

# "The Scrip"

The official newsletter of the New Zealand Shareholders' Association Incorporated

August 2008

## AGM

The Annual General Meeting of the NZ Shareholders Association will be held this year in Auckland on Friday, 12th September commencing at 9.30am, at the Hall of Legends, Eden Park. Use the Walters Road Entrance to Gate 5 on the Northern side of the Park

Our hosts, Auckland Branch, have arranged three excellent speakers for the morning session, and there will be a chance for members' issues to be fully aired. The afternoon will consist of the Branch Conference, when voting rights will be accorded to two delegates from each branch. Your participation will ensure the AGM's success.

## BREADTH AND DEPTH, INTELLIGENCE AND BELIEF

The task force set up to reinvigorate our capital markets will certainly have its work cut out. Much of what is wrong with our capital markets has to do with our collective attitudes to ourselves, the world and money.

In essence our sovereignty as a nation is now at risk due to decades of neglect and the issues that must be dealt with fall into these categories, and the sad thing is there is no political will to make the hard decisions needed to deal with each of the contributing factors.

Our capital markets lack:

- Depth.
- Intelligence

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- Belief.
- Breadth.

Depth first: Our market is not deep as there is an inadequate pool of investment capital. NZ does not save, and so we should not be surprised. So we have to develop our saving capability AND we have to keep the result of that at home for deployment in developing our businesses and our people. In my articles on vision and governance, I have advocated that we treat investment income however derived, as a separate tax base, and tax income from investment at a concessionary rate. I proposed Zero, but that is obviously socially unacceptable. But why not make it 20%, the lowest marginal income tax rate, and why not apply this to all investors not just PIEs and fund managers that do nothing to wean our people off the dependence ban wagon? Replacing dependence on the state by dependency on a fund manager is no solution. Then we must treat every investment class identically, and not allow losses on investments to be offset against earned income. That would deal with the tax nonsense on negatively geared property, and would put shares and fixed interest on the same footing as property.

Intelligence: This is to do with smarter financial thinking. INDIVIDUALLY WE NEED TO SMARTEN UP. The NZSA is rolling out investor education through its branch network and is establishing a separate charitable trust for work place based financial literacy.

Belief: The problem is that investors think our capital markets are rigged, and to a point they are, but regulation only band-aids the problem. "Buyer beware" and "financial smarts" fix it. But this panacea never occurs, and so regulation is required to protect the weak and the stupid. NZ has enough regulation, but does not do enough to enforce the regulations that we have. Regulators are inclined to turn a blind eye to minor (in quantum) transgressions. We should have a zero tolerance, thus over time, changing habits. It worked in New York.

Now the hard one: governments must learn to respect investors and their property rights. Interferences such as Auckland Airport do nothing for fostering belief that NZ is a secure place to invest. Politicians will hate this but they must grow up, and stop using other people's money and assets as political play things.

Breadth: This is about investment choices; NZ has a very small choice of things to invest in. There is no quick private sector fix to this. Most of the big family conglomerates that want to exit shareholdings through listing or trade sale have done so. So if the crown wants a quick fix to breadth, the only one available is a privatisation of state owned enterprises. We have done this before and the model has failed; so how about a fresh approach. A STATE OWNED ENTERPRISES GIVEAWAY.

Sell 10% of all state owned enterprises on the basis of a public float with the price set by an institutional book build. These shares will be floated on NZX and will trade freely in the market place setting a transparent market value for the shares in the SOE's

Give away a further 60% of all state owned enterprises with the shares being spread among NZ citizens pro rata with number of years that they have been taxpayers in NZ. The remaining 30% will be held by the crown but will also be transferred ultimately to the public once the governance arrangements are fully entrenched.

All such SOE's should have constitutions and supporting legislation to restrict any individual or group of associated individuals to not more than a 10% holding and foreign ownership should be capped at 49%. Each company will have A shares which are owned by NZ residents and B shares which may be owned by non residents or residents of NZ. All resolutions of the company must be passed by a majority of the A shareholders and a majority of all shareholders, it will not be a requirement that a majority of the B shareholders is also required to pass a resolution. This is not dissimilar to the

arrangements regarding Air NZ, but there are two important differences, a majority of B shareholders is not required to pass a resolution and ownership is capped at 10%.

Block or escrow 90% of the shares issued to the public from trading and only 10% will be freely tradable on the day of issue. Each recipient gets a split of A and B shares.

Each 3 years thereafter transfer from the escrowed account into the tradable account further 15% of the shares so that over 9 years the shares become fully tradable. At some time over that time the state either sells off for cash the remaining 30% or does another give away with or without restrictions. The reason for the escrow arrangements is to ensure that before any New Zealander can off-load the windfall time is allowed for financial literacy levels to improve, and for the public to understand the value of the things that they own.

***Bruce Sheppard***

## **TASK FORCE – WHERE ARE THE SHAREHOLDER REPRESENTATIVES?**

The composition of the Capital Market Development Taskforce shows once again that politicians have no idea how capital markets work. They continually look at one side of the equation but totally disregard the other, which is the investor. The main purpose of capital markets is to bring two parties together, those that need capital to fund their business and those that provide capital. Capital markets are strong and vibrant when the interests of both parties are protected and nourished. New Zealand's capital markets were strong and vibrant in the 1980s when a huge number of companies listed on the NZX after raising money through initial public offerings (IPOs). Individuals fell over each other to invest in these companies. However, after the 1987 crash they quickly realised that the rules of the game were totally one sided, company promoters and directors could do what they liked while investors had virtually no protection. The 1990s were little better with a number of debacles including the Bank of New Zealand, Tranz Rail, Air New Zealand and the partial takeover for Lion Nathan by Kirin. Little, if any, progress has been made in the past decade as demonstrated by the Feltex disaster and the collapse of a large number of finance companies. The finance company debacle, and the total lack of response by the Government and its agencies, shows once again that there is little interest in promoting and protecting the investor side of the capital markets equation. The Capital Market Development Taskforce, which was announced yesterday, comprises representatives of only one side of the capital markets equation. There is no genuine investor representative. Why isn't Bruce Sheppard of the Shareholders' Association on the Taskforce? Why isn't Simon Botherway of Brook Asset Management, one of the country's more active shareholders, on the Taskforce? Why is a senior executive of a stockbroker that brought Feltex to the NZX on the Taskforce when there is no representative from the Shareholders Association? New Zealand investors have a strong bias towards residential housing because they have no confidence in the country's capital markets. The collapse of over 20 finance companies has further reduced their confidence. The absence of a representative from the Shareholders Association, or any other investor organisation, from the Capital Market Development Taskforce shows that our politicians have no real understanding that the interests of investors have to be considered and protected if the country is to have strong and vibrant capital markets.

***Brian Gaynor***

*Editors Note: Bruce has already bombarded Rob Cameron with several pieces similar to his challenging articles in the Scrip, and has received a promise that we will be consulted before any conclusions are reached by the Task Force.*

## WHY YOU SHOULD GIVE AN OPEN PROXY TO NZSA

At the recent National Property Trust Special Meeting, which followed on from the AGM, there were a number of resolutions put to the meeting, on which voting by every unitholder (shareholder) was crucial.

Three resolutions covered the proposals for lower and enhanced management fees, with the resolution on performance fee raising some concerns, particularly with regard to the timing of the performance fee.

Many unitholders had voted by mail against this particular proposal. However, at the start of the meeting, a letter from the manager, St Laurence Ltd, was read out by which the manager undertook to waive their right to take a performance fee for a period of 3 years.

This was a significant and positive move by the manager and removed some of the concerns as to the timing of the fee changes. Speakers on behalf of institutional investors therefore backed the fee changes and congratulated the manager on the waiver.

However, on a count of the votes, the performance fee resolution was narrowly lost, thereby putting the future of the Trust under pressure.

I believe that had the NZSA been given more proxies, and therefore the ability to vote in favour on the amended performance fee resolution on behalf of a larger number of proxies, then the vote would have been carried.

It is a good example where material information was presented at the meeting which would have changed an individual's vote – and sending in a 'against' vote by mail acted as a disadvantage.

**Jacquie Staley**

## FINANCE COMPANIES AND AUDIT REPORTS

The open letter to Hon Lianne Dalziel, Minister of Commerce published in the New Zealand Herald on 26 July 2008 under the signature of Brian Gaynor was a timely reminder to us all that Task Forces, Inquiries, Reports, call them what you will, are no substitutes for immediate action.

The disintegration of the Finance Industry that we are seeing played out in this country with the power of a rolling snowball running downhill has not all been the result of poor decision making. When the general public lose confidence in a market they seek an alternative and thus the real motivator behind the collapse of this industry is the refusal of depositors to renew their deposits (or debentures) on maturity; resulting in renewal rates dropping from about 70% to an unsustainable trickle. Finance companies borrow short and lend long; that is their modus operandi. It therefore matters not a jot how gilt edged the asset might be, whether it is a house, a fridge or a land development, short term funds are largely used to fund illiquid assets. When confidence disappears then renewals and new funds dry up. Finance company assets are likely to be long term and not immediately saleable. If there is no support then the industry is in grave jeopardy. Support comes from two areas, government and trading banks. So without proper and adequate standby facilities or bank ownership or immediate action from government there is no hope for any finance company; end of story. You do not need a task force to tell you all this.

My major concern and the concern of this Association is the equity market. Support from the general public has been lukewarm following the 1987 crash and government is even now determined to sweep this lack of confidence under the carpet. Our Association has a responsibility to ensure that the equity market again provides what it can do best - capital for the entrepreneur. Whilst we are disappointed that our Association has been left out of the Taskforce membership we cannot help wondering why it has taken so long to seek action. Dr Cullen's recent initiative of introducing a wealth tax on overseas investment funds must surely keep any wealthy potential overseas immigrant from our shores. As a tax revenue earner, I wonder how much tax the current year has provided? It must be very close to zero. But we have been along that path. The real hope is that following a change of government towards the end of the year there will be every chance that this tax will be withdrawn as it is a loss maker in every way. The sad part about the changed tax system is that institutions are now able to generate non-taxable capital profits from daily trading whereas the ordinary investor still has to pay tax on short-term share profits. So the scales have been tipped against the single investor towards managed funds.

The above has been a short distraction from the main purpose of this article, which is to raise, hesitantly, the subject of the audit report. I have a feeling that those of you reading this article will leaf through to the audit report rarely if ever when reading an annual report. I also have a suspicion that many shareholders have long since stopped looking at this page altogether, and who would blame them. In the 1992 Companies Act there was introduced for the first time the concept of the unqualified audit report. All reports in the last decade and a half are required to state that the Audit is either qualified or unqualified. Since 1992 there has only been a handful of instances where the Audit Report was qualified for a listed company. Investors who are not aware of the reason behind the change may be under the impression that all that is necessary is to ensure that the report states that it is unqualified. **Nothing could be further from the truth.** At the risk of a lightning bolt from government descending on my head, I want to tell you the real reason for the Act insisting that there be stated in bold letters whether the report is qualified or not. If a qualified audit report is sent to the Companies Office, then there is a procedure that must be followed by the Companies Office to ensure that the Securities Commission is immediately aware of the contents of this qualified annual report. The Securities Commission is required to prepare a report (not, I note, ever made public that I am aware of). The difficulty foreseen by our legislators is that those at the Companies Office may unwittingly forget or be ignorant that a report has been qualified if it does not contain the correct label. Hence, in order to avoid any confusion on this score the report has to state whether it is or is not qualified. This ensures that nobody overlooks a serious qualification. To my knowledge New Zealand is the only country in the world apart from Belgium whose officials need assistance in determining the quality of an audit report.

The profession of auditing is far from easy these days and shareholders should be aware that there could be many meetings with Board and management before it is possible to agree to wording and treatment of contentious transactions of a listed company. There will be occasions when the auditor and Board and Management agree to differ. There then comes considerable discussion as to the comment the auditor seeks to include in the audit report to shareholders. Finally, the statement is agreed and the audit report finalised. With the passing of the 1992 Act and the requirement mentioned above the auditing profession presumably with the backing of their Institute has agreed that ALL qualifications except in the direst circumstances should be incorporated into the annual report immediately above the words "Unqualified Report". The gravest qualification of all is "Fundamental Uncertainty" but these words now appear in an audit report marked "Unqualified".

Those who are shareholders of Dorchester Pacific should look at their latest audit report and they will see this very phrase, as will those shareholders of Sealegs Corporation referred to elsewhere in this newsletter.

The objective of this article is to beseech shareholders to read all audit reports of listed companies and ensure that there is no qualification immediately above the words 'Unqualified Report'. All audit

reports are in a standard format which most of you will find easy to recognise; any comments added should be scrutinised with great care; they may be critical to the value of your investment.

***Oliver Saint***

## FINANCIAL LITERACY IN THE WORKPLACE

We have commissioned the Enterprise Trust of New Zealand to develop the content for delivery in the workplace. The core content is around

Earn a dollar spent less than a dollar and create a surplus

Where does your money go each week

The power of compound interest

Where to from here - who can help

We have made good progress in developing the content and will pilot the programme with Foodstuffs Auckland who are very enthusiastic about the programme and have congratulated NZSA for taking the initiative.

We expect to pilot the programme in September and want to run it in one other workplace by Christmas

## RESEARCH SCHOLARSHIPS

We have confirmed scholarships with:

1. Massey University and Fisher Funds Management and are actively advertising for a student - which is actually the hardest part.

2. We are ready to announce to the media a scholarship funded by Stephen Tindall in conjunction with AUT University

The good news here is that we also have a student lined up for an immediate start - watch the media for an announcement soon.

We also have agreement with another funder and University but need to complete the paperwork so expect an announcement in September.

At that point we will announce the overall programme to the media and look to bring all the parties together to discuss our overall research direction.

Any thoughts from members as to what we should research in the NZ Equities market and governance would be most welcome.

***Kevin McCaffrey***

## DES'S VIEW

It does not give me any pleasure to report I was one of the first to forecast some time ago the USA would go in to a recession along with NZ. I still believe we have more bad news to come in the USA and NZ before we can expect to see a recovery. The financial sector has acknowledged the problems in the housing sector but have yet to come clean on other matters like credit card debt, business failures due to the housing collapse and now lower retail spending etc.

Europe has also been caught up with similar problem with the major banks taking a big hit especially in Ireland and the UK.

Some share brokers have indicated P/E`s are starting to look attractive for some shares like Fletcher Building. That is on the assumption earnings will stay up around their current levels. I suggest one look at earnings before the recent property boom to see what they were at that time. Companies may struggle to meet their earlier forecast with the recent turn down in retail sales which will force them to drop prices to maintain market share which then flows on to a lower earnings per share.

In the USA shares have now dropped over 20% from their highs. Some people are saying the markets may have to drop to around 30% from their previous highs before a bottom in the market has been reached. This would not surprise me if this occurred. The stocks which are likely to recover first are those not involved in the financial, retail or property market.

Unfortunately in NZ we do not have too many outside these sectors.

The one that stands out is Fisher & Paykel Healthcare which got driven down along with all the other stocks. It is no wonder most people see holding cash and (A) grade bonds as the best bet at the moment.

The good news is that one day we will see some great buys. The challenge now is to get one's timing right.

***Des Hunt***

## COMPANY MEETINGS

### **IMPRESSIVE ACTIVITY BY OUR NZSA BOARD**

I had the opportunity to attend my first board meeting as an adviser and I wanted to share with you what I took away from that meeting.

I was very impressed with the prodigious output from just 6 Directors, 5 of whom are providing their services on a voluntary basis, because they believe very much in the goals and achievements of our Association.

As you all know the primary function of our Board is to advocate for better corporate governance and to challenge those who are not up to the mark. Bruce really fronts this and many of you will have seen that there has been much activity on the Dorchester front in the last couple of weeks!

NZSA lives close to the edge, and Ross checks the critical letters which challenge company boards. Recent examples are: F&P Appliances insider trading; NZX performance; Opinion on Auckland International Airport ; Independent scrutiny of Auditors; Dorchester; and the new disclosure regulations.

Chris covers many areas to ensure NZSA runs smoothly. He produces the monthly accounts, membership data, website management, minutes and detailed agendas before each meeting, and then participates in the discussion. He handles numerous enquiries from the branches over subscriptions and many day to day issues.

The Financial Education programme has reached a stage that the Board will be looking for trainers to deliver the courses from all corners of New Zealand. Alan has put in hours of his time developing the teacher and student manuals, and creating power point content to support the modules.

Many companies are visited by Des under his Corporate Liaison role and he writes articles, such as a recent one on the remuneration of senior management and the CEO as a director.

Kevin has been involved in the development of two Research Programmes with AUT and Massey University, whereby we have obtained sponsorship to enable the Association to benefit from 600 hours of research work undertaken by a PhD student on scholarship.

We discussed the problems in the listed finance sector, namely Dorchester Finance, Dominion Finance and the newly listed Geneva Finance. If you have friends or family who are involved in the finance company problems, please encourage them to join our Association so they can learn about risk and support our actions.

The Website has undergone quite significant development in the design and livery of the site and soon migration of content will be undertaken to be ready to launch the new look website.

Kevin has been involved in the development of a financial literacy programme to be taken into the workplace.

Additionally, there is the writing and co-ordinating of the bi-monthly newsletter covering branch activities, and company reporting where a proxy representative has attended the AGM on your behalf.

The itinerary and the speakers for the National AGM were agreed – and we hope very much that you will attend in person on 12 September 2008 at Eden Park, Auckland, and hear directly from your Directors.

## ***Jacquie Staley***

### **AUCKLAND INTERNATIONAL AIRPORT – CORPORATE LIAISON**

I met up with Tony Frankham (Chairman) and Dr Keith Turner (Deputy Chairman) to discuss the recently announced new CEO proposed \$600,000 short term incentive and 3,000,000 phantom option package. It was explained to me the KPIs (Key Performance Indicators) set for both the short term incentive and phantom option package were stretched, and on top of the CEO's other goals which make up his normal job responsibilities. Unless the CEO achieves all the KPIs, goals etc there is no guarantee the short term incentives will get paid out in full, or the total options on offer will be available to him.

I pointed out our concern was that a number of boards have been paying out performance bonuses etc even though the CEO has failed to achieve many of the KPIs set down in the first place. At this point in time I am prepared to accept what I have been told but suggest we now monitor the company's performance to see if the CEO incentives work out as the Chairman and Deputy Chairman explained to me.

## ***Des Hunt***

### **INFRATIL UPDATE, CHRISTCHURCH.**

Margaret Murray wrote a detailed report for her branch committee on the Infratil Briefing conducted by Tim Brown and Fiona Cameron on 2<sup>nd</sup> July. Infratil's aim of a sustained 20% return after tax to shareholders, is currently being dented by the global downturn on any thing like infrastructure which contains high borrowings. While we cannot include the full report, Margaret can supply this to members by email. However the questions from the floor provide a further insight into Infratil's activities.

Questions from the floor

Q: Is there an intention to buy more Trustpower?

A: Currently Infratil is buying its own and AIA shares. It owns nearly 10% of AIA.

(I asked Tim later what the intention was relative to buying their own shares. These shares are held in stock and not resold.)

Q: Please comment on Austral Pacific.

A: Hoping no one would ask that. It was not one of our better investments.

Q: Is the investment in AIA intended to supersede Whenuapai ?

A: Do not see these interests as competing.

Q: What is the strategy relating to AIA?

A: Would like to end up as controlling shareholder; no clear roadmap for this; not happy with recent processes. AIA forecasts increased growth.

Q: Why lengthen Wellington's runway?

A: \$35m had to be spent on runway safety. Runway extended 2km at each end, but just extended 2km over the road.

Q: Why buy into the bus company? Surely it was expensive?

A: It was a mistake, yes. Government has not allowed Councils to offer incentives for Infratil to buy. "Squillions" spent by government on current infrastructure rather than new services. Have five year plan so still feel in the right space and hoping the government will see better sense for Auckland.

Q: about Stagecoach?

A: Infratil paid less for the bus company than replacement cost- good investment.

Q: What is the sensitivity of profits to overseas currencies?

A: Softer NZ dollar is good for Infratil.

The meeting ended with drinks and nibbles.

I have a copy of the presentation from the meeting if more detail is required.

## ***Margaret Murray***

### **RESTAURANT BRANDS 19/06/08**

The company had stabilised after last year's decline, and presented its credentials in a direct no-frills way which was appreciated by the 100 shareholders present. Our discretionary proxies totalled 305,738 of a total of 340,484, but they were not needed because the resolutions were passed without noticeable dissent.

The company holds the most successful KFC franchise in the world on a profit and sales per capita basis, and Starbucks is still growing strongly from a smaller base. The acknowledged archilles heel is Pizza Hut, the largest player in the market and therefore vulnerable to smaller crowding participants struggling to increase sales. The exit from the failed expansion in Victoria is now complete. The 97 pizza stores are being trimmed to increase productivity, which improved in the second half of the year, and terms with Yum (the franchisor) are being renegotiated in preparation for the majority of renewals in 2010.

The board led by Ted Van Arkel (formerly of Foodtown fame) seems ably led and has good depth and experience in the fast food industry, and the new CEO Russel Creedy seems a direct and efficient operator. We started on the right foot by complimenting Ted on the minor changes we had requested in the proxy forms.

The increase in operating cash flow from \$m21 to \$31m was used to pay down debt (\$6m) and increase dividend, and provide for the store renewals and tougher economic conditions in the coming year.

Our questions over the appointment of Danny Diab from Sydney were answered. He is based in NSW, Yums most successful Australian pizza franchisee, was not associated with the purchase of

the Victorian stores which were a collection of insolvent and poorly managed pizza shops, and did not gain from either the purchase or the sale of these businesses.

Our further questions over the time commitments of Ted Van Arkle and Shawn Beck, (both reelected) were answered to show that the company was benefiting from their close attention. . Expect more structural improvement from Restaurant Brands but in the current market conditions this is unlikely to result in large increases in profit.

Several audience question and comments over the quality of menus and products led on to the best luncheon offered by companies in my portfolio, and that's just what many shareholders turned up for.

## ***Alan Best***

### **COMVITA'S DASH FOR GLORY STUMBLES**

Having sold a placement of new shares at \$2.80 each in September 2007 by promising a profit of 2.4 cents per share for the period to March 08 and 19 cents in the 2009 year; the AGM was always going to be touchy when the Company actually produced a loss of 15 cents per share in the 2008 period and markedly cut back their 2009 forecast to just to just 7 cents per share. Recently the share price has been lousy and there was no dividend. The directors put on positive spin, turnover up 41% but did acknowledge things had been difficult. New Director Maurice Prendergast of Pumpkin Patch fame together with David Cartwright and Chairman Neil Craig were re-elected directors. Cartwright spoke very well to his nomination emphasising the need to get the bottom line right. Neil Craig is a hard working and successful businessman but struggles as a chairman – he stated there would be no further acquisitions, this news was well received. There were several lively questions. The answer to a query about goodwill impairment was adequate. Goodwill represents 40% of the Companies assets and a hiccup in this area will flow through the Profit and Loss Account and spoil earnings. Operating in the fast growing and large health/ wellness industry with exciting and unique products, Comvita is not without promise but the jury is still out on whether they can pull it off. There are four quoted public companies in the Tauranga area; one would have thought it unnecessary that two of them have AGMs on the same day and at the same time. Bad luck, or does good management made its own luck?

## ***Howard Zingel***

**KINGFISH** – 12 July 2008-08-06

Proxies held by NZSA: 14 totalling 206,600 shares

Market Capitalisation: \$76 million. [www.kingfishlimited.co.nz](http://www.kingfishlimited.co.nz)

The AGM had been preceded by a Fisher Funds countrywide roadshow and the number attending in Auckland may have reflected the fact that current information about the group was already known. However this should not deter shareholders from attending AGMs as you never know what might happen and the continuous disclosure rules cannot prevent shareholders from obtaining their only real insight into the capabilities of Board members. At the time of writing the Chairman and Carmel Fisher's address have not appeared on the Kingfish website (they probably never will if previous experience is any indicator). Shareholders who were unable to attend the meeting will therefore be interested to learn of the updated strategy for the company.

Make the investment decisions on what we know rather than what the market thinks  
Be prepared for continual volatility  
Refer to experience and listen

Carmel suggested that the worst was behind us although when pressed later by a shareholder for the date the market will have bottomed she suggested the middle of November. Whilst acknowledging that the year was a shocker for the Company she responded to eight questioners with her usual

honesty and confidence no doubt assisted by the fact that many of the questions had already been canvassed during the extensive roadshow. Queries on the cash received from warrants still uninvested; the weighting of the portfolio; disbelief as to the discount of the share price in relation to net asset value per share; whether the managers were too close to the companies in which they invest; the inclusion and omission of various companies from the portfolio were all dealt with by Carmel.

The re-election of Ian Hendry the non-executive director provided an interesting address from Ian covering his background and experience which was well received by shareholders.

A portfolio analysis in July shows the following percentage holdings of Kingfish:

Mainfreight	18%	Ryman Healthcare	17%	Metlifecare	12%
Freightways	9	Michael Hill Int	7	Delegat's	6
NZ Exchange	5	Pumpkin Patch	5	Rakon	5

## ***Oliver Saint***

### **KERMODEC PROPERTIES** 1<sup>st</sup> August 2008

In a sparsely attended meeting the Chairman reported that property prices were being heavily discounted. He stressed that in Kermodec's case this was unwarranted, because they had met their prospectus forecasts, were experiencing a 98% occupancy rate, with an average committed tenancy of 6.4 years. The net asset backing on current valuations was \$1.14 pershare while the market price was only \$0.66 at the end of July. He also explained that Kermodec's market position in second string properties made it less likely to experience a severe shortage of tenants, as firms retrench from expensive first tier into cheaper Kermodec tenancies. There were no questions from the floor in spite of the Chairman's attempts to raise some.

## ***Joe Turnbull***

### **SEALEGS CORPORATION** – 28 July 2008

Proxies held by NZSA: 5 totalling 21,750 shares

Market Capitalisation: \$38 million. [www.sealegs.com](http://www.sealegs.com)

In a sensible move before the official opening of the AGM, the CEO, David McKee Wright, welcomed shareholders and asked the recently appointed Board members (James Hill, the chairman, and Chris Dickson) to introduce themselves and give shareholders a resume of their backgrounds. The meeting began with a full house at the Company's premises in Albany.

The chairman in his address was quick to point out that were it not for the fact that the new IFRS regulations insisted that the full value of share options was required to be disclosed in the income statement despite all options being 'out of the money' at the time at the year end, the Group came close to breaking even. The Association has sympathy with the criticism of IFRS but alternatively, universal introduction is a huge benefit to investors and it is unlikely that any rule on this subject will be viewed with universal approval.

The CEO spoke to a presentation that gave clear strategic outlook for the future. Your proxy holder urged management to incorporate this into the above website so that all shareholders will be aware of impending moves. Anticipating this move, I will not dwell on this strategy except to say that the technology is being developed into divisions that may be identified as follows:

White boats - for recreational purposes and include luxury.

Red boats - reactive boats for use by civil defence, fire departments and emergencies.

Grey boats - attacking boats for use by armies and surveillance.

The final strategy is to seek licensing overseas once the manufacturing facilities have been full used in New Zealand. At present 250 boats can be manufactured in New Zealand each year.

## ***Oliver Saint***

### **XERO**

The inaugural Xero AGM was crowded yet docile, with Rod Drury estimating 70 plus people attending. A recent NBR article and the website give the usual commentary. There were a number of interesting trivia items:

1. Xero currently has downstream feeds from all major trading banks in NZ and is planning uplinks in the future. I speculate this will atomagically initiate an electronic bank payment, when you push the 'pay' button on a Xero invoice.
2. About 70% of shareholders elect to receive electronic communications which may be more than at any other NZX listed company.
3. There are plans for useful messages from your bank in Xero, such as if you have more than 30K in your current account, it might mention a 9% short term deposit rate at your bank.

The only question from the floor was of a technical nature from a proxy holding both ayes and nays, who was politely advised to raise his hand twice.

Albeit the mention that there was no issue with the old auditor's performance whatsoever, the auditor change from BDO to PWC elicited a disappointed comment from the floor that there were many capable second tier accounting firms in NZ. However, the chairperson reiterated the explanation that a big four company was needed for the future expansion plans of Xero. Personally from my limited experience in the area I cannot fault Xero for the move.

Rod promised a release date of August 5th for some new features, quipping that the developers might hate him for that, which as a software architect made me listen up. There is the contrast between 1400 odd subscription licenses and Xero's international expansion plans. Perhaps this is just a sign of an extremely well qualified management team chaffing at the bit, while waiting for the product to develop momentum.

I do not currently hold XRO shares, but might buy some in the future, either to alleviate pain from biting my tongue when listening to director's jargon like 'best practice' several times, or when I think the price is about to break out. I am grateful to Xero as an associate sponsor of Unlimited Potential, a not-for-profit society for IT professionals, where I serve as treasurer.

## ***Martin Ehrenfreid***

### **RYMAN HEALTHCARE – 1 August 2008**

Proxies held by NZSA: 22 totalling 533,310 shares

Market Capitalisation: \$815 million. [www.rymanhealthcare.co.nz](http://www.rymanhealthcare.co.nz)

The meeting was held on the first floor of the Edmund Hillary Retirement Village in Remuera and it was certainly a showpiece venue, with comfortable seating (if you arrived early) and impressive surroundings. A quick count suggested there must have been in excess of 150 members in attendance, some of whom were residents.

The chairman's address indicated that trading was in line with expectations in terms of underlying earnings (which I take to mean that the Company results are in line with the projection of 15% growth). We were also that succession planning for the Board was firmly on the agenda and this included the possibility of a female member of the Board. As one shareholder succinctly pointed out at question time that the Village seemed populated in the main by women. On current year

progress, the CEO indicated that two new villages were expected to be completed in the current year with this rate continuing into the future.

One interesting question raised by a shareholder was the possibility of an outbreak of influenza (bird flu was the expression used) and the chairman advised that this was indeed a serious problem that had been considered. Details as to the plans to address this crisis were not however forthcoming.

A disappointing aspect of the meeting was the absence of the auditors. I had a question that I would have raised with them and whilst Gordon McLeod, the CFO, responded very adequately, nevertheless it was the auditors to whom, through the chairman, my question was directed. The Association believes that it is the responsibility of auditors of all listed companies to be present at AGMs. The fact that the meeting might be out of town does not relinquish them of this responsibility which they have accepted when taking on the auditing assignment. We encourage members to be aware that questions to the auditors is a very real means of obtaining information and should be used more often than in the past.

There were two disappointing elements of the presidency that I should report. First I had hoped that the chairman would have asked the independent director who was up for re-election to address the meeting. It should not take a shareholder to seek comment after the resolution is carried. The second matter was the absence of the auditors and whilst Gordon McLeod's response to the true and fair query was excellent, there was an independent director on the Board who the chairman could have turned to for comment. This was Professor Donald Trow. Professor Trow is the Emeritus Professor of Accountancy at Victoria University and I can think of nobody in New Zealand more capable of responding to this question. It is sad to see that such talent is not gainfully used for the benefit of these meetings.

## ***Oliver Saint***

### **MAINFREIGHT 31/ 7/2008**

The Chairman Bruce Plested gave an excellent presentation on the companies performance He also pointed out New Zealand in 1970 was 12<sup>th</sup> in the world in GNP per capita just 3 places behind Australia. . Unfortunately we have now slipped to 22<sup>nd</sup> and now 15 places behind Australia. What is of more concern the chairman stated was we are still moving down the ladder and we need to make some urgent changes in policy to the way we run the country to turn this around.

The company has now established strong warehousing and inter-state trucking in a number of states throughout Australia. Mainfreight through its fully owned CaroTrans has established a strong international freighting business in the USA. A recent acquisition in the USA will enable the company to develop a domestic freight and logistic service and importantly a retail air and sea international freight business. Another growth area is through their minority shareholder in a Hong Kong International freight company to service China and other Asian countries. When the topic of directors came up it was pointed out the experience there board member had in the transport industry rather than like many other companies where directors were appointed but had no understanding of the business they were over seeing.

It was then the turn of Don Braid (MD) to cover in more detail the operation side of the business. The highlights were to me was their policy to involve there employees in all aspects of the business and to promote within when new positions become available. Mainfreight achieved a 15% increase in NPAT and will be ahead in the first quarter of this year compared to the same period last year. Don stated the company is looking for a 15% return on capital for each business unit. Not all units are achieving this target at present but that is their goal for each one. Due to current growth and the need for extra facilities this will affect short term profits. It was pointed out by Don that shipping space is currently at a premium.

The plan for the company in 2012 is to achieve a \$2billion turnover with some 400 branches so we were all left with the impression they see plenty of opportunities for the company to be a world leading, freight company.

## ***Des Hunt***

### **MILLENIUM AND COPTHORNE HOTELS - 27 May 2008**

This meeting, in contrast to last year, followed that of its subsidiary, CDL Investments, allowing the chairman a more comfortable ride. Once again Mr Chiu, the CEO, showed his understanding of the company with an address that lasted nearly an hour with hardly a glimpse at his notes and delivered with an elfish sense of humour. The message this year is that times will be tough and the current year has started with fewer tourist arrivals and profits dipping in the first four months of trading. There were a number of questions but by far the most significant related to the acquisition of a hotel on Hainan Island, the West Coast Spa Resort and the joint venture developments with i-Vale. A shareholder, Nigel Smith, sought assurances from the Chairman that the capital injection into this joint venture did not incorporate borrowing or off balance sheet financial transactions or commitments. Shareholders were left with the impression that the capital injection did not include other loans but there was doubt about the extent of future commitments. The address by the CEO incorporated an interesting presentation of the Island hotel and the new development which impressed despite the horrific weather shown in the pictures. I was tempted to ask how many sunshine hours the coastline enjoyed and was advised that the area was sub-tropical and the visit was made in early January when the country was pounded by heavy rain. The development is being completed for the Chinese market and is viewed as a diversification from existing businesses. As we have, for a number of years, criticised the Board for its unwillingness to utilise surplus cash, it seems shareholders will need to await for a couple of years to assess the capabilities of the decision to locate diversification away from New Zealand and into Chinese territory. Mr Chiu stressed the maxim GPS – Growth, Profitability, Security (not Global Positioning, Satellite). The man would be an asset to the Banking Industry where an element of caution and long term planning is distinctly absent.

## ***Oliver Saint***

### **NATIONAL PROERTY TRUST AGM AND EGM**

I will not comment greatly on the AGM as it was the Special Meeting that was important, other than to say that the Chairman felt 'that the share price should respond to stopping the fee leakage'. ...and changes to the fee structure were to be voted on at the SM.

#### **Highlights**

NPT properties close to being fully leased

A net surplus after tax and asset revaluation of \$18.43 million

Dividend payment annualised at 0.5 cpa, and that level should be sustainable going forward

NPT entered the PIE regime in November 07

Repayment of capital notes was made in November 07 for structural simplification

Debt level was lowered from 41.2% of total assets to 35.1%, ie a de-risking of the portfolio

#### **Strategy and outlook for Trust**

Refurbishment to increase income revenue

Focus on a better mix of mid-tier properties: less retail and greater spread between industrial, retail and commercial properties and a better geographical mix

New fee structure recommended

#### **Special Meeting**

Six resolutions were put to the meeting covering additional rights for unitholders, and an enhanced fee structure. The issue of fees had been raised at last year's AGM and the Board had listened, taken advice, and the fee changes put forward to the meeting were based on market best practice.

At the start of the meeting a letter covering proposed performance fees, was read out.

The letter was from the manager of the Trust, St Laurence Ltd, who stated they would waive their right to a performance fee for 3 years. This waiver was received well and would also cover any new manager of the Trust, should there be a change.

The waiver took away unitholders' concerns over the timing of the performance fee change, and after explaining the fee changes and the reasons for the changes, there was majority support in favour. Institutional investors congratulated the manager for listening to unitholders concerns and felt that the new fees were a good way to get the Trust re-rated by the market.

However, the Cushing family (and their supporting unitholders) want the Trust to be wound up and all the properties sold.

Resolution results: 1-3: majority for; 4: slight majority against; 5&6: majority for  
It is very disappointing to have lost an opportunity to change what is the worst fee structure in the sector.

The manager has said they will entertain all proposals which is very open-minded. Maybe they will be forced into selling the management to someone else (the Cushings?). So the future of the Trust is now uncertain & it will take some time, especially if the Cushing family try to force a windup. It will also be very costly for unitholders (trustee fees, independent reports, special meetings, directors fees, lawyers fees).

The worst outcome is another manager with less property management experience than St Laurence & the existing fee structure.

**Jacquie Staley**

## BRANCHES

### Auckland

#### 1.Branch Meeting

On 4 June the Chairman of Air New Zealand, John Palmer, and the Chief Financial Officer, Rob McDonald, gave an excellent presentation at our meeting. They were able to respond fully to members' questions and Rob McDonald in particular demonstrated a very detailed and informed knowledge of the workings of the company.

The Members' Forum was chaired by Uli Sperber and Des Hunt, with their topics being Dividend Re-Investment Schemes and Bonus Share Issues.

#### 2.Company Visits

I am pleased to report that we have been able to arrange company visits again after quite a long 'drought'.

On 23 July, we had a very good turnout for a visit to Rakon which is a world leader in solutions for global positioning systems. They have manufacturing operations in NZ, USA, India, China, Asia and Europe. The Company provided an excellent presentation to members but unfortunately were unable to allow an inspection of their production area owing to the large number in attendance.

A visit to the Goodman Property Trust in East Tamaki is scheduled for 13 August and this is already fully booked.

Following this on 7 October, we have a visit arranged with Methven in Rosebank Road, Avondale.

There are a few places still available so interested members are advised to register their interest with

Joe Turnbull at 631-5071, as soon as possible to avoid missing out.

### 3.AGM & Branch Conference – 12 September

A valuable word of advice for anyone involved in organizing this type of event would be 'secure the venue first' before committing to a date.

It may be quite different in other centres but in Auckland, suitable venues tend to be booked out months in advance so it is wise to make sure you have the bookings secured before advertising the date for attendance.

We have been fortunate in being able to book the 'Hall of Legends' at Eden Park for the day. It is very central with plenty of parking so should suit very well.

We have formed a sub-committee which is led by Jacquie Staley and includes Uli Sperber, John Hawkins and Joe Turnbull. They are working hard on all the arrangements to make sure everything goes well on the day.

### 4.Training

We have two volunteers, Joe Turnbull and Uli Sperber, to become involved in the proposed training courses currently being organized. However, we feel that we need at least 4-5 people available to take on this role so will be circulating details to Auckland members with a view to getting additional volunteers to participate.

## ***Ken Cook***

### **Bay of Plenty**

In our June discussion group the theme was record keeping. It was led by Allan Smith who has developed his own comprehensive system which is based on a microsoft XL spreadsheet. Allan demonstrated the results with hard copy samples and generously provided copies of his programme for members to trial.

Our second feature was a comprehensive and well received presentation by John Mainland on New Zealand Oil and Gas Ltd.

A presentation on Foreign Investment Fund (FIF) tax legislation implications for members with overseas investments will be given on 23rd of July.

Our next meeting is scheduled for the 1st of Aug when we are looking forward to welcoming Kevin McCaffrey as our guest speaker

## ***Lloyd Christie***

### **Waikato**

The Waikato Branch AGM was held on June 26 at the Station Cafe, University of Waikato. This new venue proved a success.

Our AGM branch business was dispatched by Alex with his usual flair. Alex paid tribute to two long standing retiring committee members; Professor John Ward and the 'grandfather' of the local branch Keith Tanner.

Three new members were elected to the committee, Jim Haisman, John Davies and Roger Jennings

– congratulations guys, we look forward to your contributions.

Michael Riddell, a last minute substitute for Dr Dermott from the Reserve Bank, was our guest speaker and a very adequate substitute. Michael outlined his personal experience and how he saw the world and local economies.

It was a little surprising to me, that despite tradable inflation being 4.7% or higher (goods and services that are imported or in competition with foreign goods) that the Reserve Bank seems comfortable with an easing of the interest rates. This however will be dependent on buy in from the public to not raise inflationary pressures by increasing wages, prices and government charges. Good luck to the Reserve Bank! The recessionary outlook undoubtedly had an impact on the decision to lower the OCR subsequent to the presentation.

The branch meeting on July 31 was addressed by Frank Jasper, senior portfolio manager from Fisher Funds. Frank's topic was 'Fisher Funds approach to finding great stocks'. Frank emphasised the importance of quality and illustrated his presentation with ratios of "the arithmetic of quality" and "the arithmetic of value." This more technical talk was well received and was followed by questions.

### ***Robert Foster***

Waikato has a healthy and active membership. We have over a hundred members, and at our last Branch meeting, for example, had over 30 members attending with 12 apologies. We are fortunate to have working members as well as those who are retired, though the latter predominate. It would help to have different classes of membership - a student rate, a discount for introducing a member, life membership etc. to broaden our membership base. The present bear market is showing just how ill informed investors are, and organisations such as the NZ Shareholders' Association can play an important part in educating people so that they are better able to cope with the next downturn in the economy. New members are very welcome, and are encouraged to attend our Branch meetings and to join in our activities.

### ***Helen Glyde***

#### **Wellington**

We have had a busy schedule with interesting speakers over the last three months

In May we hosted the Deputy Leader of the National Party Bill English speak to us. The size and growth path of the current government spending over the last eight years was made clear to us, and we received a realistic assessment of the difficulty in turning around that trend. The emphasis given to making NZ competitive with Australia, and not losing the ever-so-mobile mobile human capital and their cash was encouraging.

In June we were fortunate to have Neville Jordan present to us. We heard how Neville founded Marine Air Services in Petone starting with \$2,000 and operating out of his car and a spare bedroom. Twenty five years later he listed the company on the Nasdaq Exchange, and was later taken over by a multinational. His MAS story is a great example of what can be done with the application of science. Neville now runs Endeavour Capital and he spoke with us about some of the issues facing science based business in New Zealand, and gave us some examples of the great things that are being done.

In July Gordon Ward, the CEO of Pike River Coal, presented to us on the Pike River project, international steel and coal prices, and the future plans for the company, including the possible extraction of the second layer of the coal seam, and the development of other opportunities.

First NZ Capital continue to support us with the use of their boardroom and caterer for which we are very thankful.

**Mathew Underwood**

## MEMBERS ISSUES

### **Beacon and Glob Awards**

Since 2002 the NZSA has used the Glob and Beacon awards to promote good company governance. The final selection is made by our executive committee largely from nominations put forward by members. Closing date for nominations is the AGM – 12<sup>th</sup> September. Please make a contribution. Who do you think deserves the Beacon award, which is presented to someone for their excellent service to shareholders with a particular emphasis on good governance? In the current environment losses are more acceptable when management has been transparent and forthright with shareholders. Rob Fyfe plays a straight bat in a difficult industry – any takers? Finding villains for the Glob award is usually easier and this year particularly so. The finance industry has thrown up some real scoundrels. Joe and I would be please to have your thoughts – email Joe Turnbull, [rjyturnbull@xtra.co.nz](mailto:rjyturnbull@xtra.co.nz) or Howard Zingel, [howardz@xtra.co.nz](mailto:howardz@xtra.co.nz) ..

### **Xero proposes a sweetener for NZSA members**

Martin Ehrenstein reports that small business, on-line accounting firm, Xero has offered a month's free trial subscription to NZSA members. Please contact Martin at [martin.ehrenstein@gmail.com](mailto:martin.ehrenstein@gmail.com) if you are interested, after looking at the Xero website.

### **When a moratorium is a crematorium**

John Whittfield of McDonald Vague has emailed Bruce with his concern over moratoria being imposed on depositors and shareholders in Finance companies

“There is a real issue with these finance companies that are going into moratoria  
Any subsequent liquidation would neutralize voidable transaction claims, if liquidation was outside of 2 years.

It would make it very hard for a liquidator to put together a case to recover funds from those not entitled to it.

Do you know if this information is tabled to investors at these meetings?”  
Could the neglect of this advice constitute fraud?

We believe that depositors and shareholders are not being so advised.

This was part of the reason we have written to shareholders in Dorchester, and have advocated immediate liquidation over slow death and cremation!

### **Branch portfolio competition**

After Adjustments for the date Auckland and Waikato are almost neck and neck, Auckland leading \$20,055, against Waikato \$19,932.

An update on the results of this competition is so far is set out below:

**Auckland 31/03/2008**

Fisher & Paykel H'care	793	293	2323
Kingfish	1493	102	1523
Mainfreight	140	595	833
Mainfreight options	6000	8.7	522
Nuplex Industries	293	615	1802
Opus	650	171	1111
Rakon	1351	285	3850
Trustpower	132	755	997
Vector	387	172	666
Cash			4775
<b>Total Value at 31.3.08</b>			<b>20055</b>

**Waikato 5/04/2008**

Company	Shares	Price	Value	Result %
Contact Energy	500	8.64	4,320.00	+10.46
Cadmus Technology	3,520	0.09	316.80	-60.35
Fisher & Paykel Health	297	3.09	917.73	-10.80
Infratil	946	2.14	2,024.44	-32.30
Infratil Warrants	122	1.10	134.20	+10.00
Kingfish	665	1.11	738.15	-27.83
Mozy	425	6.40	2,720.00	-10.88
Northland Port	344	2.90	997.60	-2.46
NZ Oil & Gas	886	1.42	1,258.12	+25.89
Port of Tauranga	477	6.20	2,957.40	-0.72
Rakon	1,000	3.15	3,150.00	-22.22
Cash			2,131.30	
Totals			21,665.74	-10.13

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