders of the soundness of its recommendation, small shareholders will have no confidence in their independent directors.

It is disappointing organisations like the Institute of Directors have not given its members stronger guidance over the position of independent directors.
Des Hunt

Editors note: Des has raised some difficult questions here.
Should it be mandatory for a majority shareholder to stand aside from the voting process? Under our law it is always entitled to vote its shares and this right should not be lightly removed.
To what extent should a director’s record in another board and another capacity be allowed to govern his election on this unrelated board? Good reputation is critical in listed entities.
The major shareholder has a key role in building a healthy mix of skills and ensuring teamwork on the board. To what extent should small shareholders be able to veto its choice?
Members comments are welcome on these issues.

THE GLOB AND THE BEACON Brickbats & Bouquets

The awards started in 2002. Here is the history:

	Beacon Award	Golden Glob
2007	Tony Gibbs- GPG	ANZ Bank
2006	Simon Botherway - Brook	no villain
2005	Brian Gaynor - Milford	T Saunders
2004	Ralph Waters- FBU	G Gould

2003	Kevin O'Connor-IFT	R Brierley
2002	Rod Deane - Telecom	Phil Pryke CEN

Blue Chip's Beyers looks like a good candidate for 2008. Earlier villains now look quite tame by comparison. Ron Brierley has continued to shower benefits on stake holders (and more on his board) and he could be considered for rehabilitation were it not that GPG's governance remains unbelievably slack. They know what to do- GPG subsidiary , Turners and Growers is a shining example of correct governance and they even go so far as to get the proxy form entirely correct .

Maybe "mum and dad "investors should get the Glob in 2008. Investing $2 billion in junk finance companies who were offering interest rates only fractionally above " safe " commercial banks is downright naughty. Please include discussion at your Branch meetings.

The Beacon and Glob will be awarded in September and you will again be prompted to make a selection, but meantime email your thoughts to howardz@xtra.co.nz.

Howard Zingel

RESEARCH PROGRAMME

As you will be aware, we are establishing an ongoing research programme with major universities, focussing on major issues in the New Zealand investment market. To date we have established two PhD scholarships, which will fund students to complete their degrees, and at the same time contribute 600 hours each to the work of NZSA. We have one scholarship set up with Massey University and Carmel Fisher, and are in the process of selecting a student. We also have agreement with Stephen Tyndall and AUT to establish a scholarship, and will begin student selection immediately. This is a major initiative and will be supervised by Kevin McCaffrey. While we are seeking other scholarship opportunities our focus at present is to get these two working for the benefit of our stakeholders. Waikato Branch has also recommended that we pursue an arrangement with its local university, which we will follow up.

EDUCATION PROGRAMMES

A number of members have asked what has happened to the investor/ sharemarket programmes formerly run by Graham Wilson. With Graham's passing, we endeavoured to obtain funding for a major rewrite of the material to expand delivery to members of the public. As a result we have fallen behind in our plans to deliver the courses to members.

We are now updating the content and adding teaching aids for the teachers involved. This is progressing well and we aim to have the first two courses ready in July. At that point an appeal will be made to those who have already delivered the courses in the branches and other volunteers with a target of two per branch to deliver the courses. Ashley Chan will train the branch representatives to deliver the course.

The board will fund the redevelopment of the courses and the initial seminar to “train the trainers.” Thereafter, the board has asked Russel Hodge to coordinate the programmes. This will involve making material available, promotion of courses, and setting prices to be charged to members and non-members.

The ultimate plan is to have two financial literacy education models operating:

1. Branch education – based on Graham Wilson’s courses, internally funded, with the Board preparing the content and the Branches delivering the courses.
2. Financial literacy in our workplace – We have decided to develop a new programme aimed at people who struggle with basic financial literacy such as saving for investment. These are potentially future members of NZSA. It will be called Financial Literacy in Our Workplace – FLOW

   FLOW will involve working with employers to deliver a series of modules, emphasising the power of saving and investing over the longer term. NZSA has commissioned NZ Enterprise Trust (ENZT) to develop programmes based on material it has used successfully in schools. Parents and children will thus both get the same message. We will partner with another commercial organisation which will train appropriate staff in each workplace to deliver programmes.

   A pilot programme is planned for August to be run and evaluated by Kevin, Alan, and Russel. However the programme will be funded independent of NZSA by large philanthropic organisations. When established we expect that charges to companies using the service will fund the delivery of the programmes.

   Kevin McCaffrey

COMPANY MEETINGS

Proxy Forms completed in favour of the New Zealand Shareholders Association

We are coming up to the busy season of Annual General Meetings. So it is useful once again to publish the notes on how to complete proxy forms.

New Zealand law requires all companies to have an annual meeting of shareholders at least once every calendar year.

The single most important matter to be addressed at the AGM is the appointment or re-appointment of directors, as a director’s appointment is critical to the good supervision of a listed company.

NZSA recommends that all shareholders vote their shares either in person or by proxy

If you cannot attend an AGM yourself, you are encouraged to appoint as your proxy the New Zealand Shareholders Association. This does not require you to put in the proxy person’s name, just the name of our Association.

We recognise that if shareholders have not formed a view they will leave the vote to the discretion of the NZSA proxy representative.

<u>Completion of the Proxy form in favour of the Association</u>:

New proxy forms may contain 4 boxes (but always 3):

FOR AGAINST ABSTAIN or PROXY DISCRETION

- Please tick **all** Proxy Discretion boxes

- Appoint New Zealand Shareholders Association Inc as your proxy

- Sign the proxy form

- Send the proxy form to the share registrar of the company.
  This is either Computershare Registry or Link Market Services.

- Advise NZSA Proxy Co-ordinator that you have appointed NZSA as proxy by email to jacquiestaley@xtra.co.nz.

If you feel strongly about an item then you should direct your proxy to vote in a particular way (ie tick for/against).

Please be assured that we will endeavour to find a representative to attend the meeting wherever located. However for a number of reasons we may not be able to do this. Do not let this deter you from sending in your proxy. It does not prevent you from attending the meeting and overriding the proxy (in fact we encourage it). It does give us more authority if as many proxies appointing NZSA are sent to the Registrar.

Shareholders signing for a Trust or on behalf of another person must complete a certificate of non-revocation of power-of-attorney, usually found on the reverse of the proxy form.

If possible the NZSA reporter of the meeting will declare the voting patterns in The Scrip together with a summary of the questions raised.

Jacquie Staley

CADMUS AND PROVENCO MERGER MEETINGS 23/04/02008

In the Cadmus meeting Peter Maire vacated the chair to Ant Howard so that he Peter, could more adequately present the case for the merger. Both companies this year are burning cash (particularly in the R&D and tendering activities) and the earlier attempts to combine Cadmus with Belgian Intellect had revealed that Intellect was too sick to offer a solution to Cadmus. The new merged entity promises operating synergies, increased scale, complementary skill sets, market synergies, future growth, and improved liquidity for the shares. Cadmus has a lead in new PCI specifications, but is not scaled properly into overseas markets. It is good in its narrow market area, but needs Provenco's extra tools (eg remote handhelds) to extend its marketing. Both companies need larger size for lenders, and overseas customers. The Merger Subcommittee of the Cadmus board gained support from Commerce Commission, two independent assessors, bankers, Trustees, and major shareholders.

Two major questions were raised by shareholders:

1. What were the last two months (loss) results from Provenco and shouldn't that make a difference to the price? The last two months were not disclosed but we were assured, they were taken into account by the independent advisers, at the exchange of 4.2:1 merged share.

2. John Nimmo claimed that a joint capital requirement of $35m with an immediate requirement of $15m for ANZ Bank had been glossed over. Peter said that cornerstone shareholders including Todd family, Tahia Investments (Maire and Doyle) and ST Electronics (Singapore) would support a new capital raising.

John Nimmo and other major shareholders supported the merger in principle, but John pointed out that the negotiations having started at an exchange of shares at 5.5:1 had now settled at 4.2:1, while his own valuation suggested that it should be 3.2:1. However the meeting felt that the sooner the cash burn caused by R&D in both companies could be brought under control by the new management, and the synergies including manufacture of the eftpos boxes by Navco implemented, the better. The meeting voted strong support for the merger.

Alan Best

PROVENCO:

In 1999 your be-nighted Proxy holder in a fit of hopelessly misplaced enthusiasm for the dot.com mania and the assumption that NZ firms might have the skills to play some part in it bought into this company at$3.50 a share and watched the share price plunge to 28 cents by mid 2003.Fools never learn - I appear to have bought rights at some price about this time but(perhaps mercifully) can find no record of what the poor fool paid for them. He made the effort to attend the odd AGM; same old story -"we+have done poorly -next year we will do better". They never seemed to.

The above meeting was called to have shareholders approval of a merger with a seemingly equal cot-case company called Cadmus- like Provenco in the high tech business. Some 50 plus share holders were in attendance to have the merger explained and to seek approval for the merger.

A number of share holders spoke-expressing disappointment at the company's succession of poor years,with difficulty suppressing their rage at never a trace of a "mea culpa" on the part of directors or management but all appeared to accept the fact that the merger was a "no brainer". A Mr. Jim Doyle is to take over management; he gave a spirited and eloquent address (incidentally agreeing with every word of shareholder criticism that had been expressed) from which attending shareholders clearly took considerable heart. He comes with excellent background and credentials and a very good record of management. As at the AGM of this company one sense the comfort shareholders took at the presence on the Board of two Todd Corp. directors representing the significant holding by this group..

As noted earlier the decision was a "no brainer'; in dire circumstances one snatches at whatever the lifeline might be - if it is the only one offering, and earnestly hopes Chalkie was not overly precise when he spoke of this union as seemingly being a "marriage between the severely crippled and the near terminally infirm".

Joe Turnbull

<u>CAVOTEC MSL LTD</u> Christchurch 29th April 2008.

This was the first AGM held by the newly expanded company that emerged from the combination of the Dutch based engineering company Cavotec and the locally based Mooring Systems Ltd.

A very well managed meeting that was well planned, informative and interesting. The European based operation is a very sophisticated enterprise with three main revenue streams that place them at the top end of their industry. While these are not their only sources of income they are the most exciting and strongly represent the company's future.

The first of these is Ports where they specialize in portside servicing equipment and into which they have incorporated Mooring Systems Ltd. The company's board sees continuing on going growth in this area as the need for safety and efficiency in various aspects of portside operations is an expanding requirement. In addition the growth of maritime shipping is not perceived to suffer any substantial decline in the foreseeable future. Bigger ships and the need for environmental considerations bring about the need for specialized servicing and handling facilities and it is into this niche market that Cavotec have identified an opportunity and entered.

The second is Airports which is identified as the area with the most growth potential as airports and airlines not only expand with the growth in international passenger and cargo volumes, but have a substantial demand for time and motion efficiencies. Cavotec have developed several very impressive fuel delivery systems that eliminate the need for above ground tankers, the development of subsurface fuel and electrical delivery systems, portable air-conditioning for aircraft being serviced and mobile access gantries that are equipped with a range of accessories required for servicing aircraft.

The third main revenue stream is mining and tunneling. With the dramatic growth in heavy industry in Asia the demand for innovative plant and equipment to assist in the efficient and safe exploitation of mineral resources in places such as Australia places Cavotec in a prime position. Their remote control systems, to identify but one product range, specifically designed for difficult environments such as mines and tunnels are well placed to take advantage of this surge in demand.

Commendable also, was the presentation of a number of short screen presentations that provided the research, technical background and logistical support that is the basis of their forward planning, strategy and resource management. These were well done and allowed the attending shareholders to see and easily understand what Cavotec actually did, the range of which was not immediately obvious to many including the writer.

The company has produced a profit and is paying a maiden dividend of 4 cents per share. They see more difficult times ahead but are certain in their belief that they are well placed to weather this and continue to grow. Careful consideration of their chosen markets and product range suggest an executive and management team well aware of their strengths and how to best employ them - A company to watch!

Max Smith

BRISCOE GROUP AGM   23 May 2008

On behalf of the NZSA and their Proxies, I attended the AGM of Briscoe Group and was made very welcome by chairman Roseanne Meo who introduced me to other Board members and Senior Executives. I gained the impression that Briscoe Group is supportive of the NZSA and its aims.

The Chairman spoke at some length regarding the tough retail trading conditions. She saw little in the budget that would result in greater activity as the rising costs of mortgages, fuel and essentials would leave little for discretionary spending.
Increased costs have seen EBIT drop 12.4%, more than offsetting a 9.6% rise in sales. NPAT dropped 14%, but dividend has been maintained at 8cps representing 76% of group tax paid earnings. The policy remains to pay at least 60% of earnings as dividends. The Chairman described the Group as “cashed-up and able to consider any opportunities that may arise”.

CEO (and 75% shareholder) Rod Duke then delivered a very sober summary of the current situation. He said he had never experienced such difficult trading conditions and expects demand to fall substantially over the next 12 months. “Retail will be hit hardest and will be the slowest to recover”.
As a consequence, a major cost reduction exercise is under way across every facet of the Group’s operations, with a focus on efficiency. The intention is to position the Group more advantageously than the opposition.

The CEO hailed the smooth introduction of new SAP software in the past year, and confirmed that work was proceeding to build a more effective on-line purchasing portal. He commented that promotion now had to be very diverse through many channels to reach consumers, and this was adding to costs. There will be limited additional stores added this year and some stores will be converted to “large format” which has been very successful. The Group is also addressing environmental concerns.

Current trading is difficult with first quarter sales 6.4% lower and same store sales almost 10% down. In response to a shareholder question the CEO said that sales in each of the last 3 months had been weaker than the preceding month.

Going forward, the CEO remains optimistic believes the changes being introduced will be effective, and sees opportunities arising over time. He quoted Warren Buffett – "It is only when the tide goes out that you see who is naked".

- Roseanne Meo and John Skippen were re-elected unopposed.
- 150,000 share options were approved by the meeting for Alastair Wall, an executive Director. This was uncontroversial as the Briscoe option scheme is tightly bound to share price performance with no discount element involved.
- The auditors were reappointed

Several shareholders asked questions:

- The stated dividend policy is to remain.
- The Group does not believe the time is right to change its imputation credit balance policy.
- The Group currency hedging policy is to cover at least 50% of purchases for 12 months ahead. Currently this is at 60% with a weighted average rate of US75c.
- April trading was described as "challenging".
- The Board deliberately does not break down sales and profits into sectors (Briscoe's, Living & Giving, Urban Loft) as it considers this information commercially sensitive to its competitors.
- The Directors are pleased with Living & Giving progress, but described Urban Living as "having some way to go".
- The board considered that Urban Living was an "experience" store and that internet sales would be less important in this format. It acknowledged a shareholder concern that its wedding registry could be made more comprehensive and user-friendly.
- The Lead Audit Partner is rotated every 5 years and there is no intention to change this policy.

John Hawkins

<u>Property for Industry   AGM 23 May 2008</u>

The meeting was short and uneventful, indicating shareholder contentment in the knowledge that the company had an excellent year, on the back of sound industrial property conditions.

PFI delivered a record net profit and net dividend through astute management of its exceptional portfolio of 59 industrial properties with a total gross value of $436.76 million.   Over 4 years, the 3.20% compound annual growth in dividends is the best in the listed property sector and PFI's total return has provided outperformance and leads the listed property sector over the last 5 years.

Looking forward the operating environment will be very different.

However management believe that PIF is well prepared to withstand the downturn in the economy. Their properties are generic and flexible and can be refitted to meet the requirements of existing and new customers.

<u>Strategy 2008 and beyond</u>
Risk averse and financially disciplined approach
Maintaining high occupancy
Low debt levels – max permitted 35%, current 29% of net assets (not shareholder funds)
Delivery of rental growth
Holding a small non-income producing land bank
Maintaining long leases rented to strong tenants

Question: with significant migration of industrial company overseas, how does management see that affecting the company and are they looking for customers in the health, tourist sectors?

Answer: yes some manufacturers are moving offshore, but the portfolio is only 25% rented to manufacturing customers. PFI's emphasise on flexible properties, which can be easily converted and re-tenanted, provides the buffer.

Question: which was actually a compliment (from one Oliver Saint!) noting that the Directors' fees had not been increased in 14 years and perhaps the Board had been grossly underpaid during this time. The vote for an increase was passed unanimously.

Question: why do the accounts have to be approved at the AGM by shareholders – as the change in the law means that once Directors have signed off on the auditors' appointment, then it is not necessary to ask shareholders for their approval.

Answer: the Board takes the position that they should report to the shareholders on the auditors' appointment and ask them to endorse the position (or otherwise).

Management cautiously optimistic about the year ahead, and there was some potential for acquisition during the economic downturn, and funding was available to PFI.

Jacquie Staley

BRANCH REPORTS

AUCKLAND BRANCH

- Branch Meeting
  Our last meeting was on 16 April and approximately 100 – 120 members were in attendance. Carmel Fisher from Fisher Funds Management was our guest speaker. She gave a good presentation and was quite frank about the recent

negative results her Company had produced. However, while the recent downturn was the worst she had experienced, she was adamant that the market would consolidate and return to a growth phase.

- Members' Forum
  This is a new feature that has been included in our meetings with the intention of providing a low key, non-threatening environment so that members feel free to air views and ask questions about any investment topic.
  The Forum is held at the end of the formal part of our Branch meeting so members can leave if they wish. However, most members appear to be interested in listening to the discussion. To date, the discussions has been chaired by Des Hunt and Noel Thompson but at the April meeting, Alan Best stepped up to answer members' questions.
  We intend continuing with the present format with and in line with Alan's suggestion, we will nominate one or two topics for each Forum to draw people into the discussion.

- Future Meetings
  Our August Branch meeting has been put back to 12 September so it can be combined with the Annual General Meeting. We are aiming to arrange for Bruce Sheppard to be the main speaker.
  The meeting after that is scheduled for 15 October although this may now be put back a month. We are intending to contact Tim Brown from Infratil to be the guest speaker.

- Committee Membership
  We are pleased to report that Russell Hodge will be returning as a member of the committee. Russell's wise and informed contribution has been missed by all members and we all look forward to his return.
  We have also been fortunate to have the support of another new member, John Hawkins, who joined us for the first time at our 21 May meeting.

- Branch Membership
  At the present time, we have 635 people in the Auckland region who are registered as National members, 412 of whom are also Auckland Branch members.

- Company Visits
  This is an easy section to report on as there haven't been any visits this year so far and regrettably, none confirmed in the short term. Joe Turnbull has been liaising with a number of companies over the last few months and reports a weak response so far. It may be the current economic climate is forcing company management to concentrate on more pressing issues that visits from the Shareholders' Association.
  Joe will continue his efforts to arrange visits this year as they are an important part of our function as a Branch and are well supported by members.

- Annual General Meeting
  We are in discussions to prepare for the AGM and have prepared a list of issues to be debated, three of which include:

  - If we are aiming to develop sponsored scholarships for research purposes, can we need to consider now the topics to be researched.

  - What can be done to re-institute education opportunities for members along the lines of the courses that were being run by Graham Wilson?

  - What can be done to encourage branch members to volunteer to work on the National committee?

Ken Cook

WAIKATO BRANCH

Our April meeting was addressed by Shelly Thomas, the chairperson of the Waikato/ Bay of Plenty branch of the Institute of Directors. Forty members learned that the Institute has some 4200 members and was established in 1966. 20% of the members do not currently hold directorships. Shelly's address was entitled "The role of the Institute in promoting good governance".. Shelly outlined the various courses available to members. Other services provided for members include research, a code of practice, remuneration surveys and submissions. The Institute offers a five day course as well as other courses which can lead to accreditation after a suitable period of experience. The Institute is a voluntary organization as directors generally are not required to join. At present about 30% of directors belong to the Institute. Members expressed concern of Shelley's view that a director must act in the best interests of the Company rather than the shareholders. Shelly fielded many questions from the floor on the role and responsibilities of directors.

Our May meeting took the form of a discussion evening at which a panel of four members outlined their approach to investing, especially in a bear market. Twenty two members attended. The presentations covered vastly different approaches and provoked a lively discussion with most of those present joining in or asking questions of the panel members. The panel members were praised for their considerable input to the evening.

Dr McDermott is confirmed as the speaker for AGM Meeting on 26 June..
The meeting will be held at a new venue: The Station Café and Bar at The University of Waikato.

The committee encourage as many of you as possible to attend the AGM and give some thought to joining us on the committee.

My thanks to Gary Cave who supplied me with notes for the two meetings, as I was unable to attend.

Robert Foster

BAY OF PLENTY BRANCH

The BOP branch meeting took the form of a company visitation to ABN AMRO Craigs, a company that has made tremendous progress during the last 15years. The staff has grown from 12 to over 200 members during that time. The subject was company analysis and was lead by Mark Lister, their Chief Analyst. Mark spoke of the job analysts do and how they go about it. He demonstrated the variables with a large capacity spreadsheet projected on to a wall screen. We were impressed by the range, the capacity and the sensitivity of items such as exchange rates.

At our meeting on the 30th of May we intend trying a new format for the discussion of companies. To involve all those present, they will be divided into groups of their choice with up to five members in each group. The leaders will lead the discussion on allocated companies. After 20 minutes or so everyone will regroup with new leaders to discuss a different company. This process will be repeated four times during the course of the afternoon. The committee considers there will be plenty of interest for all with a selection from 24 companies being available during the course of the afternoon.

Lloyd Christie

WELLINGTON BRANCH

The Hon. Bill English proved to be a great drawcard with more members (and friends) attending our May meeting than any other I can remember and as a consequence our usual meeting venue at First NZ Capital was bursting at the seams. Bill didn't disappoint; he gave a great presentation and stayed around afterwards fielding questions from a generally sympathetic crowd.

What was the message from him? Essentially National are not rocking the boat. If they become the next government they don't have radical changes planned, they are just going to do roughly what the other crowd have been doing but do it much better.... It seems that message may be what is needed to get elected.
Martin Dowse

CANTERBURY BRANCH

The onset of winter tends to keep people indoors in the Canterbury region and this winter is proving to be no exception.
The branches membership is not easily stimulated to participate in activities at anytime but with long cold nights this reticence is only enhanced.

For all that the evening with the Mayor of Christchurch, Mr. Bob Parker was a great success. His Worship covered a whole range of topics without referring to a single note. He happily answered questions and was well received by the twenty five members who attended.

The branch also attended as proxy representatives, the Cavotec MSL AGM. This was a well managed meeting and was of considerable interest to the one hundred or so shareholders who attended.

The Association has no issues with this company; indeed we would compliment them on what is undoubtedly a company with a future.

At a recent meeting the committee expressed its concerns over the reticence of Link Market Services to make available a list of shareholders who have entrusted their vote to the Associations representative. Some action has been taken on this matter but there are signs that this has not had much impact due to the fact that Link management are being less than co-operative.

The future holds some prospect of tasting the fruit of the hop as we are planning a site visit to NZ Breweries Christchurch operation sometime in July. We have also decided to start our own local News Letter that accommodates the immediate southern interests.

Max Smith

MEMBERS ISSUES

Tim Kerr's addendum to Provenco
Prior to the special meeting shareholders were invited to continue to receive annual reports in hard copy – or to simply accept information via email or the web. As a member of the Shareholders Association - and an angry shareholder disappointed with the company's performance - I recommend all shareholders insist they receive annual reports in <u>hard copy</u> – until the company has made a profit, paid a dividend and the share price reflects a viable future.

There was a time when shareholders received a certificate of shares – and while we joked about using them for wallpaper – especially when they became less valuable than a cheap wallpaper – the process of printing and posting them was a constant reminder that shareholders mattered. Now they have gone.
We received massive, glossy annual reports and often one had to wonder whether the cost of the reports was greater than the value of the dividends. Now listed companies want them to go too.

Next on the list? Well, lets make AGM's an on-line event! Let's skip the annual bash and free drinks for the shareholders. Fine…. And don't bother with dividends…. Let the share market become nothing but a short-term capital gains investment option – like horse racing!

BANKS SHOULD BLAME THEMSELVES
According to The Sydney Morning Herald, Bob Garnett, a member of the Australian Accounting Standards Board, has spoken out over the credit crunch. The banks have created it and they should stop blaming it on complicated accounting standards. NZSA has been concerned with this issue for a while and it is good to see a top accountant has at last spoken out.

The world's biggest banks and securities firms have reported about $US370 billion ($394 billion) in asset write-downs and credit losses since the beginning of 2007.
Mr Garnet said these losses were the result of "greed, short-termism, and the focus on trying to develop complex instruments''
NZSA has pointed out that when the banks disclose the full cost, it is always investors who carry the can.

We wonder how much has been paid in bonuses over this period? No doubt it would run in to millions of dollars even though the banks have made massive losses.

Mr Garnett was then reported "It seems odd to me that someone can lend money to somebody whose property is perhaps not worth the value of the mortgage being offered; that the interest rate being charged on the mortgage is below the normal rate, and that the individual doesn't have the income to repay the loan.
To repackage that in the form that some people find to be an AAA investment seems very strange''.

That bankers are blaming new accounting rules, is beyond belief.
How can we avoid a similar situation in the future? We would like to see a reduction in short term bonuses paid to executives which would force them to think longer term and be accountable for their decisions before they are paid out.

Des Hunt

Editors Note: If the international banks think they have difficult rules to follow now, they should be aware of what is in store. Iosco has published its investigations into the subprime crisis, and is focussed on the following areas:

1. *the need for improved disclosure in tradeable instruments,*
2. *the need for improved due diligence by investment managers,*
3. *improved reporting for secondary markets in structured financial products,*
4. *using the same standards of risk modelling and liquidity for off-balance sheet transactions as for on balance sheet,*
5. *new guidance for fair valuations in illiquid market conditions.*

Will New Zealand follow these recommendations?We'll be slow, but we'd better follow! Jane Diplock of NZ Securities Commission, has just been voted chair of Iosco for her third term.

COMPANY REMUNERATION REPORTS:
Unlike Australia, NZX does not require its listed companies to disclose a full remuneration report each year. These are Des Hunt's suggestions as a minimum disclosure we should be seeking from all our listed companies:

For Directors:
Fixed and variable pay for each individual against what was voted by shareholders as a total.

For the CEO:
Annual Base Pay (Fixed remuneration and fixed benefits at cost)

Variable pay - (at risk component, the amount paid and percentage of what was budgeted to be paid including the basis for the calculation.
Total Remuneration (Base, Bonus, Benefits)

For all staff reporting directly to the CEO
State the number of direct reporting staff- eg 6 people
Total Annual Base Pay for each, (Fixed remuneration and fixed benefits)
Variable pay (the amount paid against what was budgeted to be paid, including the basis for the calculation.)
Total Remuneration (Base, Bonus, Benefits) for direct reporting executives.

Company Performance for the year – earnings per share
Dividend paid to shareholders, compared to previous year.

Des is keen to hear from members over these suggestions so that we can push forward the crusade.