"The Scrip"
MANY INVESTORS; ONE VOICE
New Zealand Shareholders Association Inc.
NZSA

December 2008

BRUCE'S EDITORIAL - THE GREAT UNDOING

As we approach Christmas it would be a mistake to think that we are through the worst of the correction that has hit every market, both consumer and investment. In the words of Winston Churchill, "It is not the end; it is not even the beginning of the end; it is the end of the beginning".

When you have a bunch of politicians, excluding our own John Key saying that it will all be over in 18 months, it is a bit like the politicians of 1914, saying "our boys are off to the six month war". They have not got a clue; it will be at least half a decade before we see light at the end of this tunnel.

It is all now very predictable as to how ugly it will get, and it is also reasonably predictable as to how people will react to this "market" adversity.

But every cloud has a silver lining, as in times of adversity and uncertainly we collectively learn what is important, and society and individual values change. My bet is that when we get through this time the world will have found a different way to live, and we will look back in 10 years time and understand that all that happens in the next 10 years was necessary to create a better world.

Hard lessons will be learned, and with hard lessons come even harder shocks as part of the adjustment. People will react badly to having there expectations of life curtailed. There may well be riots and lawlessness. Investors will panic as their business profits are savaged, and the value of their assets will deflate further. Banks, and big ones, will be shaken to the core by debt defaults as the degearing process accelerates. We will suffer a short period of Consumer price inflation, (we are over half way through this phase,) while asset values strongly deflate, and then it is possible that we will revert to a deflation style depression. If so the correction will take much longer,- possibly a decade.

In the course of this process much of business and banking will in effect be socialized through government assistance. Think about what happened to Air NZ when it nearly failed with Ansett. Same deal; politicians will end up with significant licks of equity in the businesses that are unprepared for the future.

But at the end of the adjustment process we will learn a few simple lessons collectively:

1. Simple is best, and better, the world and investment is actually very simple.

2. Relationships are all that count, it is people that are important. We will relearn charity we will relearn loyalty, and we will learn that those who behave honorably in these times and survive well while respecting and helping others are the true leaders of our world. We will begin to know the value of ethics and the power of integrity, and best of all these lessons will be society wide.

So what do you do in these times if you are an investor?

Firstly you sell every investment you have that is run by people who appear to be stupid or dishonest. You don't try to second guess which businesses will succeed and fail on macro economic data, all will suffer, and the important thing is to avoid stupidity and dishonesty, and the people who are unlikely to learn these lessons quickly. Secondly in terms of new investment you do nothing different from what you did in good times, you buy businesses with a value proposition that you understand, that a customer will pay

for, that has cash flow, moderate levels of debt and RUN BY PEOPLE YOU TRUST AND ADMIRE.
And the great news is this, not everyone understands the lessons that are still be learned, and you will buy such businesses over the next 2 years at prices that will be so cheap you will wonder at the stupidity of your fellow man.

However how do you judge what is cheap in historical terms. PE's of 15 or more were the norm last year, and earning will likely fall as will the Price to earnings ratio on these earnings. But so too will interest rates likely deposit rates will fall to 4.5% or less which after tax is the same as a PE ration of 33. Thus PE ratios of 10 to 15 on the reduced earnings of next year don't look so bad, but only for good businesses that will survive run by people who do not need to learn the lessons of the next decade because they have already been living them.

2009 is a year for hope, but not celebration.
Bruce Sheppard

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ANNUAL REPORTS – WHAT SHAREHOLDERS NEED TO KNOW

Editors Note: Des Hunt has had the following article published in the Journal of the Institute of Directors, and has formulated the basic information we would like to see included in all annual reports from listed companies.

It is important that executive pay is aligned to shareholder returns. As share prices continue to yo-yo, it is imperative that company directors do not introduce attractive packages for senior executives (like new share option schemes at the expense of shareholder owners,) now share prices have dropped. Options are usually priced at a discount and success is often not rewarded by performance but by a bull market. Unless executive share option schemes and bonuses are set on the basis of adding value in line with shareholders returns, the company will create dissatisfaction with its shareholders.
Warren Buffett, chairman of Berkshire Hathaway, is not a fan of executives' share option schemes. He feels that many share options in the corporate world have worked by gaining value simply because management has retained earnings and the workings of compound interest, not because the company has done well with its capital. The problem with fixed price options is that they bear no capital cost at all. The option holder would benefit from no dividend, whereas the shareholder generally wants a dividend.
The New Zealand Shareholders' Association is not against rewarding executives for exceptional performance as long it is in line with shareholder returns. It is important that

rewards for executives are tied to medium to long term performance rather than short term. We prefer cash bonuses over share options and like to see executives make a commitment to use some of their bonuses to purchase shares at market prices.
In setting short term bonuses (12 months), I would like to see them restricted to no more than 30% of the total basic pay.
For long term bonuses the NZSA have no dollar or percentage in mind so long as they have some relationship with what the employees may receive and shareholder returns. Long term bonuses should not be paid out until at least three years. I am recommending targets are set for a three year period and the bonus paid on the average return over those three years. As one year ends another one gets added to maintain the same basis for the scheme. In setting senior executive remuneration packages I would like to see the board take more responsibility rather than relying on outside consultants.
The NZSA would also like to see companies improve the way they report their results and their executive remuneration. It is important companies provide their shareholders with information that can be easily understood. The majority of shareholders find it very difficult to interpret results without professional help. Currently each company reports in a different way. As shareholders, we need to encourage companies to have a standard format for their annual reports which would include the following information:
CEO:
annual base pay and benefits (as is done in Australian companies)
annual fixed remuneration (base and all benefits)
variable pay (at risk component) amount paid and percentage of what might have been paid
total remuneration (base, bonus, benefits).

STAFF REPORTING TO THE CEO:
Include reports from the entire senior management team including their total annual base pay and cost of all bonuses and benefits.

FACT SHEET
income statement (a 5 year history)
EBITDA
depreciation and amortization
EBIT
interest
share of equity accounting profit.
Profit before taxation
income tax expense
NPAT
outside equity interest
profit attributed to shareholders
net operating cash flows

BALANCE SHEET
cash
other current assets
other non current assets
future income tax benefits
intangibles assets (goodwill and other)
total assets
current interest bearing debt
other current liabilities

term borrowings
other long term liabilities
deferred taxation
total liabilities
net assets
paid up capital

reserves and retained profits
total shareholder equity
shares issued at year end

EARNINGS PER SHARE
basic earnings per share before abnormal items
basic earnings per share after abnormal
diluted earnings per share
dividends paid or declared per share
interim, final, total.

ANALYTICAL INFORMATION (a 5 year history)
percentage of EBITDA to sales
percentage of EBIT to sales
percentage of Profit after tax to sales
percentage of EBIT to total sales
percentage of EBIT return on shareholder funds
current assets to current liabilities
EBIT interest cover
effective tax rate
percentage interest bearing debt to equity
capex excluding acquisitions
net tangible assets backing.

If a standard format were adopted, it would make annual reports more robust and readable, therefore enabling shareholders to gain a greater understanding of the inner workings of their companies.
Des Hunt

2008 GOVERNANCE SURVEY

Jens Mueller from Waikato University's School of Management has sent a message of thanks to all members who participated in previous governance surveys. This year, with about 20 other countries also reporting, Waikato will be able to provide a 3-year trend for NZ firms, as well as a global comparison. Any member is welcome to complete the questionnaire.
The survey creators have added several benefits for you to choose when you complete the survey at (click on link):

http://isalient.com/app/index.php?survey_code=3c7a17f1&login=1

If you have any questions, please feel free to contact Jens Mueller directly
m@usainfo.net).

Alan Best

BOARD REPORT FOR NOVEMBER

1. Membership: Membership is still stable at over 1000. However with the negative sentiment towards share investing at present, the board decided to mount a branch membership drive including incentives for both branch and individual recruiters. Patrick Flynn will publish the details to all branches.
2. Finance Companies. We are awaiting directors' advice of the special meeting for Dorchester. Geneva Finance was the subject of a special board meeting and a full report has been prepared by John Hawkins.
3. Education: The seeding funds which NZSA has advanced to the Flow Trust, has resulted in a very positive pilot and the Trust is on track to roll out a financial literacy programme to companies from February 2009. By contrast the Branch education programme has not yet been fully implemented.
4. The appointment of Patrick Flynn as National Manager is expected to assist branch development and is the subject of a special note in this edition of The Scrip.
5. The choice of Wellington as the venue for next year's AGM was confirmed, and it was felt that this would provide a considerable opportunity to increase membership in this vital region.
6. Research Scholarship programme: Massey has had some difficulty in identifying a suitable post graduate student. However we are on track to have three researchers operating in 2009.

Alan Best

GENEVA FINANCE

Background

The NZSA has been under pressure for some time to be more pro-active in commenting on the finance company sector. This has been difficult as most of the companies concerned are private rather than public entities, and consequently outside our area of concern.
However, because Geneva Finance (GFL) made a scheme of arrangement with its debenture holders that converted 15% of their holdings into shares at a rate of approximately 37c per share, over 2000 people became small shareholders in a listed public company. The shares last traded at 7c. This was a situation that many were unhappy about. Information came to the NZSA board which suggested that

- The GFL board was not acting in the interests of all shareholders
- That the GFL Board was essentially the same as that which had presided over the collapse of the company and offered few new ideas going forward.
- That all the Board members had many shared business interests and other directorships
- That new Board appointments were close associates of the existing members.
- That the existing GFL board was factionalised

All this seemed to promise little hope of improved governance and a fair deal for smaller shareholders.

The NZSA Board therefore decided to circulate all GFL shareholders seeking support for two resolutions to be put at the AGM, or failing that, for a SGM to be called to consider them. The first asked shareholders to remove three existing directors and the second asked shareholders to appoint three NZSA nominees as directors. It would be fair to say that most of the existing GFL board were not in favour of these developments and they were accordingly reluctant to engage with the NZSA.

The NZSA received well over 600 responses to this circular and subsequently a significant number of proxies were received when the GFL Board resolved to put the resolutions to the November 12 AGM.

After receiving such strong support, the NZSA was able to force a dialogue with several of the GFL board. More detailed research began to create concern that some information we had received from interested parties (including a so-called whistleblower) was inaccurate, or that not all facts were being disclosed.
It was also apparent that the scheme of arrangement that GFL had set up had delivered on all promises made to this point, with 25% of capital having been repaid and interest of at least 11% being paid on all debentures and bank accommodation. This in itself is substantially better than most finance companies in difficulties have managed. The board has also been successfully diversifying income streams and the company was trading at a profit, excluding any additional loan write downs.
Late in the proceedings, after the AGM notices were issued, the GFL Board provided us with additional information proving conclusively that some of our original sources were unreliable and confirming our growing concern that some of the measures we were promoting were unwarranted.

As a consequence, the NZSA board held a special meeting on the morning of November 12th where the following was resolved.

- On balance, a mistake has been made and the NZSA as a champion of good governance and clear communications should admit this.
- That the Geneva board is in fact largely composed of members who have few common business interests, and that the recent new members bring significant business expertise to the GFL Board.
- That generally speaking the GFL Board is doing its best in difficult circumstances and is considering the interests of all shareholders.
- That where the NZSA held undirected proxies, it would vote them in the following manner:
- That the NZSA would vote against its own resolution to remove three of the existing GFL directors
- That the NZSA would vote against the reappointment of Glen Walsh to the GFL board
- That the NZSA would support the election of our candidate June McCabe in preference to the new GFL candidate David Smail.
- That Bruce Sheppard would withdraw his own nomination for a directorship at the meeting.

The AGM Meeting – 12 November
A modest crowd of perhaps 150 were in attendance along with Bruce Sheppard and the writer, who held the Association proxies.
Chairman Brian Walsh occasionally struggled with some of the finer details of running public company AGM's, but came across as both committed and sincere in his address.
CEO David O'Connell was reasonably upbeat about how things were going, with the company having drastically downsized removing $15m of overhead and trading at a modest profit. He advised that they were ahead of target for the next 15% capital payment to debenture holders (making 40% repayment in total) with most of the funds already in the bank. The company now has strict lending criteria in place with new loans

subject to adequate security and credit checks. The loan book has been split into two, with lower grade earlier lending being consigned to the “old” book. This continues to be of concern with additional write-down’s resulting in an overall loss for the year. The “new” loan book with higher grade lending was not having the same issues and was performing well.
O’Connell saved his major bombshell for the end of his address when he advised that GFL was in discussions with its bankers as it had breached one of its loan covenants. Under questioning he admitted that if the bank negotiations were unsuccessful then receivership was probably inevitable. Both he and Chairman Walsh were confident of success but could not offer any guarantees. They would also not be drawn on whether there was a “Plan B” option available to the board.

When it came to the election of Directors, the board had all decided to seek re-election as they felt this was the most transparent way of dealing with the NZSA challenge. They all offered themselves for re-election and all were endorsed by the Board except for former CEO Glen Walker. When queried on this, the Chairman would only comment that the rest of the board would be more unified without Mr Walker’s services.

Bruce Sheppard then spoke and advised that the NZSA felt it had made a mistake and that we would be voting against our own motion, and would accordingly support the re-election of the directors as detailed above. I felt Bruce could have made a comment that the GFL board members initial reluctance to engage had certainly contributed, however he chose not to. Bruce made the point that the NZSA must live by the same standards that we expect of others. We accept that Boards will make mistakes from time to time and that is not a problem for us (continuing total stupidity excepted). However, acknowledgement of, and learning from mistakes is important and we wanted to acknowledge our error and be as upfront as possible.

Naturally, one or two shareholders told us to stop interfering and go away, but rather surprisingly, we did receive strong support from Chairman Brian Walsh who said that the NZSA played an important role and was part of the checks and balances that were necessary in the public companies sector.

Voting then took place, and some time later it was confirmed that the existing Board except for Glen Walker had been re-elected. David Smail was elected as a new member also.

The GFL Board also asked for a small increase in their very modest Directors fees, and after a comedy of errors caused by conflicting information printed on the notice of meeting and the ballot paper, this was passed.

Whilst the ballots were being counted, Bruce and I enjoyed afternoon tea and met a number of the GFL board members. We were also approached by a good number of shareholders who were complimentary that we had demonstrated a strong commitment to ethical behaviour.

Subsequent to the meeting, it was announced on Friday 28th November that GFL’s bankers have extended their arrangements subject to some future performance criteria, the first of which must be met in March next year. This is an excellent outcome for GFL shareholders and debenture holders alike. There now exists the possibility that GFL may find a way to become eligible for the government guarantee on capital repayments which would dramatically improve the companies chance of survival.
John Hawkins

THE BEACON AND THE GLOB

The presentation of the Glob always presents more challenges than that of the Beacon. No one wants the glob and so no formal public presentation is possible.
Having decided this year that Greg Muir, Chairman of Hanover would receive the Glob it was up to our intrepid Chairman to make the play. Surprisingly it was not so difficult to arrange a meeting because Hanover wished to convince us and thereby its debenture holders, that the proposed moratorium was in their best interests. There was consternation when it became evident that NZSA preferred a receivership to a moratorium, and that the □arrison□g□ation proposed by Messrs Hotchkin and Watson was not substantial. Finally our chairman repeated his little homily about the nature of brands, that they stand for consistency and quality, and illustrated his point with a can of Watties Baked Beans- “Mr Muir, you are not a brand.” For a moment it seemed that not only would Mr Muir reject his prize, but that the face of the NZSA would once again be bruised. However, Scrip can now report that we live to make another award next year. Let’s hope our choice of candidates then, is more limited.
The Beacon award to Bruce Plested, Chairman of Mainfreight, was a popular choice. After founding Mainfreight in 1978 with $2700 in paid up capital, and a 1969 Bedford truck, Bruce listed the company in 1996, and today has 3200 staff and 169 branches spread throughout New Zealand, Australia, USA, and Asia. Mainfreight has once again increased its dividend and continues to grow. Bruce duly acknowledged that all members of the Mainfreight team deserved and participated in our award. He joins an illustrious gallery of business leaders and mentors such as Roddrick Dean, Ralph Waters, Simon Botherway, and Brian Gaynor.
Alan Best

WHAT DOES PATRICK DO?

Patrick Flynn ACMA joined the ranks of NZSA in mid-October as National Manager, based at Gilligan Sheppard’s offices in Auckland. Patrick is initially working with NZSA on a part-time basis, the purpose of the role being to manage the day-to-day operations of NZSA, ensuring that the plans and actions agreed by the NZSA Board are implemented in a timely and effective manner, liaising with NZSA Branches to provide support to their initiatives and activities, and to be a point of contact with the NZSA for enquiries and requests from external parties.

WHAT’S GOING ON AT WOOL EQUITIES

A bit of history
“The Wool Board worked in strange ways and spent a lot of money.” Damien O’Connor.
The New Zealand Wool Board had the main functions of promotion of New Zealand wool and funding industry wide activities such as research and development. It was funded by farmer levies to the tune of hundreds of millions of dollars over the years.
In 2000 a review of the wool growing sector by consultants McKinsey and Company concluded that “The time has passed in which the board can be an effective promoter of New Zealand wool, or an effective mediator of grower concerns,” and that assets created on growers’ behalf could be used more effectively by commercial companies with a degree of entrepreneurialism. It recommended that the wool board be dissolved, several of its subsidiary arms privatised, and its $116 million reserves divided up.

Following on from this report the Wool Board held a referendum on its future with almost all of the farmers that responded (votes representing about 40% of the wool clip) in favour of the proposal to dissolve the Wool Board and transfer it's assets to new commercial entities.

A rather complicated process followed where in 2003 the board was converted into a transitional limited liability company (DisCo), and some of the Boards commercial assets were sold to two investment companies in exchange for shares in these companies. Merino Grower Investments Limited (MGIL) received Merino related assets, and Wool Equities (WEL) received strong wool (non Merino) assets. Shares in MGIL and WEL were then distributed to their respective wool growers based on the number of sheep they had farmed in recent years. Registered growers received their share allocation automatically and at no cost. Growers also had an entitlement to a share of the Wool Board cash reserves held in DisCo, $ 23 million dollars available for immediate distribution to the two grower groups, with the remainder ($ 8 million) to be distributed later when DisCo's liabilities were finalised and the company wound up. Wool Equities listed on the NZAX (WEL) and an IPO was made to wool growers allowing them apply their DisCo distribution to subscribe for more shares in Wool Equities. Many took up the offer.

So at the end of the process wool growers had received back some of the many millions they had put into the Wool Board over the years in the form of shares in either MGIL or WEL, and either a cash distribution from DisCo or extra shares in WEL, with the promise of more cash to come when DisCo was wound up. It is this final distribution that has recently been in the news as it being contested by Saxon Merino woolgrowers – but that's another story.

Current day and the Wool Equities Ltd AGM

While the Merino industry seems to have progressed well since the dissolution of the wool board, for the strong wool growers, and shareholders of Wool Equities in particular, things haven't been so good. Once again the wool growers are unhappy, and this time it's with Wool Equities Ltd.

I attended the Wool Equities AGM in Wellington on 30th October and saw two sides of the Wool Equities story.

The boards view is they are working hard to transform the company from a grab bag of money-losing, wool-related assets they inherited from the Wool Board, into an investment company focusing on realising value from their one remaining investment – Keratec Limited. Keratec takes wool, breaks it down into its constituent components and sells the resulting high value proteins and lower value peptide by-product to the cosmetics industry. As stated on the Wool Equities web site...

"Wool Equities is a technology investment company, focusing in the bio-tech sector and the commercialisation of technologies derived from pastoral sector research. Wool Equities' primary focus is the development of its major investment, Keratec Limited."

A vocal number of the shareholders, the Wool Advancement Group, don't agree with the strategy the board of WEL is pursuing. Their view is that Wool Equities was set up to advance the wool industry in New Zealand and has failed to do this. It started with wool related investments worth millions of dollars (paid for by wool growers via levies to the Wool Board and IPO subscriptions) and has over 5 years sold all the investments off and spent the proceeds funding itself and chasing money losing hi-tech pipe dreams that in no way advance the wool industry. As they did at the last AGM, the Wool Advancement Group (WAG) stood its own candidates against the directors up for election.

At the AGM chairman Andy Pearce gave what he described as "a full and frank report on the state of the company". It wasn't pretty. The board set four objectives for the last year for Keratec and none were achieved. Keratec (and therefore WEL) is fast losing money and will soon run out of cash. The main problems seem to be: (a) Keratec can't sell much

of the high value protein, as it turns out the key protein is too large to effectively penetrate the skin, while it can sell lots of the low margin peptide, and (b) Keratec has not been able to tie up a long term supply contract with a cosmetics company.
WEL and Keratec CEO Elizabeth Hopkins then gave a bumbling presentation that repeated much of what Andy Pearce had said.
Up for vote at the AGM were board proposed resolutions to elect directors, remunerate auditors, change Keratec's business model from manufacturer to licensor, delist Wool Equities from the NZAX and three WAG sponsored resolutions (not supported by the board):

> Resolution 10: Investment in wool based enterprises. That in the event that funds held in Disco are released either as shares in WEL or cash, the capital injected into the company as a result is used specifically for investment into wool based enterprises for which the levies were originally paid.
> Resolution 11: No Confidence Motion. That this meeting has no confidence in the Board of Wool Equities Limited as presently constituted.
> Resolution 12: Retention of NZAX Listing: That Wool Equities Limited retain its listing on the NZAX (at this critical time) for the higher level of transparency afforded to shareholders.

On a count of proxies all WAG sponsored resolutions were defeated and no WAG directors were elected – the counts were around 75% against, 25% for. However the board's resolution to delist from the NZAX was also defeated (51% against). The rationale for delisting was to save costs of about $200,000 per year. There had been a lot of discussion on this resolution and concern expressed that the small savings (a few dollars per shareholder) did not justify the loss of transparency and accountability that could result from de-listing.

What now?
There is not much in it for wool growers now. Wool Equities is staking everything on its Keratec investment, a company that turns wool into a slush to extract a few proteins and peptides and in the process throws away most of what started as wool. I suspect this is not what wool growers had in mind when they subscribed to shares in Wool Equities.
The WAG fights on and is attempting to find out how many proxies were disallowed and why. At the date of writing this information had not been provided by WEL. Doubtless they will be back to challenge the board next year but will there be a board to be challenged? I wouldn't put money on it and I certainly wouldn't put money into it.
Martin Dowse

COMPANY REPORTS

EBOS GROUP, AGM 28TH OCTOBER, CHRISTCHURCH

NZSA PROXIES – 32 TOTALLING 284896 SHARES

NZSA had an immediate impact on the meeting as I had forewarned the Company Secretary that we would be demanding a poll on the election of Mark Stewart. He endeavoured to counter this by telling me that sufficient proxies were held to elect him on a poll. I informed him that we still wanted a poll so as to guage the shareholders response to his bid for a seat on the board. The Company Secretary then left the meeting to seek legal advice which delayed the start by some ten minutes. Our demand for a poll was conceded by the Chairman.
The Chairman proudly announced that the Company is now in the NZX Top 50 Companies. In addition to the recent PRNZ acquisition there were also 3 other smaller

acquisitions. Turnover had increased to 1.2 billion. Staff employed is now 940 of which 700 are in NZ and 240 in Australia.

Two Directors were up for re-election along with Mark Stewart who had been appointed only on 8th September and therefore was required to retire and seek re-election. Director Elizabeth Coutts addressed the shareholders and gave an excellent and clear cut speech delineating her experience and objectives in being a Board Member. Mark Stewart also addressed the shareholders but he was more concerned in assuring shareholders that Masthead whom he represented was committed to a long term investment of its 10% shareholding. By being a shareholder his ability to trade in shares is restricted to the narrow window of opportunity allowed to directors. Evidence of Masthead's commitment was evidenced by their re-investing in the Company of some $6m of dividends earned this year. The speech tended to be a bit on the arrogant side with little substance as to the benefits the Stewart Family could bring to the Company. There were a few disgruntled former shareholders in Vertex who were obviously not enamoured with having Stewart on board. A Poll was then held and Stewart was re-elected as expected but some 424,000 were recorded against him of which 217433 were from the NZSA Proxy Holder.

The next item on the Agenda was to increase the aggregate total of Directors Fees to $450,000. Rick Christie spoke on the reasons that this increase was required and it was passed on a show of hands with the NZSA Proxy Holder the only apparent dissenter. Director Peter Merton seemed to take exception to this and chased me round the room at the end of the meeting to enquire as to whether I had understood what Rick Christie had said. I told him that I understood perfectly but that this company had a record in the past of excessive increases in director's fees. He endeavoured to counter this by pointing out that some directors would receive nothing if there was no increase. I informed him that as Proxy Holder I was required to vote as directed. Mr. Merton was quite aggressive in his questioning of me. Not exactly a good way to win friends at NZSA. Despite this a good working relationship has developed with Rick Christie, Chairman and Dennis Doherty, Company Secretary.

Ritchie Mein

NZ FARMING SYSTEMS URUGUAY 16TH OCTOBER

NZ Farming Systems Uruguay (NZFSU) accelerated its land acquisition programme during the year to 36,300 hectares. Dairy conversion proceeded rapidly, with ll milking sheds operating by June 2008. It takes 3 years until full production levels from the time of land purchase.

NZFSU is still in a strong development phase and the financial results for the period reflect this:

- Capital investment of US$83.7 million in the acquisition and development of farmland.
- NPAT of US$1.6 million prior to performance fee paid to the manager, PGG Wrightson.
- The result for the year to 30 June ended with a loss before EBIT of US$25.9 million. Revenue was lower and costs higher than expected because its farm acquisition and development plans were accelerated.

Chairman Keith Smith told the meeting that earnings for the June 2009 year would be below analysts' forecasts.

Shareholders questioned the huge performance fees paid to the Manager, and it appears that performance fees for next year would be unlikely because of sharemarket volatility.

NZFSU will postpone any capital raising to invest in more farms until more favourable market and economic conditions.
In recent weeks milk power prices have dropped significantly and the company anticipates that prices will remain volatile.
First dividend will be paid after March 2009, and the dividend plan will offer shares or cash.
Management have put in place a solid foundation for the future.
Jacquie Staley

BARRAMUNDI 13TH OCTOBER

NZSA PROXIES 23, TOTALLING 377098 SHARES
For the first time that I can recall in more than 20 years of attending AGMs I sensed a funereal expectation among members present. The previous week of inexorable fall in share prices clearly had taken its toll. The meeting was notable for two excellent addresses. Frank Jasper, the analyst in charge of the Australian side of Fisher Funds Management, went through the selected holdings and gave convincing reasons why, even during the recession that is presently upon us, the companies had the capacity not only to survive but grow their performance during the period. This of course is quite different from saying that the share prices will appreciate in value. The address by Carmel Fisher was pitched quite differently and she had pinpointed the very emotional doubts that many shareholders had at the meeting. Was this the right company in which to invest? Will it go broke? Should investment be in Australian Shares at this time? Both addresses may be read on the website plus the presentation by Frank of the major companies in the portfolio. The comments were convincing and well received and as an expression of confidence at probably the most frightening period in recent history, were welcomed. There were around a dozen questions and many covered the minimal value of the warrants. These expire next year and there seems zero possibility that they will ever again be in the money. Board and management were probably tired of dealing with the various permutations of questions on this subject but they persevered and advised those present that the subject was a continuing matter for Board consideration. It is perhaps at this point relevant to comment that the IPO would never have got off the ground without the issue of free options. Historically, there has always been a steep discount between the market value of investment companies and their intrinsic net asset backing. The meeting lasted for a full hour.
Oliver Saint

PGG WRIGHTSON 30TH OCTOBER

NZSA Proxies: 43 totalling 516000 shares.

5 years ago, in Christchurch only 5 shareholders with 70000 shares gave their proxies to NZSA. This years increase was encouraging to our representatives.
Chairman, Craig norgate's report was positive, although warning about the disruptive environment that is currently engulfing the world economy. He was of the firm view that the products the company depends on will always be in demand, and while they may be subject to fluctuation this will not bring about any major cause for alarm.
The issue of the merger with Silver Farms received special attention. Essentially it resulted in the failure of the banks to supply the money required to pay for the 50% shareholding in Silver Fern Farms Ltd. Efforts by the Norgate and McConnon family

interests to raise capital by selling shares in NZ Farming Systems met with some opposition and the process was unwound. With the failure of international financial institutions; Lehman Brothers and AIG in the United States, the banks withdrew their support. There now seems little possibility that the Silver Ferns partnership will eventuate although it remains on the agenda.
Since the AGM the prospects for the Silver Fern Farms Ltd joint venture has fallen through due to the inability of the company to make the first payment on due date. This does raise the possibility of SFF taking legal action for breach of contract, an option that is open to them. Craig Norgate did acknowledge in response to a question from the floor that there was the possibility of a financial cost as a result of the failure of this exercise. However this is unlikely as there would be no winners and the relationship between the two parties remains very good.

The companies various revenue areas all performed very well, despite a high dollar, drought conditions within New Zealand and Australia and weak sheep and beef prices. This was passed on to shareholders as an increase in the dividend from 12 cents to 16 cents per share.

With regard to the future both Craig Norgate and Tim Miles the newly appointed Managing Director were confident that with a falling dollar and lowering interest rates and the continuing shift to western style diets by Asian cultures the future could be viewed with some confidence but sounded some caution with regard to weakening offshore markets. The board confirmed a stable year ahead based on the first three months of the 2009 year with profit forecasts in line with the current year. This will amount to $50m to $55m inclusive of a performance fee from Uruguay Farm Systems or $46m to $51m exclusive of this fee.

The re-election of all eligible directors went through without any problems.

This company is at the forefront of New Zealand commerce and intends staying there. It considers itself a market leader that it is well managed and has a positive outlook despite the difficult times ahead and on the information available to date appears to be well placed for a long term future.
Max Smith

PROVENCO CADMUS 29TH OCTOBER

Your correspondents ill-kept records appear to show his purchase of shares in a company called Advantage in 1999 at a price of $3.50 each. By 17/7/03 their value was 28cents each. By 11/2/04 they were 51cents each. At about this time I spoke with a nice girl called Rachel at Head Office to enquire whether the company ever held meetings. Yes they did, and there would be another AGM in October 2004. My records don’t reveal whether I went, but this failure to achieve anything much continued with the purchase of a further 1177 shares at a cost of $1000 on 5/8/06. By 20/1/07 the share price was $1.11. At the AGM of 2007 the then Chairman of the company – a Mr. Wolfenden spoke of “good growth and exciting opportunities”. At 29/10/08 the share price was quoted in the Herald as buy at 12 cents ;sell at 16 cents.
One could certainly understand and sympathise with the 2008 Chair, Mr. R Christie, when he stated that this AGM was not an occasion he had been looking forward to. He advised market conditions had deteriorated over the past 12 months; the merger costs with Cadmus had reached $3 million; (How costs of this magnitude can be incurred in merging two derelict and poorly run companies is beyond the comprehension of this uncomprehending small shareholder!) Mr. Christie went on to state that the sum of

the companies losses would have been far greater if the merger had not been put in place. The Todd Corporation were “still in there” and had put in more money. “They had stuck with the company despite losing alot of money.”

Mr Doyle- the newly appointed CEO stated the brutal facts were that the company had fallen well short of its revenue aims –mainly because of the Australian market failing, and the various sectors falling well short. The dynamics of the market were changing, and there was a need to restructure and recapitalise. Part of the technical division was being sold. A culture change was taking place: “what we say is what we do, and there are things still to be done”.

A Mr. Julian Beavis (CEO for the management team) spoke of the need to leverage the existing skills and technology. The plan for 09 was to set conservative plans and then over deliver. It will range from the smallest changes to merger and acquisition policy, extend and defend what we have got, extend and defend core business, identify and build emerging business, and create viable options. He spoke of recent achievements – extending Sinopec; investing $2million in India, and the development of business with ASB and ANZ. The 2009 focus would be on return to profitability.

In a brief question time a Todd representative on the Board said that the organization he represented on this Board had every intention of remaining part of it. Recognising that it will take a while to get things right, he still believed in the company and was right behind everything that is being done.

Final note: Share price 5/11/08 buy 13.9 sell 14.

Joe Turnbull

PUMKIN PATCH 18TH NOVEMBER

The Chairman and CEO reported very difficult trading conditions in 2008 and expect things to get even tougher in early 2009. Gregg felt confident the company is better placed than their competitors to handle these difficult times. The experienced gained in 2008, especially out of the USA will help them ride out the down turn in other markets during 2009. A recent survey carried out by the company showed it had the highest customer satisfaction rating out of all its competitors. Their goal is still to be a world wide brand. At present they currently service 16 countries.

Gregg Muir is stepping down from his executive role but will stay on as chairman of the company.

2008 results.

NPAT was down some 27% but sales were up 12%. Interest charges and cost of sales were the main reasons for the drop in profit. The quota system ends in 2009 so this will improve NPAT from here on. Sales in Australia were up 4.1%, New Zealand up 2%, UK up 15% USA up 50% and wholesale up 17%.

Future outlook.

Pumpkin Patch still plans to open 6 new stores in New Zealand and Australia. In the UK the company plans to consolidate and be cash positive. There will be no further expansion in the USA until they see an upturn in consumer spending. They will incur further losses for 2009. The wholesale division expects similar results as that achieved in 2008.

As a result of the difficult trading conditions being experienced the company plans to reduce inventory by $15 million in 2009. Debt levels fell some $30 million due to a currency gain. Debt levels in 2009 are forecasted to come down to around $40 million next year. The current bank facilities are around $110 million so well placed to see things through this current recession. Further savings will be made with staff reductions and reduce capital expenditure of only 16 million in 2009. However the company does not plan to cut its promotional and advertising budgets as the CEO believes this would

send the wrong signals to the market place which would definitely affect sales of the group products.
Des Hunt

CAVALIER CORPORATION 13TH NOVEMBER

NZSA Proxies: 27 totalling 304221 shares
This was another subdued meeting. As one shareholder observed, the glum look on the faces of the Board cautioned members to wonder what was in store for them during the meeting. Shareholder queries advised before the meeting were answered by the chairman and there was little further discussion. There is little to report save for the remark made by the chairman when he came to the reappointment of directors. He advised that he would not be asking any of the directors who were up for re-election to address the meeting. So Messrs Hawkins, Tan and James were all re-appointed without a murmur. During the agenda item ' any other business', I sought comment from the chairman as to his reason for not allowing members to hear from those representatives they are being asked to reappoint. A short address by directors on their re-appointment has now become normal corporate governance practice in recent years thanks to the efforts of your Association and others around the world and possibly also the limited matters that shareholders are called upon to approve these days. In any event the appointment of directors, the shareholder representatives, is vitally important. The response I received was that shareholders had ample opportunity to talk to their representatives after the meeting. I have to say this is a tragic blemish on a previously superb record by the chairman. Perhaps the Institute of Directors might think about suggesting to all their members with chairman aspirations to sit in on several listed company AGMs as a refresher. This was not good governance and disappointed many members. The previous excellent earnings record no doubt helped in ensuring there was no great backlash.
Oliver Saint

TAYLORS GROUP 19TH NOVEMBER

NZSA Proxies: 56100 proxy votes from 10 members
The proxy votes were not critical as all resolutions were supported in a show of hands. It was good to attend a meeting where a small and apparently humdrum operation was trading at above budget and was forecasting to maintain or increase operating profits and dividend payments over the coming year. Although Chairman Geoff Ricketts (confirmed in the meeting) supplied continuity, together with Paul East, and Trevor Kerr (independents), significant board changes were arranged by majority shareholder Spotless Group. Wendy Field, ex KPMG Australia, joins the audit committee on behalf of Spotless, and further strength is supplied by Spotless Managing Director, Andre Carstens. Spotless has also nominated the new Managing Director, Bronwyn Morris, who needs to be a hands-on operator in this smaller company. With 70% of revenues coming from hospital contracts, some risk attaches to the possible restructuring of the health boards by a new government, but Taylors board is confident that the capital invested in Auckland, Hamilton and Christchurch is paying off and greater coordination of servicing in Wellington will provide it with similar capital growth opportunities there.
Alan Best

SYFT TECHNOLOGIES 24TH SEPTEMBER

Many startup companies don't survive and even those that do don't always bring any returns to their original shareholders, whose shares get diluted as the company issues new shares to raise more capital. This dilution was an issue that the shareholders association brought up at the AGM of Syft Technologies Limited held on Sept 24th in Christchurch. On the agenda for the meeting were motions to approve a capital raise and to increase directors' fees.

Syft makes machines for detecting gases. The machines have four main areas of application: container security, food and flavour, oil and gas, and medicine. In the past, sales have been slow in building but at the meeting the CEO Geoff Peck was buoyant reporting that sales had reached their target of 20 units, an increase of 66% from last year's 12. He projected an increase to 36 next year. He also projected that the company would make a profit in 2010. Syft is having success in finding partners too. However like most new companies Syft needs cash.

The motion to approve the raising of more cash proved controversial. A Shareholders Association representative expressed the association's concerns about the proposed capital raising saying that raising further capital would further dilute the shares which had already been greatly diluted. There were already 196 million shares and they were trading at 6 cents. It was proposed to raise up to $5m. If the shares were sold for 5 cents each then 100m new shares would have to be sold. This seemed to touch a nerve as a lengthy and spirited discussion followed with a number of shareholders expressing opposition to the further dilution of their shares. One said that shareholders are going to get diluted into oblivion. Shareholders were also unhappy about the fact that the new shares were going to be offered to habitual investors and not to shareholders. A vote on a show of hands was close but proxy votes got the capital raising through.

The new chairman, The Hon Ruth Richardson, said that the board had learned something from the views expressed. She was receptive to the desire of shareholders to participate in the capital raising and said she would see what, legally, could be done. Perhaps the Shareholders Association's representations will have some effect.

The discussion on the capital raising seemed to draw the meeting's sting. The motion to increase directors' fees from $120,000 to $200,000 passed without discussion.

A motion was also passed to tighten the company's constitution in various ways including restricting the way in which directors can issue new shares. However it remains the case that, as Syft trades on Unlisted rather than the NZX, it is not in the same position as if it were listed on the NZX.

Several members of the Shareholders Association sat at the front of the meeting wearing Shareholders Association badges. Comments suggested that their presence was noted.

Over refreshments after the formal part of the meeting, Geoff Peck explained that he wanted the extra capital in order to take advantage of the wave of interest in the Syft machines. He also said that the increased demand was making staff extra enthusiastic about their work. Problems become challenges rather than issues.

A board member, Bruce Irvine, said that the company would prefer to raise money from shareholders but the largest shareholders expressed little interest when approached.

A number of staff were present and one of the machines was demonstrated. One technician who sometimes travels to undertake maintenance on machines said that the customers love them.

It is encouraging that Syft has made a repeat sale to the Australian customs department. Canadian customs have also bought machines and so it is disappointing that the New Zealand government hasn't bought more.

Earlier in the year Syft had invited the Shareholders Association to visit the Syft premises where they were given a Powerpoint presentation by Geoff Peck and a demonstration of a machine. Some members who attended this said that they subsequently bought shares

in Syft. At the time Mr Peck seemed to be very concerned that sales weren't being made and was casting around for ways to make them. It seems that the efforts of Mr Peck and the other staff of Syft have now been rewarded with sales.
Peter Heffernan

MICHAEL HILL INTERNATIONAL 7TH NOVEMBER

NZSA Proxies: 17 totalling 424670 shares
This was a subdued meeting in keeping with the drop in share price since the beginning of the year and the economic strife around the world. Once again your representative submitted several queries that he suggested might be covered in the address of either Michael Hill or Mike Parsell. In order to share the answers with you I set out the queries raised. These were:
1.Working Capital
Both you and the CEO give shareholders detailed comment on the financial position of the group but I did note this year that mainly because of increasing outlets there is a greater need for working capital. This matter will have been further exacerbated by the move into USA. I see that the acquisition price represents a 20% discount on the cost of stock acquired but I wonder if the items acquired are capable of being assimilated into your 'brand'. Perhaps additional work will be required in order to bring the items into a saleable position. Also, I have noted in my travels and seen TV adverts advising discounts available on your jewellery. My idea of a brand is that the product is of such note and consistency that discounts do not need to be offered to customers. Maybe the jewellery industry is different but I never see Cartier offering discounts! You might like to give shareholders a short summary of what you mean by branding and whether watches and jewellery of your group both encompass the word 'brand'.
2.Note 7 Bad Debts
I would welcome some more information about the incidence of this item which has taken a rise during the year. Which branch? How do the main losses occur? Are they one large item or many?
3.Notes 15 and 18 The prior year adjustment
I am referring to the $31 million that should have been shown as a current liability last year. I would very much like to question the auditor or his representative on 7 November. I assume that either Mr Roach or his proxy will be present at the meeting. I do not know how this error was found. I suspect that your banker's analyst may have spotted the matter after they received a copy of the MHI accounts. My real point is that the error was sufficiently large for disclosure in the accounts this year. It therefore seems to me that your meeting agenda item warning – Are there any matters to disclose? – should have included this at the appropriate time and a note filed with the NZX under the continuous disclosure regime.

4.Note 29 Auditor Remuneration

The sheer size of taxation services compared with audit must be of concern to the Board.I would argue that these services could be a serious conflict to the conduct of the audit and would plead that the Audit Committee review the corporate governance policy in this regard.
5.Note 32 Events occurring after the balance sheet date
It could be argued that the entry into the USA could be one of the most significant events in MHI history.

Finally, is it ever the intention of the group to establish internet trading of its jewellery and/or watches? I attended a Microsoft/HP presentation in Auckland recently and was surprised by the ability of latest touch computers to measure hand size accurately.

Congratulations on the layout of the annual report, layout and statistics were very well presented.

As it happened, in contrast to the previous year, the Board decided not to respond to any queries raised by shareholders. This rather suggests that the Board are intent on seeing what questions shareholders would like answered so that they can have a ready answer if members are persistent enough to raise the question; this is poor corporate governance. Apart from one member who had recently purchased items at a Michael Hill store I was the only shareholder who questioned the Board. I took aim at the first item above and asked the chairman about brands This brought forth an excellent resume of the difficulties of marketing and brand imaging and finished with the comment that building a brand is a lifetime exercise. I had managed to meet the auditor before the meeting and ascertained from him and a director that the error in last year's accounts was only noted at the end of the current audit work. This raises a separate question about bank debt. It is now almost universal that whilst banks may issue comfort letters to companies that they have entered into a relationship with over a three or so year period, there is inevitably among the covenant clauses of the agreement a statement that if financial ratios are not met then the bank may consider the funds lent immediately callable. The query relating to bad debts was not significant and that relating to taxation advice seems to be of concern only to the Association and a select few and is not significant either to the accounting institutes or governments.(*Ed –When will they learn*?) The entry into the USA is a matter that would be of significance to all members and no doubt in the fullness of time this omission will be picked up by the Securities Commission. There were no other matters to report.
Oliver Saint

SKY CITY ENTERTAINMENTS 31ST OCTOBER

This has been a year of significant change for the company:

- The appointment of Nigel Morrison, an experienced and highly motivated CEO
- Organisation restructure and appointment of new management team selected by Nigel
- Rejuvenation at Board level – two directors leaving and the appointment of Chris Moller and Brent Harman.
- Increased distributions to shareholders
- The company dealt with two parties interested in acquiring the company.

Sky City (SKC) is foremost an entertainment company but the Chairman, Rod McGeogh, stressed the company's responsibility to the communities in which it operates – the community, employees, and Auckland City, and that the Board and management take seriously their harm minimisation programme.

<u>Focus for 2009</u>

- Lift experience for customers in all areas of its businesses
- Maximise potential of SKC great portfolio of assets

- Driving divisional profit.

Nigel Morrison speaking at his first AGM as CEO, was impressive. His goal is “to restore SKC to a truly iconic business in this part of the world”.
In NZ and Australia the company has:
7,500 employees
298 gaming tables
777 hotel rooms
47 restaurants/bars, cafe
4,057 gaming machines
1222 cinema screens
<u>Highlights</u>
The company is in a strong position to face a tough environment, with financial flexibility. Its next debt repayment to noteholders is not until 2010, and the company has $300 million in undrawn banking facility.
SKC has put in place a new management team of great people who are accountable for running their businesses.

Gaming stocks have declined markedly around the world, but SKC is unique as it is the owner of monopoly urban casinos.
<u>Strategic Priorities for 2009</u>
Lifting performance over every business
Focus on growing revenues and EBITDA for every business
Maximise benefit from Auckland refurbishment
Continue to invest in Darwin, which is □arrison□g from resources boom
Strong control over CAPEX
Cinema business focussed on growing core revenues, earnings and market share
Enhance SKC technology platform.
<u>Trading update first quarter 2009</u>
Revenues up 3% coming from good growth from Darwin.
NZ businesses more challenging
For 2009 key events putting SKC on map
(Louis Vuitton Cup in late Jan 2009/Rugby World Cup in 2011/Luxury motorshow in Jan 2009/SKC Starlight Symphony/U-19 World basketball championships, etc)
<u>Questions from the floor</u>: there was praise from shareholders in the achievements, but in the discussion on modest increase in directors’ fees the Chairman noted that, unlike a company in NZ who paid certain directors additional fees to handle their takeover negotiations, SKC had 2 takeover proposals which necessitated at least an additional 8 board meetings during the year, but no additional fees were paid to any of the SKC directors.
Jacquie Staley

VECTOR 23RD OCTOBER

NZSA Proxies: 65 totalling 755345 shares
The mood of the meeting was one of frustration and disappointment. Clearly members had not forgotten the resignations of the ‘three wise men’ last year and the continued poor results and drop in share price did nothing to encourage confidence. The big plus was the decision to withdraw the resolution seeking an increase in directors’ fees which then placed pressure on Contact Energy to make the same decision. The numbers at the meeting, whilst fewer than last year, were augmented during the meeting following an influx from shareholders who had attended the Contact Energy meeting held three hours

earlier. The chairman and two representatives of the Auckland Energy Consumer Trust (7% shareholder) were up for either reappointment or election and all spoke to the meeting about their vision and credentials. A member made the point that this was the second time in a row that Hugh Fletcher had absented himself from the meeting and whilst Alison Paterson (another member of the Reserve Bank Board) came to his rescue advising that he was overseas, it only fleetingly diluted the criticism.
Oliver Saint

Editor's Note: Other attendees felt more positive about this meeting, and that the Chairman and board were well suited for Vector's regulated market.

PORT OF TAURANGA 23RD OCTOBER

The Port of Tauranga is the largest port in New Zealand and the most efficient port in Australasia. The AGM was chaired by John Parker in the comfort of Tauranga's Baycourt Theatre with about 500 shareholders present.
The year ended 30/6/2008 was very successful with;

record tonnages	up 7% to 13.525 million tonnes
containers handled	up 25% to 582 072 containers
containers passing through the companies metro port in Auckland	up 23% to 170,000 containers.

These achievements provided great financial outcomes.

Revenue	up 14.8% to $148 m
profit	up 7% to $42m
dividend	up 13.6% to 25c/share

The chief executive, Mark Cairns reported vigorous growth which included the purchase of 9.3ha of adjoining land, the ordering of a fifth container crane, and an agreement with Kiwirail to add a further 60 new generation rail wagons. A record of 58 cruise ships expected this season. Plans to obtain resource consent to dredge the channel to 14.5 meters.
The practice of members sending their proxies to the registry in favour of The NZ Shareholders Association is of practical benefit. It raises our profile and shows the NZSA to be in the watchdog role which we were set up to fill. Mostly it calls for us to get behind the scheme by developing the habit of sending in the proxies. Jacquie Staley, on behalf of the Council is doing the work of co-ordinating the proxies and there is no more work for her whether there are 100 or one million proxies. It is up to members to support the scheme.
In general business the writer asked if the power to have the NZX place their rules into the company's constitution had been used. The answer thankfully was no. It is not acceptable to have the NZX, a statutory body set up and empowered by legislation, dominating the constitution of any company. The constitution is the sole preserve of the shareholders of a company and this is a principle that requires fighting for. The power to delist gives the NZX adequate power to control the industry.
The POT's AGM presentation concluded with a report on the first quarter of the 2009 year. This showed the first quarter 2009 compared to the first quarter 2008 was:

tonnages	up 11.4%
containers handled	up 26.5%
the surplus after tax	up 19.9%

We cannot expect this growth to continue through the economic downturn, The best calculated guess would be for the 2009 results to end about the same as last year. We also note that the log trade is firming nicely.
It was a well run meeting with a good feel to it.
Lloyd Christie

NUPLEX INDUSTRIES 31ST OCTOBER

NZSA Proxies: 36 totalling 219288 shares
In terms of organisation skills, location, shareholder awareness, director selection, and all round shareholder satisfaction, this must be one of the best AGMs of the current season. The chairman's brief introductory notes were one of the most comprehensive I have witnessed and the thought given to shareholder needs was a welcome change from the norm. Top marks. The chairman and CEO addresses and presentation are all on the website. The CEO, John Hirst, introduced three general managers – Charles Northcote (specialty products), Sam Bastounas (Functional Materials) and Rob Harmsen (Nuplex Resins) who each gave a ten minute address covering their areas of supervision. A brief introduction on to the dais of a further 17 managers all assisted shareholders in their understanding of the diverse range of products produced by the company and the global scope that Nuplex has attained. It also engendered in shareholders confidence that the group was in good hands and this technique was considerably more persuasive than the long rambling commentary that most CEOs convey.

Turning to shareholder questions, these were short but extremely cogent. The first questioner, given the announcement of the retirement of CFO Graeme Storey at the end of the year and the appointment after the meeting of an Australian Chairman, wanted to know if Nuplex would be following Nufarm very soon to a main listing on the Australian Stock Exchange. The response from the chairman was that whilst it would obviously be beneficial if domicile was changed to Australia (Head Office was now in Sydney) there would be no change unless it was beneficial to shareholders. Since the Lion Nathan, Goodman and Nufarm emigration there were now legal and taxation problems that inhibited listed companies changing domicile. Nothing would be done that was not beneficial to New Zealand shareholders and concentration on shareholder wealth more than change to Australian jurisdiction was the main aim. One shareholder complained that the meeting clashed with another listed company meeting and this has been a constant criticism this year. It remains to be seen whether the Association, Stock Exchange or Listed Companies Association can achieve any satisfactory solution to this perennial difficulty. One shareholder, perhaps noting the substantial amount paid to the auditors for taxation services wondered about the selection of auditors who also do taxation work. The chairman advised that the Audit Committee had considered this point. This topic is covered elsewhere in this newsletter. The new chairman Robert Aitken addressed the meeting and assured shareholders he would be directing his attention to the large governance challenges and will be zeroing in on environmental matters.

Oliver Saint

MARLIN GLOBAL 22ND OCTOBER

NZSA Proxies: 20 totalling 420000 shares

The Chairman stated, prior to the agenda items being considered, that the Board had announced to the Stock Exchange their decision to commence share buy backs with effect from 3 November 2008. The intention is to buy back up to 5,150,000 shares during the period of 12 months from 3 November. The meeting included a presentation from Kenneth Applegate on the composition of the portfolio and shareholders received a sheet summarising the investments and a further handout quoting Warren Buffet's widely publicised recent media comments on "Buy America. I am."

Questions from the floor were mainly directed at the buy back announcement and the few who spoke were, with one exception, against this move for an investment company that had just been listed and which was designed to cover all world markets with the exception of Australia and New Zealand. In terms of scope, this gave Marlin Global in excess of 96% of world markets. It seems a poor reflection of the quality of the Funds Manager that the total portfolio should be reduced so soon after the IPO. The buy back was being undertaken when the market was falling and cash might be usefully spent on increasing portfolio values at an appropriate moment.

Oliver Saint

FLETCHER BUILDING 12TH NOVEMBER.

The Chairman and CEO confirmed tougher times are ahead, as the credit crunch is starting to affect the building industry in many of their key markets. The economic climate will take time to come right now a recession has taken hold in many countries around the world. In New Zealand the chairman reported the residential market is softening but commercial is still holing up and in Australia both housing and commercial has slowed. North America and Europe will be challenging in 2009 but there was still some growth in Scandinavia and Eastern Europe.
Here is a brief summary of last year's results.

Building products was up 6%, distribution up 2% but operating earnings down 9% due to competition and cost increases.

Infrastructure.
Infrastructure sales were down 4% but operating earnings up 14%. The CEO reported construction and their pipe business was strong but there was lower demand for cement and aggregate. How ever the business in Australia was holding up.

Laminated and Panel.
Operating earnings was up 8% and sales doubled with Formica now being included for the first time. Performance in the USA affected the results due to the housing collapse and it taking longer to see the results of plant rationalisation which had not go to plan. How ever progress has now been made at the Ohio plant and savings of $10 million from the closure of the American head office mean things are back on stream. Sales in Asia were in line with budget but New Zealand sales were impacted with the closure of the Penrose and Taupo plant.

Steel.
Sales were up by 10% and operating earnings by 26%. Roll forming had strong sales in NZ and Australia.

Outlook for the future.
The chairman and CEO said they would be restraining capital expenditure, improving productivity and focusing on cost control so as to maintain a conservative balance sheet. The company had strong balance sheet with debt maturity going out until 2020. Capital

expenditure has been reduced to $250 million in 2009. To reduce cost the CEO reported shift numbers and staffing levels are being reduced in response to lower volumes. Looking forward infrastructure looks better in NZ and Australia. Residential however, is at the lowest level for 25 years. The Australian economy is weak along with the USA and Europe. Asia is still growing but a little slower than in the past. The CEO warned that the obligations of the proposed emission trading scheme coming in to effect in 2010 would mean some of the companies in the group would have increased cost.

The chairman did say a final dividend of 24.5 cents per share would be paid this month. In summary Fletcher Building finished up with a sound result and is well placed to take advantage of the up turn in business activity when its key markets come out of their recession.
Des Hunt

SALVUS 28TH NOVEMBER

The chairman Barrie Downey is retiring and his place has been taken by Trevor Janes. Kim Ellis was appointed to the board and he brings additional skills to Salvus especially when evaluating new investments in manufacturing, distribution type companies. Salvus has outperformed the benchmark by 6% but it has not been reflected in the share price. Recent investments have been in NZO and Pike River Coal. Other investments currently held are Albano, EWC, Syft Technology, Hallenstein Glasson, Convita, Methven and Taylor's Group. When the timing is right they would like raise further capital to expand in to Australia focussing on the small cap market. In June 2009 the management contract is up for renewal which will need to be renegotiated in the interest all shareholders. The company does have some $2 million plus of borrowings in place with the bank should exciting opportunities come to their notice.
There was some criticism of the company's performance since listing. It will be critical for Salvus to see some good growth when the upturns do arrive if they are to attract new capital for further expansion.
Des Hunt

BRANCH REPORTS

AUCKLAND

1. Auckland Branch Meeting
   Our last Branch meeting for 2008 was held on 12 November together with our Annual General Meeting. The guest speaker for the evening was Tim Brown from Infratil who spoke for an hour without pulling any punches, much to the delight of those present.

2. Committee Changes
   During the AGM that followed, it was announced that Wendy Dykes would be resigning as Secretary owing to increased work commitments. Wendy worked extremely hard during her time as Secretary which was acknowledged and applauded by all those present.

   It was also announced that Des Hunt would be stepping down from the Branch Committee so that he can concentrate more fully on his role in Corporate Liaison. Once again, the valuable contribution made by Des over the last few years was acknowledged and applauded by all those present and all members are pleased that he will be continuing in his liaison role.

3. Committee for 2009
   Noel Thompson has agreed to take up the Secretarial role and Jenny Merrylees will be helping organise future Branch meetings. Wendy will continue as a committee member as will the remainder of the existing committee members, Jacquie Staley, John Hawkins, Uli Sperber, Chris Callude, Joe Turnbull, Phil Clemow and Ken Cook.

   An appeal was made at the AGM for members to consider working on the committee but to date, no one has come forward.

4. Company Visits / Guest Speakers
   No visits have been organised to date but Joe Turnbull and Uli Sperber are currently working on several opportunities and hope to be able to provide details of the initial programme in the early part of 2009.

   We currently have a company keen to make a presentation to the Auckland Branch and Jacquie Staley and John Hawkins are working together to incorporate this and others in the 2009 programme.

5. Education
   Joe Turnbull and Uli Sperber represented the Auckland Branch at a recent training day for the new education course presenters. After discussion at our last committee meeting, it was agreed that we needed to do more preparatory work to make a course presentation successful. John Hawkins is currently studying the course syllabus and will be reporting back to the committee in early 2009.

Next Auckland Branch Meeting
The next meeting is scheduled for Wednesday 18 February. The guest speaker is still to be confirmed and this will be advised in due course.
Ken Cook..Chairman – Auckland Branch.

WAIKATO
On November 5, we held a meeting addressed by Rod Drury, CEO of Xero.
Rod has an impressive CV, including developing IT companies and then on-selling them.
He was awarded NZ HI-Tech Entrepreneur of the Year in 2006 & 2007.
Xero has developed an online accounting package, From Rod's presentation it looked very user friendly. Another advantage would seem to be that the program can be constantly upgraded without the need to purchase an upgraded program. This has to be offset by the not inexpensive monthly charge ($49.00) Rod claimed to be able to win market share and have a better business model than MYOB and was confident of gaining good portion of what he sees is a huge international market.
In response to a question Rod stated that he did not want to flick Xero on, but saw such potential that it would become a $NZ billion company. Rod also thought that farming and share transaction reconciliations would be developed for the program. Rod said sales to date for Xero were about 2,000 units and that 12,000 units was breakeven point.
The response to the meeting to the accounting program seemed very positive, but accountants may be reluctant to change their existing systems that work perfectly well, and that 12,000 units was a big hurdle.
However we can all applaud people with Rod's talent and huge ambitions. We will be following Rod's & Xero's career with interest.
To the Waikato members, thanks for supporting the program during the year and hopefully many will be attending the Xmas Dinner on December 2 with guest speaker Carmel Fisher. Merry Christmas and a more prosperous New Year.
Robert Foster – Waikato Branch

BAY OF PLENTY

Our October discussion group meeting took the form of a company visit to Fletcher Building Ltd. Actually we went to their building site – the partly built second harbour bridge over the Tauranga Harbour. We were most appreciative that the chief executive, Jonathon Ling was able to make time to come and speak to us. The occasion was booked out by the first 40 attendees. There were some disappointments.

Jonathon Ling gave us an illustrated address which was an overview of the company, its modus operandi, and its financials. His presentation was clear, direct and very well received. Ian Carter of Beca Consultants gave us a guided tour of the site using a visual display and he discussed the plans and the progress to date. He was also; very interesting a very well received. Both men took a bunch of questions.

During the year our secretary Kerry Drumm conducted a fairly comprehensive course on the new taxation regime that applies to foreign investment. It was appreciated by those who attended including a small group of non-members.

The November function took the form of a Christmas Dinner at Daniels Restaurant. We had a good meal and the company was good. The results of our annual competition were:-

the best portfolio pick	1st place Don Malpas	2nd place Kevin Such
nearest to NZX50	1st place Neil Parker	2nd place Ron Leach
nearest to ASX200	Kevin Such	

Our thanks go to the donors of the prizes.

Our guest speaker was the well known Bob Clarkson, a self made man who spent three years as Tauranga's MP. He applied himself to working within the restrictions of the parliamentary system. The role of what one man can do was most interesting.

To branch members and readers we extend our seasons greetings. May your portfolio be well positioned to take advantage of the markets when the turnaround arrives – sooner rather than later – we hope.

Lloyd Christie – Branch Chairman

CANTERBURY

It has been a case of batten down the hatches to avoid being sunk by the giant seas sweeping over the economy. It is too early yet to see if our new Prime Minister has the key to unlock the door to let us escape from the doom and gloom being forecast for us over the next few months. We had Bruce Sheppard address our Branch Meeting on 21st November and excellent as Bruce's address was, t was not exactly a morale boosting speech. Most members were looking a bit green about the gills after hearing Bruce's summation of the problems facing us as individuals and the economy of which we are all part.

The Branch represented members as proxy holders at recent company AGM's of Pyne Gould, Syft Corporation, Ebos Group, Lyttelton Port Company. So there has been quite a bit going on in the background to keep the Branch executive busy. Sadly we have to report the news of the death Margaret Anderson, the wife of Committee Member Robin Harrison. Margaret was always very supportive of the Shareholders Association and always could be found with her cheery presence at our meetings. We extend to Robin and family our deepest condolences.

With Christmas fast approaching we shall be winding down for the year. Early in the new year we hope to run an Education Course using the new material that National is producing. Members can refer to the web site nearer the time for details. Lyttelton Port Company have indicated they would be more than happy to host a company visit to them. We shall schedule this for sometime in late summer so as to avoid the cold easterlies which can blow through our port.
Membership has remained rather static but it is good to see that we are still maintaining a high level of renewals of subscriptions so we must be doing something right. Your committee endeavours to have something of interest to all members and we welcome feedback from members as to what they would like to see, hear or participate in at Branch meetings.
It only leaves me now to wish all members all the very best for Christmas and the New Year.
Ritchie Mein

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MEMBER'S ISSUES

THE RIGHT TO DEMAND A POLL

I am sure members will have attended meetings where the Chairman has proudly announced at the start of a meeting that proxies for more than 50% of the issued capital of the Company have been received by the chairman. This is probably one of the most useless announcements at AGMs. The statement has the result of suggesting to members that whatever the arguments presented in an agenda item the Chairman has matters under control. This may well be true but it does not necessarily signify that all those shareholders who sent in their proxies have given the Chairman their discretionary vote. Some may have voted against the resolution and this must be taken into account if there is demand for a poll.

Sometimes, particularly where a debate is heated and there is no real conclusion or new information, a member may be persuaded that those who were absent but had completed their proxies should have a say in proceedings. The right to demand a poll is open to all members present and all that is needed is for one member to stand up and invite two other persons to join in exercising this right. This must be done immediately after a show of hands has been taken and the chairman has ruled on the resolution. The window of opportunity is extremely short as the poll must be demanded before the beginning of the next resolution.

I have come across many situations over the years when I have been sorely tempted to press for a poll. At one special meeting, I was assured by the chairman that he had the numbers and I was persuaded to withdraw my motion. However I will not be tempted to withdraw in future unless the chairman is prepared to state the number of votes he has in his favour. This is information freely available to a chairman before the meeting and is not usually disclosed at a meeting since it might inhibit free discussion.
Oliver Saint

DEPOSIT GUARANTEE SCHEME

Commentary on the recently announced government guarantee scheme is appropriate. It is intended to maintain public confidence in the New Zealand financial system. There will be many members who have bank term deposits, current and savings accounts to whom the scheme may sound attractive. Please do not forget that it is the bank that is borrowing your money not the government and the scheme set up by the government is very short term. Treasury has divided the scheme into three parts. Banks, non-bank deposit takers and collective investment schemes. This commentary relates only to banks and for an understanding of the other guarantees in place and further details of the retail guarantee I suggest that the website at treasury.govt.nz be visited. It is a user friendly website and well worth viewing.

I draw to the attention of members the following:

* All guarantees operate from 12 October 2008 for two years.
Therefore it is only for a very limited period and will not for example have any bearing whatsoever on a deposit taken out now for a two year period with interest payable at the end of the period. Maturity will take place after the guarantee is extinguished.

* All indebtedness is covered in the two years.
This means that interest and principal is guaranteed so long as the interest and principal become payable before 12 October 2010.

* The maximum liability of the Crown is limited to $1 million for each creditor.

- Foreign currency balances are included in the guarantee.

It should be noted that foreign balances will be determined by the Crown as being converted into NZ dollars as at the relevant time.

These notes have been prepared as a guide and talking point and those of you who are interested or need additional information I suggest your professional adviser will be able to expand on the above brief summary. I have considered it important that our members should be aware that not all accounts with your bank may fully benefit from this short term guarantee. It is a scheme that unfortunately encourages short term thinking which, it must be said, does not really benefit long term strategic planning. That is the cost of avoiding panic.
Oliver Saint

OUR AUSTRALIAN NEIGHBOURS

I thought I would again remind members that the Australian Shareholders' Association newsletter is a monthly journal and the December issue is now available to all our members who have an Internet connection. If you have investments in Australia then the commentary on AGMs and other information should be of immense interest to you. Russell Hodge (rusorjudy@paradise.net.nz) maintains the email list of all members wishing to download monthly newsletters. Good reading.

AN EXAMPLE OF SENSIBLE THINKING

I cannot resist giving full praise to the Directors of Southern Cross Medical Care Society who at their meeting on 27 November had decided before the commencement of the meeting that resolution 5 dealing with an increase in directors' remuneration be withdrawn from the agenda of the Meeting. Unlike Contact Energy, this Board had not sought an increase in their fees for 11 years and the increase that was to be put to the members was less than 20%. The round of applause was well earned and a just reward for the sensitivity at this time. Listed companies might take note of this action.

Oliver Saint

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