"The Script"

July 2006

The official newsletter of the New Zealand Shareholders' Association Incorporated

STOP PRESS: THE UNREALISED CAPITAL GAINS TAX

Yes, a further comment on this piece of stupidity. Sometimes a split second response to a statement can be most revealing and may open the door to understanding a situation. Such an event happened to me the other day and initially, apart from berating myself that I missed a golden opportunity, I did not give the response much thought. I have now considered the reply and I believe I understand why government is so sure it is on a winning wicket. On Monday evening (17^{th} July) I walked in to the lift of the Hilton Hotel to attend a seminar on the first floor of the Hotel's conference centre. Speeding in behind me with coat and overnight bag flying was our revered Minister of Finance The Hon Michael Cullen. We were alone in the lift and all I thought to say was - 'so you are the person who is introducing the unrealised capital gains tax into this country!' As I got out of the lift a second or so later on the first floor he said - 'well institutions are already paying this tax'. The doors closed.

What does this tell you and me about the ways of government? It suggests that once a system has been tried and is (apparently) in operation, however vague and isolated it may be, there is a natural reaction to continue and expand it. We are being told the system is already in place so there must seem little risk in expanding and drawing in further unsuspecting taxpayers. I suggest this is why it is so important for all of us to be counted on this proposed Bill. It is also as Bruce Sheppard, our Chairman, has suggested, a reason why the Maori party would do well to consider how it may affect their assets in the future.

Oliver Saint

I believe an update is appropriate on the ill-considered Bill that embraces the attempt to pass this iniquitous tax into law.

The time for submissions to the Select Committee has passed (Friday 7 July) and as there were over 2,000 submissions by 12 July, it would not surprise me if this figure had doubled in the last few days.

On behalf of the Board, I want to say a big thank you to members who have had the courage to submit their views to the Select Committee. Many of you I know have not done this before and it is not an easy task to get the inference right and make sure that what you feel gets through to the members of the Committee. I am also aware that many of you have written to the members of parliament who are on the select committee and again I am sure that your expressions of disgust and anger will have been heard. So again, thank you all for this effort, I hope it will pay off.

The Minister of Finance has agreed to come and speak to our members at the Annual General Meeting in Auckland in August and this might be a platform for a separate announcement. Would he do this if this tax is still a viable option? A word of warning though, we may still suffer a capital gains tax of some description. The Hon Michael Cullen is unlikely to back down completely. It is not in his nature.

I felt I must write this short piece, almost stop press stuff, and I have had little time to mull over my thoughts but there is one matter that stands out loud and clear - **Parliament is not working properly.** I was under the impression that the Select Committee hearings were really a tick and blot effort to clean up the odd drafting error and then pass it back to the house in final form. This Bill is an abomination, it chooses to impose a new taxation system and at the same time covers dozens of 'remedial measures' that are interspersed in the Bill. How the new tax system is going to work is not spelt out in sufficient detail for any of us to comment other than to express the view that it will be totally unworkable in its present format.

The result of this is that we, the people who voted and put these members in Parliament, have had to spend tens of thousands of hours doing what should already have been done in Parliament, which is to debate the Bill thoroughly before passing it to the appropriate Select Committee. In the long run this is perhaps the most significant failure of our system.

Oliver Saint

PROXIES

Waste Management N.Z. Limited (WAM) - A merger and proxy lesson

The meeting on 17 May, the last annual meeting of this company as a listed entity, passed the resolution to merge (be acquired or whatever) with the Transpacific Group by a large majority despite dire predictions by the media. There has been much debate about whether it would be more efficient to incorporate all takeover activity into one piece of legislation rather than give listed companies the option of relying on the Scheme of Arrangement provisions of Part XV of the Companies Act 1993. I must say there seems to be merit in having all regulations in one piece of legislation. Basically and simplistically the two techniques differ in that the Code requires a **90% confirmation by all shareholders** of the deal whereas the Scheme requires **75% of those voting** to confirm the proposal at a general meeting. I have for a long time wondered whether in fact there is much practical difference between the two requirements. Timing, which I have not considered is one area that any Board must look at carefully. However what about the practicalities. The WAM experience is a good example of the reason for my concern and is a reminder to shareholders that they should have their vote on all acquisitions otherwise there could be difficulties. The facts were as follows:

Total issued Capital capable of voting on the resolution for merger 100,737,812 shares. A 75% favourable vote would require 75,553,359 shares. A 10% holding at the date of closing of the books would require 10,073,781 shares

Total votes on the resolution were 51,669.909 shares; those who voted for were 50,253,606 (97.26%) Those who voted against were 1,416,301(2.74%) Votes required to defeat the resolution would have been 38,752,432 shares.

It will be seen from the above table that only 51.3% of shareholders voted. The annual report shows Fisher Funds and ING, the two largest institutional shareholders had in excess of the 12,917,477 shares necessary to defeat the resolution. I understand that they had significantly more support than these holdings suggested. If these institutions had decided to vote against the resolution (as was their original intention) then the merger proposal would have been defeated. A revised vote count would have been: Votes for the motion 37,336,129 shares (72.26%)

Votes against the motion 14,333,778 shares (27.74%)

Total **51,669,907** shares.

Shareholders should never assume that somebody else will take care of the ship, all votes are vital on this type of resolution which is why the Board were so insistent on you voting - whatever your intentions.

AGMs

NZSA

Members are reminded that the AGM of the Association will be held on Friday 11 August at the Alexandra Park Functions Centre in Greenlane Road, Auckland. The day starts at 9.00am with a meeting of the Auckland Branch addressed by several speakers, and then after a light lunch, the AGM starts at 1.00pm, with the Guest Speaker, Hon Michael Cullen, speaking at 1.30pm.

GPG

The GPG Annual Meeting is not a grand or extravagant affair. It is held in the library of 'The Army and Navy Club', apparently because the Club is within 2 minutes walk from GPG's Pall Mall Offices. About 60 people attended and Sir Ron starts by thanking his Board for their work, and observed that there have only been 3 changes in 15 years in what is a tight knit and focused team. He then asks the meeting for comments on the Annual Report and accounts. A shareholder with a kiwi accent rises and thanks the Board, and in particular Tony Gibbs, for the representations made in NZ against the Government's rash CGT proposals. As the NZSA's nominated proxy I also rose to thank the Board on behalf of the NZSA. Tony Gibbs modestly states that it was a joint effort by all shareholders, he observes that without the outstanding campaign of protest and letter writing across NZ, then his remonstrations would doubtless have been ignored. It is to be hoped that by kicking the avaricious proposals into the long grass they will wither away with time. All in all, a triumph for investor activism!

I then raise the question of why 51 million shares were 'placed' in April 2006 and not offered to existing shareholders. Sir Ron replies that it was a business judgement and largely driven by cost considerations. They had an opportunity to place the shares quickly on favourable terms, whereas a rights issue takes time and involves cumbersome and expensive legal procedures. Authority to allot securities in this manner had been granted by shareholders at the 2005 AGM.

There were no further questions on the annual report, which is perhaps not surprising since it appeared that half the audience consisted of the entire GPG staff (which only numbers around 30!). Next the remuneration report was put to the vote and carried with approx 98% of proxies in favour. Item three was to re-elect Sir Ron as a director and he asked for a proposer. I was proud to propose, on behalf of the NZSA, that Sir Ron be re-elected and the vote in favour was unanimous, as too was the vote proposed by Sir Ron, to re-elect Gary Weiss. The next 7 resolutions followed in short order, with the proposal being made and then the vote taken. All were passed with near 100% proxy agreement with the exception of item 7 (permission to allot securities), and item 10 (disapplication of pre-emption provisions), where proxy approval in both cases was 85%.

A question was raised from the floor, asking about the company's investment plans. This was met with the same (predictable) response as to a similar question last year. 'It would not be prudent for the Board to reveal investment plans' said Sir Ron. As a long term shareholder in GPG (15 years so far) I am surprised that some shareholders don't understand the need for confidentiality in this rather unique investment company. Stealth, surprise and maintaining a low profile are just as important tools in dealing in investment markets, as they are in warfare. When we invest in GPG, we primarily invest in the Board's skills, and trust them to use the financial weapons we grant them effectively, just as we trust our military to use their weapons with skill, but do not expect them to discuss their plans.

Before the meeting closes I raised the point that over 80% of GPG's shareholders live in NZ and yet there has never been a meeting or presentation held in NZ. I asked if a presentation is planned. Sir Ron smiled at this and replied that an event in NZ would be logistically difficult to arrange (co-ordinating the Board's diaries must be a headache!), and costly (Sir Ron is certainly careful with shareholder funds!). However he finishes by stating that the matter is "under consideration - (pause) - under active consideration". I then raised the question of whether **Sir Ron felt the company could benefit from a non-executive director being appointed**. The reply is simply that he does not think the company needs non-execs at the moment. Somehow I knew this would be his answer: I guess that he has run his slide-rule over the idea and decided that a non-exec is not earnings enhancing and therefore not of value.

With no further questions Sir Ron declared the meeting closed; 30 minutes after it opened. I overheard one of Sir Ron's colleagues remark that he was extravagant this year in taking 30 minutes – last year he only took 28!

We adjourned for tea next door and I took the opportunity to discuss one or two issues with Board members. I suggested that many NZ shareholders would like a meeting similar to Warren Buffet's famous Berkshire Hathaway Jamboree's. This is noted and the company is aware of it, however I am told that it is not really Sir Ron's style, and it will be a considerable distraction for a company that has only 30 direct employees. However, they will look into the possibilities of doing a presentation in NZ; they will also look to put more company information on the website, such as the AGM minutes (which will be more authoritative than my jottings!).

Bob Nielsen (antipodean exile)

Kingfish

There was standing room only at the conference room on the first floor of the Bruce Mason Centre in Takapuna and it seems, at the present rate of progress, the company has outgrown this location and will be reserving the main auditorium for their next meeting. Clearly the focus of attention and the person who we all came to hear was Carmel Fisher and she gave her usual flawless address to members who will have been well satisfied with the result. This was particularly so in view of the chairman's announcement of a special 2.5 cent per share dividend payable on 4 August 2006 thanks to the passing on of the dividend and related imputation credits recently received from Waste Management N.Z. Carmel again addressed the question of the discount that the shares suffer against the value of the fund to which she referred in the Annual Report. This is noticeable with many listed investment companies and shareholders should either get used to this fact or wait until out-performance is firmly ingrained into the operations and this is unlikely to be far away if history is an indicator. The fact that warrants are available does offer an alternative to those with a more risky appetite.

Rob Challinor, the chairman of Kingfish, has the rare ability to put people at their ease and this helped the flow of questions. It was clear that many members had also invested in Fisher Funds, the unit trust operation run by the same management. There were a number of interesting questions. Des Hunt, your Director – Communications, sought information on the number of visits that the funds manager makes to core company holdings. This was a question many of us wanted to know and had obvious insider trading connotations. Carmel responded intelligently and indicated that they usually try to make four visits of which one of these is now with the Board as they have perceived it is important to be aware of the thinking at that level in addition to management. As one of the Board members is Annabel Cotton, a director of the Securities Commission, it is clear that both the company and those visited will be well aware of the risks involved. The funds manager has a well disciplined approach to investment opportunities, and take a cautious approach before building a larger stake.

I sought information on two matters resulting from the addresses given to shareholders. What was the long-term position regarding the borrowing to purchase shares in Rakon and Delegats? We were advised that the funds were obtained in anticipation of the cash that would be received as a result of the Waste Management acquisition and it was confirmed that the repayment of this debt would be made shortly. However it was pointed out that there was in the Constitution a right to seek borrowing and this would be used from time to time if circumstances dictated. So the present example is an indicator of how the manager will use this facility. The second question was what if any effect did the special dividend place on the annual dividend rate and policy? The chairman responded none at all. The dividend received means that it is indeed special in that Kingfish are passing on what has been paid over by Waste Management to eliminate imputation credits and is directly related to the acquisition payment by Transpacific, although being taxable income for shareholders. Tony Sullivan, a member, asked about IFRS and how the accounts would look when the new standards were introduced. The news, as it turned out, was all bad. Currently shares at balance date are valued at last sale price. In future this will be the last bid price. Transaction costs also require to be expensed. Kingfish has joined the mass of listed companies accepting the listing rules as a constitutional alternative and I spoke against this proposal once again. There was only a sprinkling of votes against the motion and a poll was not sought. Other questioners sought information on warrants, whether investment in Australia was on the cards. This latter point is a matter that will have to go before the Board if it is to proceed since the rules currently dictate that New Zealand is the only investment avenue.

Oliver Saint

Millennium & Copthorne Hotels New Zealand

Annual meetings of this company are one of the most frustrating and unproductive of any company in New Zealand. Information is given reluctantly, if at all, and shareholders rarely leave enlightened. The 2006 meeting, which lasted two and a half hours, was no different from all the others but at least it contained several resolutions that our Chairman Mr. Bruce Sheppard put to the meeting in the interests of good corporate governance and plain common sense; none were passed. However, the voting was interesting. With the exception of the 70.22% majority shareholder a total of slightly more than 104 million shares were able to vote at the meeting. Of this number only 43.8 million shares were actually voted representing a mere 42.1% of available minority shareholders. Not an impressive figure. However the Board of the Company should be far from happy with the results. After adjusting (perhaps I should say eliminating) the votes of the majority shareholder, voting for the following resolutions went as follows:

Resolution to elect Stephen Craig Burt, 7.56 million shares – 39.8% of those who voted.

Resolution to have audio recording, 35.14 million shares – 80.2% of those who voted.

Authority to conduct a share buyback, 34.6 million shares – 79.1% of those who voted.

It was noted that whilst the Board were not prepared to recommend either way the appointment of Mr Craig as a director, the weight of their shareholding came down against his appointment rather than choosing abstention. The other two resolutions shown would, but for the majority shareholder, have been carried by a large margin.

A large part of the time spent covered the use of audio recordings at meetings. The view of the Board was that as the law did not specifically authorise the use of audio techniques in preparing minutes for meetings then it was not appropriate to consider the resolution. The meeting devolved into farce when it was eventually established that not only was there an audio tape of the 2005 meeting but the present 2006 meeting was also being recorded. Despite this revelation, the Board nevertheless voted against the resolution.

Our letter to the chairman of the Company (currently in the home page but soon to be placed under the correspondence section) was read out to the meeting and the queries were addressed. One question was answered specifically. It was made clear that the shares held in Treasury are intended for issue at some future date and will not be cancelled.

One questioner, Coralie van Camp, former Chair of our Auckland Branch suggested that one way to increase profitability would be to increase the number of meals (around 300,000 per annum) that the present customer base of 1,200,000 per annum had used. The Board felt unable to comment on this obvious disparity but it would have been interesting to compare the Millennium experience with other hotel operations.

The Zenith apartment development in Sydney was the subject of much discussion. There were some 70 apartments to sell and progress was slow. The chairman confirmed that to the best of his knowledge there had been no sales to related parties. He also advised that the group wanted to continue to grow investment in Australia. To summarise, the meeting was again unhelpful either in the Board being able to establish any rapport with shareholders or trying to respond to questions in a meaningful way.

Oliver Saint

New Zealand Exchange

The Third Annual General Meeting of New Zealand Exchange Limited was held at Te Papa on 8 June 2006. There were about 50 people present.

The Chairman of the Board, Simon Allen, and the Chief Executive Officer, Mark Weldon, gave comprehensive and up-beat analyses of the structure, objectives, management and performance of the Company over the last financial year. Apart from that, the Meeting explored issues relating to the election of directors, the remuneration of Mark Weldon, the return of capital to shareholders and the Bank of New Zealand's announcement that it intended to take the Company to court to recover the $4 million or so that was paid out to Access Brokerage clients.

Three existing members of the Board, Simon Allen, Nigel Williams and Henry van der Heyden offered themselves for re-election and were re-elected without fuss. Nigel Babbage put himself forward for election as an independent director. He explained that he had extensive experience in disaster recovery and regulatory implementation and that he specialised in derivative risk management, central bank consultation and algorithmic trading. The Board took the view however that it already enjoyed in its existing composition an optimal mix of market knowledge and practical experience and that it had no need of any supplementation from Mr Babbage. As a consequence his nomination failed.

The Board, noting that the Company held surplus capital, also sought and obtained from the Meeting approval of an arrangement to cancel one in every eight shares held by each shareholder and to pay to that shareholder $9.69 for each share cancelled.

The issue of Mark Weldon's remuneration was more contentious. The Board had decided to increase Mark's remuneration for the financial year ending on 31 December 2005 from $850,000 to $890,000. Given that this amounted to more than 0.5% of the Company's Average Market Capitalisation, the Board was faced with the alternative of either seeking shareholder approval of the increase or of seeking a ruling from its Special Division that the increase was set on an "arms length commercial basis" and that any reference to the shareholders was unneccessary. It pursued the latter course. The Association took the view, however, that the Company had done the wrong thing and that it should, particularly given its role as a regulator, manager and controller of the equity market, have put the matter to the shareholders and trusted them to take the right decision.

Against this background the Association put forward a resolution which asked shareholders to ratify the increase in Mark's remuneration but also called on the Board to follow Australian practice and each year provide a report on the remuneration of senior executives of the Company and seek the non-binding approval of shareholders to that report. The Board in its wisdom and with the intention of allowing shareholders to support the increase in remuneration but to reject the proposal for the presentation and approval of a report divided the resolution into three and put forward three separate resolutions of its own (although Simon seemed to be unclear that it had, in fact, done so).

Simon noted that the Board was comfortable with the remuneration paid to Mark, that the process it had followed in setting that remuneration was entirely valid and that he saw no reason to copy the practice of another country. The only other comment came from an ING representative who said that the important thing was to pay executives what they were worth and that she was not too concerned about issues of process.

Finally Brian questioned the assertion in the annual report that the Company had no contingent liabilities when it faced a major claim from the Bank of New Zealand. Brian asked how in the absence of a Court decision and any insurance guarantees from the Company's insurer, the claim could be seen as anything but a contingent liability and one that ought to be discussed in the annual report.

Simon Allen responded by saying that the issue had been given extensive exposure and that the Company had done all it could to keep shareholders in the picture.

All told the Board's responses on the issues are of concern to us - remuneration and the contingent liability - were unsatisfactory. We succeeded, however, in usefully drawing public attention to them. Moreover the voting on our resolution as a whole and on individual parts of it showed that we were able, despite the strong opposition of the Board, to attract a significant measure of support."

Martin Dowse and Brian Absolum

Property for Industry

Shareholders were generally in a contented mood at Property for Industry's annual meeting. As well they might be. In 2005 the company delivered a record net profit ($53.45 million after tax and unrealised valuations), the highest ever dividend (8.37cps, up 6.4%) and a total return to shareholders from dividend and share price growth of 24.64%. General manager Ross Blackmore screened graphics which showed, among other things, that PFI's growth and profitability over the years have exceeded those of all other listed property entities and that management fees, at 0.89%, were, equally with those of ING Property Trust, the lowest of all their rivals in the sector. He also pointed out that, despite a slowing economy, industrial property was clearly the healthiest of all property types from an investment point of view. PFI was in good shape to take on a more subdued economic climate, he said, while Chairman Peter Masfen described the company's outlook for 2006 as encouraging, with low-risk development initiatives continuing to be a major feature of future performance. Peter Masfen was re-elected to the board and the meeting approved a raft of mainly non-contentious amendments to the company's constitution. Shareholder and NZSA member John Wilson questioned a proposed amendment to increase from 10% to 15% the limit on the number of shares that might be issued in any one year without shareholder approval. The chairman said it was unlikely the level of 15% would be reached but it was a precautionary measure to be effected perhaps when the directors needed to act quickly on an acquisition opportunity. Another shareholder asked whether the role of AMP Capital Investors as PFI's managers gave rise to any conflict of interest with AMP's own property investment companies. The chairman assured the questioner that there was no such conflict of interest.

The only discordant note at the meeting was struck by yours truly. I congratulated management on the company's performance but said I could not extend the same commendation to the directors. This was because, as revealed in the annual report, although there were only nine board meetings in 2005 not one director had managed to attend them all. Each of the four directors missed one meeting, which meant that at only five meetings last year could there have been a full complement of directors. I drew particular attention to the attendance record of Dr Gareth Morgan, who was out of the country for the better part of three months last year, and who was absent from this annual meeting of shareholders because of being on another protracted overseas trip. When asked whether he thought the interests of shareholders were being best served by the directors' seemingly casual attitude to board and shareholder meetings, the chairman made the expected soothing noises. Directors had other duties besides attending meetings, he said, and with modern technologies such as video conferencing attendance at meetings was not always as important as it once was. He did not enlighten us as to what extent Dr Morgan was able to contribute to company business from Outer Mongolia or The Ozarks. No other shareholder chose to speak on the

issue. Later another director, Humphrey Rolleston, revealed that Dr Morgan had recently offered to resign from the board, because of his future travel plans, but had been prevailed upon to remain. Mr Rolleston made the somewhat mystifying suggestion that Property for Industry would continue to benefit from the experience gained by Dr Morgan on his journeys to foreign parts.
David Lawson

Turners & Growers

As usual, almost a family gathering. The 2005 apple season was a shocker, when the actual profit for the year to December last, turned in at 18 cents per share [14cps last year] everyone was pleasantly surprised. Tony Gibbs, the chairman and GPG's New Zealand director, reminded shareholders that the fruit and produce business is fickle and subject to the weather amongst other factors. The situation is not help by the pricing power of supermarkets so that produce prices in real terms are flat at best. Nevertheless Turners & Growers has a unique and strong franchise with a spread of income streams. So that even in a bad year profits can be acceptable. This year should be better. Looking further ahead the Company has exclusive marketing rights to the new Jazz apple and this should be a significant winner. Our Oliver Saint quizzed the chairman about apple access to the Australian market. Little relief was expected in the short term; our Trans Tasman cousins seem to be a lot smarter in protecting their patch than we are.
Howard Zingel

DISCLAIMER

The comments contained within this Newsletter, or appearing on the Association's website, should not be construed as providing investment advice or recommendations, under the provisions of the Investment Advisors (Disclosure) Act 1996, or otherwise.

BRANCHES

Auckland Branch

The Auckland Branch continues to grow impressively, and now has over 300 members, including active partners. The branch has had two successful company visits and a well attended meeting in the last two months.

About 30 members of the branch descended on the Grace Joel Retirement Village in St Heliers Bay Road, Auckland on Wednesday 24 May. The village, on the site of the former 7th Day Adventist Hospital and the present showpiece of **Ryman Healthcare** retirement village operations has been greatly extended. It was a dull, cloudy, cold and at times rainy day but the adverse elements were unable to hide the majesty of the location and the spectacular views of Rangitoto and the Waitemata that on a summer day must be stunning. The visit began with a presentation by the Managing Director Kevin Hickman and his team and this was followed by a brief trip around the various facilities including the apartments, dining room, atrium, gym and hospital location. Our members also enjoyed a plentiful supply of morning refreshments during the visit.

Members came away with the impression Ryman Health is a growth stock which focuses on its core business. It has integrated facilities from independent apartments through to service units, rest home beds and hospital beds, catering for the needs of occupants as they age.

One major competitive advantage lies in the development of its own facilities, which can be undertaken more efficiently than purchasing existing operations. These new premises are purpose built which offer low maintenance cost. Ryman gives the impression of having a strong management team with proven development capabilities.

Mr. Bill Jamieson a member of the research team of the Association has provided the following summary of revenue streams enjoyed by the group.

Sources of income are:

Sales of new units: Profit is obviously the difference between the costs of development of units and the charge for "occupation rights" (elsewhere known as "license to occupy").

Management fees: A deferred charge of 4% a year for 5 years, which is deducted from the price paid to the occupier when the unit is vacated. There is also a weekly service charge of $95 per unit.

Resales of units: The margin between the price paid to the previous occupier and the charge to the new occupier. The previous occupier gets paid the original cost of the occupation right less the deferred management fee of up to 20% of the cost, less the cost of any refurbishment. The Ryman margin on resales is therefore made up of the management fee plus any capital gain in the value of the unit. In the current housing boom conditions, these gains have been considerable, hence the spectacular increases in Ryman's profit. This is aided by the high turnover in units, with resales of 196 in the March 2006 year compared to 159 sales of new units.

Units are revalued when vacated, with the revaluation reserve being included in shareholders' funds. When a revalued unit is resold, the revaluation is written back into the P&I account. At 31 March 2006 the revaluation reserve totalled $114 million.

Ryman conceded that the last few years had been exceptional, but expected an average increase of about 3% to 4% real in house values to continue.

Care fees: These comprised daily and weekly charges for rest homes, hospitals and dementia wards. This is an area which is heavily subsidised by the Government and so is subject to price controls; has staff recruitment problems in the current low unemployment environment; and is subject to frequent criticism from many quarters. Ryman does no segmental reporting of its various divisions, regarding its operations as a total service to people as they age, and are also reluctant to reveal information that may aid their competitors.

General: Ryman has strong cash flows and finances its developments from internal sources. Its equity ratio is a high 75%. It has six major village developments in progress, with several others planned. With the continuing exponential increase in the aged population it sees its prospects as bright.

Frank Jasper of Fisher Funds Limited spoke at the Auckland Shareholders' Association meeting on 21 June. In his presentation Frank talked about the characteristics of the Australian market, similarities and differences between the Australian and the New Zealand markets, aspects of investing in the Australian market, and some companies that are part of the Fisher Funds Australian portfolio.
Frank described the Australian market as a vibrant capital market, thanks largely due to the compulsory superannuation requirement and the amount they contribute to the Australian capital market. The superannuation funds contribute to a significant growth in the funds management business to the order of 11% pa. The access to capital for small IPOs is never a problem thanks to the superannuation funds which are looking for avenues for investment. This results in a situation where a big fund in NZ terms of about $3 billion is the same size as a boutique fund in Australia.
The Funds Management Industry in Australia differs from that in NZ by virtue of the number of market participants and its size. Annual new equity issues in Australia are 1.3%of the market, whereas in New Zealand they tend to be 0.2 %. The new equity issues there tend to be dominated by small capital raisings – of 168 IPOs last year 134 were under $1 million. About 20% of IPOs continue to have the founders still owning the majority shares.
The domestic economic environment in Australia is characterized, at the moment, by the crash of the housing market - which is expected to be replicated in New Zealand soon and Australian migration policies and the terms of trade. The housing crash has impacted the retail market, but positive net migration means that domestic growth is assured by the continued demand for housing and supply of labour. The consistent migration policy has had a positive impact underpinning economic growth.
Australia also has substantial natural resources and is therefore protected even if prices of commodities fall in the short term, as quantities will offset the decline in prices and maintain the same level of inflows. The economy will continue to grow well in the foreseeable future, and is predicted at 1.5 to 2% growth for the next two years. This is, higher than that predicted for NZ. All of these factors make Australia an attractive investment destination.
The underlying philosophy of Fisher Funds is focus and not to spread too thin across a large number of stocks. This means rigorous research is undertaken in the form of company visits and meetings with the CEO and executives. The openness of the management is an important factor. Frank mentioned that he finds it interesting that many Australian companies see NZ as part of their domestic market.
Meena Basrur

Around 50 members visited Sky City on 28 June. The visit was hosted by Evan Davies, Managing Director and Alistair Ryan, General Manager Corporate and other members of the senior management team. We were given a tour of the facilities which was most impressive and an opportunity to see and hear first hand how some of the operations have been performing.

We then received a very professional presentation from Evan Davies. He described the company as a much diversified gaming and entertainment company with operations in New Zealand and Australia.

The group now has some 3,977 gaming machines and 293 gaming tables. Out of this total 1,430 gaming machines and 113 gaming tables are in Australia. The largest casino is Auckland where there are some 8 restaurants as well as a 5 star hotel with 316 rooms and a 4.5 star hotel with 344 rooms. The casino has car parking spaces for 2,500 customers.

It has the only Convention Centre in the country which can cater for dinner for 1,000 people.

Around 50% of all tourists visiting Auckland visit the Sky Tower.

The company has been increasing profits and dividends since 1996, although reduced in FY05/ 1H06 due to smoking bans, other regulatory issues.

Revenue is split: New Zealand 69%, Australia 31%. New facilities in place to drive growth in Auckland, Adelaide, Hamilton and Darwin.

There are some 25,000 shareholders with two Australian institutional over 5%. 25% of the shares are held by Australian shareholders.

SKC is seen as a 10 year investment. Dividends and Distribution (fully imputed) 1996-2006 $1.75.

Gain on original shareholding $5.60 = 350%

The next branch visit is to Renaissance Corp in Onehunga on Thursday 3 August, starting at 10am and lasting two hours. There are a few places left on the trip, and members interested should phone Joe Turnbull on 09 631 5071.

Des Hunt, Chairman, Auckland Branch

Bay of Plenty Branch

At our monthly meeting on 30 June, the 23 attending spent most of the time dealing with our submission on the Capital Gains Tax. Our submission was tabled and two minor amendments were suggested. The presentation was mailed to Parliament over that weekend. Interestingly, eighteen members at the meeting stated they had or were going to make their own submission. It is estimated that 24 members made submissions to the bill before close of day on 7 July. Kerry Drumm also provided and enlightening insight into the difficulties and complexities of understanding this proposed legislation. Even at this late, stage he urged those who had not made a submission to do so. His hand out providing examples of the complexities was useful for those potentially affected. Discussion was lively and wide ranging.

On 4 July representatives from Auckland, Hamilton and Tauranga were privileged to visit our local leading port company. Their CEO Mark Cairns led a full presentation dealing with the operations of the company, and where it fits into the New Zealand scene. His slide presentation graphically showed the importance of Port of Tauranga to the Bay of Plenty region. He spoke about future expansion and also the future where New Zealand port consolidation is a real possibility and how they are positioning themselves. Mark also spoke and presented evidence of Port of Tauranga's competitive position compared to other New Zealand port operations. Numerous searching questions were asked and they were fully and frankly answered by his supporting staff.

Following this presentation a bus with a capacity of 36 took everyone on a tour of inspection of the port area covering aspects of kiwifruit exporting, Coal importations from Indonesia and the new bulk handling facility, timber / log exporting. The bus journeyed to the container terminal where we viewed container handling and showed the areas where expansion can and will take place in the future.

Howard Zingel provided a hearty vote of thanks and appreciation on behalf of the NZ Shareholders' Association for the ports hospitality.

Allen Smith

Canterbury Branch

Having dug ourselves out of the snowdrifts it is now business as usual in the far South. We have sent off our submission regarding the Unrealised Capital Gains Tax. Most of the issues in our submission have been raised by others so I shall not bore you with the details.

We have recently surveyed our members to try to get a better idea of what their hopes and aspirations are for the Association. It would appear that we have two types of members. One is the active participant who wants to gain more knowledge of the investment market and to come along to hear guest speakers, company visits etc. The second type of member is of a more passive nature and one who wants to support the association in what it is doing to benefit shareholders and to represent them at Company AGMs, but does not want to be active in attending meetings etc. The general consensus was that we are doing a good job and most were very appreciative of our efforts on their behalf. So the committee now has a better idea of what our membership wants and that we have to try to cater for both the active and passive member.

Coming up in August we hope to run a seminar on Computer Programmes for tracking your investment portfolios and interesting web sites to look at. Robin Harrison and Peter Heffernan are in charge of this project and from the initial details to hand this sounds like it will be a most interesting seminar for those who want to get the most out of their computers capabilities in this regard. We shall be seeking tips and ideas from members over the next few weeks. So if you have devised your own spreadsheet programme to track your investments we want to hear from you so as to share it with others.

The round of Company AGMs will be commencing shortly and we hope to be able to represent NZSA at most of the listed company AGMs in Christchurch. We will look forward to meeting existing members and to hopefully sign up lots of new members. Remember that if you are unable to attend an AGM in person it is a simple matter to nominate the NZSA as your proxy holder. You can still instruct the proxy holder on how your vote is to be cast so there is no loss of your democratic voting rights. So have your say through the NZSA.

Until next time - keep the home fires burning but don't pollute the atmosphere.

Ritchie Mein, Chairman, Canterbury Branch

Waikato Branch

In March the inaugural NZSA Branch Conference was held in Auckland. Three members of our committee attended and saw the conference as a major step forward for the Association. The undoubted and respected strength in the Board members, resident in Auckland, working for the Association is recognised by all. The involvement of the branches, by virtue of the conference, signified the growth of the association and we were reminded of the importance for the Association to continue to grow. Sharing ideas for activities within each branch and considering strategies for branch growth were valuable segments of the conference. The need to bring younger investors in to the Association was emphasised and the initiative of one branch to involve school pupils was impressive. The Waikato branch is very pleased with its continuing growth and the current membership of 73, of which 19 memberships are partners, is satisfying.

In April the branch invited the two Members of Parliament who represent the Hamilton city to address the members. Martin Gallagher (Hamilton West) and David Bennett (Hamilton East) gave the views of the two major political parties concerning business and economics. Both admitted to these fields not being their strengths and delivered the party line. At question time they produced the not unexpected 'no comment' or evasive answers to probing inquiries.

The Waikato is well known for its ability to grow grass and raise cows, horses and sheep. These animals have enormous value to the New Zealand economy. The branch tends to go outside its domain for company visits. In May a visit was made to Comvita at Paengaroa in the Bay of Plenty. The local members of the BOP branch were invited to attend. The visit was successful, with an impressive presentation and tour of the plant. The company was recognised for its determination and potential for expansion in the field of health products. Before returning home the visitors called in at a packing shed of Seeka to see kiwi fruit in abundance being processed for export.

In June the branch AGM was held and was well attended by the members. The committee has found a successful formula for making the AGM palatable: pre meeting drinks; followed by a brisk meeting; followed by a notable speaker. Carmel Fisher addressed the audience on ***Investment Strategy***. Her delivery was impressive, clearly indicating why she was the successful managing director of a thriving company. Questions that followed Carmel's address were searching and the responses left the members in a very appreciative mood for the whole evening.

Most recently we were invited to join the Auckland branch in their visit to the Sky City company. This was a very enjoyable experience, where the company presented themselves in an impressive manner and as hosts were most generous with their time and

hospitality. In a few days we shall join the Bay of Plenty branch in their visit to the Port of Tauranga -something else to look forward to.
Alex Eames, Secretary, Waikato Branch

Wellington Branch

Wellington Branch held its AGM on 20 June at First NZ Capital's Boardroom. The night started off with the presentation of the nominations for the Committee, then votes were cast by the members. The following members were elected to the Committee, Matthew Underwood, Ray Jack, Martin Dowse, Peter Nalder, Brian Absolum and Phil Kelliher. Two positions were left vacant. We encourage anyone who is interested in filling these positions to contact me or the other Committee members.

The night then kicked into full gear with the guest speaker Peter Irwin from First NZ Capital giving a presentation on the proposed investment tax law changes. The presentation highlighted the vested interests involved in drafting the legislation, the complexity of the proposed regime and the distortions that it would create. Peter also explained what action members could take to influence the final legislation. Overall it was very through and interactive presentation with the members actively joining the debate and discussion.

We also held round two of the regional stock picking game with the members after some debate electing to invest Wellington's surplus funds into Ryman and Methven. These stock picks have performed pretty well since 20 June

Our next meeting is expected to be in August. We are investigating the possibility that someone from the IRD might come and talk about the taxation of investments and the proposed changes.

Finally a big thanks to Peter Irwin for his time and to First NZ Capital for providing their boardroom and refreshments. We look forward to seeing you all at the next meeting.
Ray Jack, Secretary, Wellington Branch

2006 AWARDS

Four years ago the Association launched the Beacon Award to encourage excellence and good ethics in the management of listed companies. Last year Simon Botherway of Brook Asset Management won the Award which is a miniature lighthouse. This now comes complete with flashing light thanks to the 2004 winner, Ralph Waters chief executive of Fletcher Building. The other winners have been Roderick Deane, chairman of Telecom and the former Infratil chairman Kevin O'Connor. While not awarded every year as we prefer to be positive, in 2005 George Gould Christchurch businessman was the clear candidate for the Golden Glob- less than helpful behaviour. Who do you think deserves the Golden Glob and Banner awards for 2006? All nominations are confidential and while the awards are contestable the final decisions rest solely with the national executive committee. Please send your nominations to Joe Turnbull (09)631 5071 email rjyturnbull@xtra.co.nz or Howard Zingel (07) 552 5320 email howardz@xtra.co.nz or write to Awards PO Box 2003 Tauranga. Should any member of Waikato, Wellington or Christchurch wish to join the nominations committee please contact Joe or Howard.

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