

# "The Script"

December 2004

The official newsletter of the New Zealand Shareholders' Association Incorporated

## CHRISTMAS MESSAGE

My shoulder has been tapped this year to provide the Christmas message to members. I am very happy and indeed honoured to do this. Merry Xmas and a Happy New Year to you all!

May I first say to you - thank you from all of the executive team for your support, it is most appreciated and we are certainly in need of all that you have given. Special thanks to those who attend the AGMs of listed companies and give me, Bruce, Ross and Des support in this key area of our activity. Certainly in the last few months you will have seen that we needed all the help we could get following the inept 'autopilot clause' that the NZX insist be provided in all listed company constitutions.

I have attended more AGMs than I care to remember in the last two months. The main objective has been to get across the message that our Association treats the abrogation of shareholder rights with the utmost seriousness. I made a special trip to Tauranga, to praise the Port of Tauranga, one of a select few (see elsewhere in this newsletter) that has the for-

titude to tell the NZX that this is not the way to travel. Yes, I will go a long way to praise those Boards that have thought through the process and have decided that the interests of shareholders must take precedence over pragmatism.

The AGM I attended yesterday has finally persuaded me that the selection process for directors and the continuing procedure of annual or regular appraisals is of paramount importance in going forward. I would like to mention several matters that occurred during an exceptionally well chaired AGM of Auckland International Airport, that convinced me 2005 should be the year when we follow the lead taken by our colleagues of the Australian Shareholders' Association and really press for accountability of directors. As Wayne Boyd, chairman of AIA, said during the meeting, it is up to us to vote against a director if we do not believe he or she is doing a good job. He is so right. The reason the AIA Board gave for seeking the autopilot resolution in their constitution was basically pragmatic. However I noted with interest that director Tony Frankham, the chairman of New Zealand Experience

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which did not go the autopilot way, was unable to persuade his fellow directors on this occasion. Then I listened in stunned silence with the rest of the gathering when it was disclosed that the main change following the introduction of International Accounting Standards, in 2007 or whenever, would be that the company would be required to set aside out of shareholders' equity a provision for deferred taxation on unrealised gains on property; this despite the fact that there is no capital gains tax in New Zealand and as a consequence no taxation liability. To be charitable, this message could have been a 'teaser' to provoke discussion so we will await the outcome. Finally, the strange concept of the ghost Nominations Committee of the Board. It is clear that this committee is never going to be used by the Board as no remuneration has been set aside for its existence in the new fee structure that was passed at the meeting. The chairman agreed that the appointment of a director to AIA was so important that the full Board would make the decision. This is supported by the fact that it was stated in the Annual Report there had been no meeting of this committee in the current year. The chairman is absolutely right, the full Board should consider the appointment of a director. I have the impression from the above examples that the AIA Board is bending over backwards to be politically correct. This may be because they are a virtual monopoly and have to watch their step in whatever area they tread. But it may also mean that they need their backbone strengthened a little. I think next year it will be incumbent on us to pay more attention to the composition of a Board. There is no reason to blindly follow rules that are thought up by institutions whether they be made in Wellington or Washington if they are not appropriate

for the situation of a company. An example of this occurred only minutes or so later when I attended the AGM of Pumpkin Patch. Here, the Board comprises 50% of each gender, a first for any NZ listed company and, I am sure, a delight to two AIA shareholders who spent considerable time telling us at that meeting that the Board composition is out of step. The Pumpkin Patch Board contained only 1 truly independent director, David Jackson, and yet I would go almost to the end of the world to see that this arrangement was not attacked by some stupid rule that says there must be a majority of directors who are independent' or there must be a non-executive chairman. Pumpkin Patch is in its early growth phase and in due course I am sure the Board of that Company will appreciate that new 'independent' Board members will be required.

So our objective next year will be to have a good look at Board composition and possibly also open up a dialogue with the Institute of Directors to see what can be done to encourage director education and opportunity so that fresh faces appear on the 'top table'.

There is much to be done and we cannot expect to achieve all our targets. One aspect that pleases us is the willingness of our members to speak out at AGMs as this has a vital advantage; it allows your representatives to take a back seat and come in when the heat is really on because the follow up question(s) usually elicit more information from the chairman. The continuing disappointment is that so many shareholders are only intent on the beer and refreshments at the end of the meeting.

Oliver Saint  
Director of Research

## **AUTOPILOT PROVISIONS – an update**

Since raising this subject in our last newsletter we have been through a multitude of AGMs and we make no apology for reminding members in detail of what happened at these meetings. We have to summa-

rise that on the whole and with the notable exception of Sky Network Television, where a poll was required because a 75% majority was not obtained from a show of

hands, the news has not been good. The benefits of pragmatism have dulled the minds of our representatives to the extent that shareholder rights take second place to perceived cost savings. Or perhaps it is the fear of being out of line with the New Zealand Stock Exchange. There are a small number of listed companies that have indeed thought long and hard about this change and have concluded that cost saving (pragmatism) is no substitute for the loss of shareholder rights. The following companies have decided that they are prepared to continue to change their constitution whenever the listing rules dictate rather than introduce autopilot. We would like to be able to obtain a full list of these companies and we seek your help in ensuring that no names are left off this list. To date we are aware of the following companies that have declined to change to autopilot, they are: **Broadway Industries, New Zealand Refining, Port of Tauranga, Sky City, and Spectrum Resources**

Finally on this subject, it is likely that during the next 6 months when AGMs for the remaining listed companies with Decem-

ber and March year ends take place that autopilot provisions will continue. Would any member who attends future AGMs please ask the chairman for an undertaking that shareholders be advised at the first opportunity if the constitution has been effectively changed without their approval. At the time of writing, undertakings have been obtained from the chairman of the following listed companies: **Cavalier Corporation, Ports of Auckland, Michael Hill International, Skellmex Industries**

It is our intention to update these lists and if a member or viewer of these pages is able to add to the list we would be glad to hear from you. Also, if there are listed companies who are now prepared to advise shareholders but have in the past told shareholders they will also need to look at the listing rules as well as the constitution then on written advice we will add their names to the list.

So, yes this is a listing of the good and the helpful and we will in future incorporate the page on our website.

## INTERNET USE

Members will be well aware of the NZSA website, and the significant resources available there. Over the last few months we have added further benefits for members who are web-enabled. These benefits include access to overseas shareholder sites that we have negotiated (provided you apply). We are looking at further additions to our services, for the benefit of members, but it is quite obvious that most of what we can source and provide is web-based.

It is also apparent that the most up to date information about any company is to be found on the web – either via the NZX home page, or from the company's own site.

Email newsletters from brokerage houses, and news sources, can be provided daily via the internet, or instantly by access some media home pages. It is interesting to see how media comment in the newspapers is

spread around from one paper to another over a period of days. If you rely on newspapers for information, and your particular newspaper is the last in the chain, you may be significantly disadvantaged due to the time delays in information about your investments reaching you.

Our own newsletter can be provided to members direct by the web (with a considerable saving to the Association - but only if every member can take delivery that way). It is the economies in the provision of information to the market that makes the web such a powerful resource for investors.

We would like to take this opportunity to encourage every member to get on the web. It is undoubtedly the fastest available means of acquiring relevant and timely material for shareholders today.

Ross Dillon

## PROXIES

In our August 2004 Newsletter, we reminded members that it was their obligation to vote their shares at company meetings. We have the impression that there may be a general misunderstanding among shareholders and possibly also members about the use of and the validity of the proxy form. We hope by this short article that some of the misconceptions can be straightened out. In New Zealand, our registration system for the ownership of shares is such that each shareholder is able to obtain direct ownership without the necessity of using nominee companies. The following comments are in three parts: shares that are registered and held by the shareholder in his or her name, shares that are held beneficially in a nominee name and overseas shares that may have different characteristics.

### New Zealand individual registration

Accompanying the annual report or several weeks after in a separate mailing will be a proxy form where completion is solicited in the event that you are unable to attend the AGM in person. This form is quite simple to complete and will contain boxes for you to mark your preference when voting for the appointment or re-appointment of directors, change of constitution, options to executives, issue of shares or other matters requiring approval at a special or general meeting. There are a number of matters you should be aware of when completing the proxy form:

- 1 Signing and mailing the form does not prevent you from attending and voting in person.
- 2 Signing and mailing the form does not prevent you from changing your mind and completing a second form to replace the original, (if your first proxy cannot attend).
- 3 The form must be mailed in time for it **to be received by the company** or the share registrar **48 hours before the time set for the start of the AGM.**

### Nominee shareholdings

If you hold shares through a nominee company then the annual report and proxy form will be mailed to the nominee company. If you find it difficult to obtain an annual report from your nominee then you should contact

the Corporate Secretary or other financial executive of the listed company and ask that your name to be placed on the annual report list. This step will however not enable you to receive a proxy form. It will also be unlikely that you will receive the agenda for the AGM with the annual report. The practice is for many companies to mail agendas to shareholders separately. If you wish to attend the AGM of your investment in person then you will have to call the nominee company and ask them to complete a proxy on your behalf to attend the meeting. If there is a topic about which you have a concern and you are unable to attend in person you should ask the nominee company how they intend to vote your shares. It is perfectly reasonable for you to instruct the nominee company as to how you wish to vote on any matter.

### Overseas holdings

Australian proxy forms give the shareholder three options. For, against and abstain. If you place a cross against abstain you are indicating to your proxy that s/he may not vote that item on a show of hands or on a poll and your vote will not be counted on calculating the required majority on a poll. The Australian regulations generally allow you to appoint a second proxy to attend and vote on a poll. It will be necessary for you to contact the company's share registry if you wish to take advantage of this facility. Members should be aware that for many Australian listed companies the Australian Shareholders' Association (ASA) has a representative who will be present at the AGM and is prepared to accept proxies from investors. The name of the representative who is attending the meeting may be obtained from the ASA website which is at [www.asa.asn.au/VoteShares.asp](http://www.asa.asn.au/VoteShares.asp). You may complete your proxy form by inserting the Australian Shareholders' Association on the proxy form.

If you are a proxy holder for another shareholder it is always advisable to approach the proxy desk when you arrive for the meeting and advise the attendant the name of the holder whom you represent so that this name may be ticked off on the list of shareholders and any papers needed may be handed to you.

Finally, if you are unable to attend the meet-

ing, the Association is able to accept your proxy. If you have a firm view on a particular item then place a X in the box, otherwise NZSA will weigh the arguments and vote accordingly. Please complete your proxy in favour of New Zealand Shareholders' As-

sociation Inc and mail the form to the Share Registry of the listed company. If you are able to advise us by email that you have done this so much the better as it gives early warning for us to arrange a representative to attend.

## AGMs

### **Cavalier Corporation**

Results for the four months to 31 October were up 7% over the same period last year. The meeting again highlighted the willingness of many NZSA members to have their say at AGMs. One member suggested that all of the directors should have been on the podium rather than merely the chairman and CEO. The chairman advised that they had discussed this prior to the meeting and in future all directors would be on view. Some interesting matters appeared as a result of question time during the annual report. Jim Baird, a member, asked about competition and Chairman Alan James was forced to admit that yes, they found Feltex to be invigorated and for the first time for a long time Cavalier did not find itself in the position of being a price leader and Feltex were proving to be a much stronger competitor than in the past. Margins were not however under much pressure at the moment. The chairman was asked what the term 'cost of capital' meant and his response was extremely good and whereas Tony Timpson would have had the charisma to get away with bluffing it out it was clear that Alan James was well up with the play on that one. The figure given was 15% (10% per annum after tax). Indeed he was in most respects an excellent chairman.

After the rather boring exercise at Ports of Auckland meeting, where all six directors up for reappointment were asked by the chairman to take the floor and give the meeting a short commentary on what they could do for the Company your representative concluded that on this occasion Alan James, Tony Timpson plus the two executive directors were sufficiently known to shareholders not to need 'exposure'. However Mr Keith Thorpe had joined the Board at the beginning of the year and he addressed the meeting.

When the agenda item covering the adoption of a new constitution was reached I was

able to concentrate on the cons of the proposal as the chairman had adequately covered the pragmatic reason for the change. I first indicated that the Association was formed for two reasons - looking after the rights of shareholders and education - and both these aims fitted well with the present discussion. I then asked shareholders to vote against the motion because it took away one of the remaining rights that shareholders have. I added that several listed mining companies were taking the South African Government to court because they intend taking away (confiscating) their mineral rights. We did not have the option of going to court, we had to rely on this meeting. Alan James had mentioned that the NZX listing rules required compliance from companies and in any event government through the Securities Commission also vetted the rule changes made by NZX. I said in my address that I doubted, with all other matters that government must consider, that shareholders' rights were likely to be given high priority. As a rebuttal of the NZX requirement I indicated that SKYCITY Entertainment, Port of Tauranga, NZ Refining and Spectrum Resources had all decided not to go the autopilot way. There is among these companies a diverse range from 'penny dreadful' to large size company

Auckland Branch Secretary John Clifford gave a rousing address in which he stressed that shareholder rights had to be respected. We might even have won the day but unfortunately Mr Grant Biel a major shareholder rose and spoke in support of the motion. At the end of the day not enough hands were raised at the right moment and the motion was carried.  
Oliver Saint

### **Michael Hill International**

The meeting in Auckland started with at least 45 minutes of off the cuff addresses from Messrs Hill and Parsell. In his quiet sort of way Mike Parsell was just as impressive as Michael Hill if perhaps a lot shorter but the

confidence came through and what he had to say made a lot of sense. The addresses were followed by a short video which was a good ploy as nobody remembered to ask about current trading. During his address Mr Hill mentioned that growing organically avoided inherited problems (a pity The Warehouse Group were not in attendance) and he gave a vision for the Company that the media has I am sure shared with you already so I will not repeat. I have not been to these AGMs before without realising what is in store regarding the resolution to change the constitution and I decided to do much of my agenda work before the meeting began. I came to the conclusion that the full significance of the change had not been appreciated and this was certainly one company where, with advance warning the matter might have been treated differently. I decided that with the chairman being the majority shareholder, if he was willing to trust the NZX who were we to complain. I did however take the 'inherited problems' from his earlier address and indicate that I hoped he would not have reason to rue his trust. I mentioned that I was sure shareholders would be fully understanding if next year the Board decided to change its mind. The only other shareholder to raise a question was our stalwart member John Wilson who extracted a promise from Michael Hill that the Board would notify shareholders if ever the constitution was effectively changed. Two pieces of valuable information for shareholders were mentioned during the meeting. Michael Hill advised shareholders that if they were not in the company for the long run, they should sell. The CEO indicated that there would be times when results would be impacted particularly when the infrastructure was being built up for the next growth phase. Canada was progressing well but the break-even point would come once 12 stores were in operation. Calgary is the next stop, three or so years down the line. This Company follows the age old practice of reading out the notice of meeting and the Auditor's Report. After the meeting I urged Wayne Butler, if the practice of reading the audit report was to continue, to have the auditor read out the Audit Report, it is good for the soul! This seldom occurs at AGMs and indeed it is no longer required but if the habit is retained it is a point that shareholders might like to consider.

Oliver Saint

## **Ports of Auckland**

The meeting at the Hilton Hotel was advised that the Company had that day signed an agreement with Toll Rail for a shuttle train between the new Wiri inland port that would increase the capacity of container movements to and from the seaport; the news was greeted with less than rapturous applause by the audience. The meeting commenced with a short video which seemed to lull its audience into silence during the initial stages of the proceedings. Perhaps the size and quality of the 2004 Annual Report encouraged a relaxed feeling with many questions already answered. However following the addresses by the chairman and CEO, a shareholder, Harry Julian rose to draw to the attention of the meeting the article in early October regarding Fonterra's review of their dockside exporting arrangements. Mr Vazey responded to the veiled threat demanding director resignations by pointing out that the Company would be responding vigorously to any competition but stated that there was a point at which less than marginal business was not beneficial to the Company. Another shareholder, Tony Sullivan, queried the relationship of figures in the Segment information section with those shown elsewhere in the report and this query was successfully dealt with towards the end of the meeting. Then came the election of directors. Your representative had completed a fruitful two hour discussion with the chairman earlier in the week during which he confirmed that all directors presenting themselves for election would be asked by him to address the meeting. As there were no less than six directors contesting five places this made for an extended agenda item. However there was close attention and a question to one of the directors covered the extent to which conflicts might occur between the needs of the major shareholder and the rights of minorities. I also commented at a later stage on the suggestion by Mr Coote that addressing the meeting was a 'new fashion' and suggested it was all about corporate governance and accountability. I made a strong plea for members present to reject the new constitution as it embraced the auto pilot provisions that effectively handed shareholder rights to the NZX. This subject had been a topic at our meeting earlier in the week and I was able to read out a section of the memo Ross Dillon sent to me stressing the serious implications if this resolution was

passed. Finally the chairman pointed out that the resolution could be reversed at future meetings and undertook to ensure that the most effective means of advising shareholders of constitution changes would be found and put in place when changes occurred. My address was well received and towards the end of the meeting the chairman praised the Shareholders' Association for the work it was doing - an unsolicited but nevertheless extremely welcome indication that we are on the right track.

Oliver Saint

### **Port of Tauranga**

The meeting in Tauranga was held in a near full auditorium and proceedings were very much a valediction to the chairman Fraser McKenzie for his three decades of involvement with the port. The after tax profit for the first quarter was \$8.153 million (\$7.755 million).

There have been several comments at recent annual general meetings about the level of increase in directors' fees and I took the opportunity to comment on this subject. The increase sought by the Board was not excessive this year and I suggested that not only was the increase in responsibility and time commitment evident but shareholder expectations had increased as well. I also suggested that waiting for four or five years before seeking increased fees was not perhaps the best tactic. Nevertheless the political situation also becomes important should employee wage bargaining be under discussion. All the directors up for re-appointment or election were asked by the chairman to address the meeting.

The final item on the agenda and the really important special business resolution was the change in the constitution. It was not only encouraging to be told that the autopilot clauses had not been proposed but the chairman also made it clear that the Board was aware that shareholder rights would be impinged if they introduced these provisions. However there was a sting in the tail when he advised that a committee of the Board would be set up at the end of the year to consider the matter and report back. Shareholders of this company should therefore be cautioned that the matter has not yet been dealt with conclusively. It will be interesting to see if the power and charisma of the now retired chairman was the deciding factor in

deflecting this NZX rule until another time or whether there had been any input from the major shareholder, Quayside Securities. If the Board eventually decide to change to autopilot it will certainly be a sign that very little will persuade the major shareholder to have any interest in what goes on in its subsidiary. To let another listed company dictate the form of the constitution would seem the ultimate in laissez faire. It will also be an interesting gauge on the incoming chairman John Parker as to whether he is able to fend off the likely pro-autopilot stance. Watch this space.

Oliver Saint

### **Postie Plus**

The Chairman opened the meeting in Christchurch and more or less covered what was in the Annual Report. There were no questions raised even though revenue and profit was rather flat compared to the prospectus. On the matter of re-appointment of Auditors I raised the question as to the use of the Auditors for non-audit work. Initially my question was fobbed off with an answer that the only work done was some work on the IPO Prospectus. I queried this as the cost of the work was in excess of \$70,000 and so would have to have been considerably more than just a little extra audit work. I reminded the meeting of the problems of Enron and Arthur Andersen and informed the directors that the NZSA was strongly opposed to auditors being employed to do non-audit work due to the possibility of conflicting interests arising. The chairman of the audit committee advised that all non-audit work was cleared by the audit committee beforehand and that the issue of conflicting interests was considered carefully before authorising any work. However they had taken my concerns on board for the future.

I was not in a position to raise any matters on the motion to change the constitution as I did not have a copy of the proposed changes in my possession. I was not aware of any "auto pilot" clauses in the changes and so did not raise the matter.

Both Directors up for re-election spoke briefly on the attributes they could bring to the boardroom. All in all a very quiet meeting with little input from attending shareholders.

Ritchie Mein

### **Skellmax Industries**

The lack of a roving microphone was not a particularly auspicious start. The meeting was advised that the profit for the 2004/5 financial year would be pretty much the same as the 2002/3 year. A shareholder Ron Robertson asked a series of perceptive questions about the country segment reporting profitability and it became clear that a slice of the profits from overseas operations was being channelled back to New Zealand in order to boost profits, tax and imputation credits. This happens in many jurisdictions and it is interesting to see it is being developed in New Zealand. Transfer pricing the other way! When the appointment of directors came up I asked what was probably on a lot of shareholder minds and that was how did the chairman, Keith Smith, manage to stay on top of all the directorships. His comment that he no longer has clients as a practising accountant was certainly well made and he indicated that he was not a hands-on chairman in any of the companies for which he acted. The comment that he is taking on no further work probably left shareholders breathing a sigh of relief. Then came the autopilot and my hopes were raised following a chat the same morning with New Zealand Refining where I ascertained that they were not introducing the autopilot rules. At the end of the day my argument failed to convince the audience who voted in favour of the resolution by the required 75% margin. At least the motion was put to a show of hands.

Oliver Saint

### **Sky TV**

At the meeting on 28 October at the Crowne Plaza, Auckland, the formal agenda was quite limited – the re-appointment of auditors, the re-election of 4 directors (of whom 2 were “new” in the sense of having been appointed during the year, rather than elected), and the only contentious issue – the adoption of a new constitution inclusive of the dreaded “auto pilot” provision.

The meeting started with a good briefing of the performance to date, with some update of material from that disclosed in the annual report, and the rather more useful explanation of strategic forward thinking. It was well handled and the Board should be congratulated on this aspect of the AGM.

The company has clearly performed well

over the last 2 years, and the projects on foot for the future, including web-based DVD ordering systems, look encouraging.

The election of new directors was preceded by your representative asking that the candidates address the meeting briefly with the reasons to support their re-election. The “new “ directors were invited to do so by the Chairman, who suggested that the directors being re-appointed were well known to shareholders. As he himself was up for re-election, he did address the meeting *ex tempore*.

Then came the constitutional amendments. Your representative addressed the meeting on the consequences of auto-pilot provisions, on the theme that the constitution was the key to the company as far as shareholder rights were concerned, the auto pilot provision threw away the keys to the company.

Voting at the meeting was conducted by a show of hands (which seemed imprudent given constitutional amendments require a 75% majority), and the proposal was lost on a show of hands. The meeting then requested a poll, and the Chairman then had to set up a poll, which was clearly not anticipated. The poll was taken and the motion was passed.

Ross Dillon

### **Steel and Tube**

The Chairman Bob Every opened the AGM promptly at 12 noon on 20 October and spoke briefly on a successful year where buoyant economic conditions had helped bring in a 32% increase in NPAT. Hurricane Wire is performing to expectations and the integration has been very smooth. CEO Nick Calavrias continued the theme with a more detailed look at the performance of each of the divisions. While the first half of the year was quite flat, earnings improved substantially in the second half and this trend has continued into Q1 2005. Looking forward there are signs of slowing in the residential construction market, but this should be more than offset by an increase in commercial activity, especially in the Auckland region.

Bob Every and Barry Dineen were re-elected and aggregate directors' fees increased by \$80,000 to \$310,000 to compensate for the removal of retirement allowances.

Martin Dowse

## Telecom

The AGM, back in Wellington again this year, was well attended with approximately 200 shareholders, a TV crew, some press, senior Telecom executives and Telecoms' Auditors present. The AGM started at 2.30pm with an upbeat screening of selected Telecom ads from the last 5 years, but after this it became a rather dull and well-cho-choreographed affair.

Rod Deane introduced the directors with a brief recap of their credentials then addressed the AGM. He highlighted the good year Telecom has had and the intention to increase dividend payouts to 85% of net earnings. He saw the challenges facing Telecom as intensity of competition, changing technology, intrusive regulatory environment, commoditisation of many products and services, and associated with this some decline in earnings from traditional areas. On the positive side he saw a strong economy, Telecom in a strong financial position with an advanced reliable network, strategic supplier relations and quality staff. All the usual stuff.

Looking to the future Rod saw Telecom focusing on Internet (IP) based networking, building IT capability with their recent gen-i and Computerland acquisitions, developing their trans-Tasman customer services and rolling out the new "T3G" high-speed voice/data mobile network. Rod finished his address off by thanking John King for 14 years of splendid service and Lindsay Pyne for his rather shorter stay.

Theresa Gattung's speech was somewhat more animated than Rod's, possibly waking up the odd shareholder who may have dozed off. Theresa's main points were that Telecom was now focusing on delivering its basic services well, plus moving into new markets, especially the IT market. She saw Telecom as a "full communications provider" whose challenge was to bring voice like reliability to the IT world. Good luck Theresa. She also said the gen-i and Computerland integration was going well and that \$10 txting had been a great get em young strategy although she didn't say if it was profitable or not. The highlight of Theresa's talk was when she spoke on Telecom in Australia and almost said the L word (LOSS). Catching herself at the last minute she converted a loss into an investment – an old accounting

trick. She also mentioned the \$100 million operational cash flow, and some growth in customers and revenue. In the future she saw increased dividends, NZ and Australia as a single market, the rebuilt Telecom IP network and continued investment for the future. Importantly for shareholders Theresa has no desire to take Telecom outside of Australia and New Zealand.

At this stage Rod came back online to answer shareholders questions. Firstly he said that many questions had been submitted prior to the meeting and would be reviewed and taken onboard. A number of these questions related to Telecom's calling plans (hard to imagine anyone getting excited about these) and Theresa's salary (lots of shareholders got excited about this). He then spent the next 15 minutes justifying Theresa's salary. A few of the mailed in questions must have also asked about the glossy, verbose and generally uninformative annual report as Rod spent another 5 minutes justifying this – the crux of his argument was it's a bloated document because of the need to comply with various listing regulations.

There were only three questions from the floor, one from a shareholder from Hunterville who noted coverage on the mobile network outside main centres was poor, especially during the recent floods. Theresa helpfully suggested that the 027 network now had better coverage than the 025 network. The second questioner asked if legislation had been passed to allow NZ shareholders some imputation credits for dividends from Australian companies, and vice versa. The answer from Rob McLeod was "yes". The final question was to complain about the annual report and ask how much it cost to produce. Answer: \$8 per copy, 50,000 copies.

There were six resolutions to be voted on – Directors fixing auditor's remuneration, four directors up for re-election, and the special resolution to amend the constitution.

The special resolution was to amend the constitution to reference Listing Rules rather than state them explicitly. This will mean in future Telecom's constitution will reflect amendments to the Listing Rules from the date they take effect. There were no questions on any of the resolutions and the meeting finished at 4.00pm with shareholders depositing voting and proxy forms in ballot boxes then off for tea, coffee, juice and finger foods.

Was the AGM enlightening? Does it give a clue to Telecom's future direction? Six of the eight board members hold law degrees; none are trained in technical areas, so I guess Telecom's main challenges and opportunities are regulatory rather than technical.

Martin Dowse

### **Wrightson**

Chairman Ken Smith opened the meeting of about 100 shareholders on 10 October in Wellington's Opera House, and started by introducing the board and he then spoke for about 20 minutes on four topics – changes in Wrightson's ownership and its directors, financial performance, the board's focus, and the planned share buyback. After Ken, acting CEO Barry Brook spoke covering more or less the same ground.

On the change of ownership Ken/Barry said that Wrightson's has a strong, committed and supportive shareholder in RPI and that the transition to new owners has gone smoothly. Fonterra's sell down of its share was both good and not so good news: good because it removed a share overhang but not so good because Fonterra now has no desire to proceed with a merger between RD1 and Wrightson's Rural Supplies.

Financial results for the last year were most disappointing, the main causes were a strong exchange rate, higher interest rates, bad weather, the failure of key strategies to produce results and the under performance of some areas. Barry highlighted Rural Supplies as one of the underperformers, while Real Estate, Grain, Seeds and Livestock Exports performed well.

The board's strategic priorities are best summed up as back to basics, remove complexity from the business (and along the way a few underperforming activities no doubt), get closer to the customers, and make \$16 million NPAT this financial year. Also after selling its finance business to Rabobank in 1998 to survive, the restraint of trade agreement has expired and Wrightsons is now getting back into the finance business. Ken and Barry pointed out that the rural finance market has grown from \$11 billion to \$20 billion since they were last in the market, and that this is a great opportunity for Wrightsons. What they didn't point out is that along with Rabobank, the mainstream banks are all in the rural market now, and that Wrightsons will have stiff competition

there, especially when you consider the banks' costs of funds must be lower than Wrightsons'.

The share buyback was next up. This is an interesting situation where Wrightsons intends to offer shareholders a one for six share buyback at \$1.56 per share. RPI (50.01% shareholder) don't intend to sell, so it will effectively become a one for three buyback. They also won't vote on the buyback. On the face of it, this looks reasonable as shareholders have the option of selling out if they wish at the same price the RPI takeover was carried. The board also believes it will result in increased EPS and a more appropriate gearing level as Wrightsons doesn't have any significant long-term debt. However a cynic would say that it allows RPI to creep their share of the business to just over 60% at no cost to them. Also Wrightsons does have a reasonable amount of short-term debt and given the current changes taking place at Wrightsons, and a farming sector that must be near its peak, is this the best time to be carrying out a debt-funded buyback?

Motions for the re-election of board members were passed after each gave a brief summary of their credentials. Then it was question time. I asked why there was not a breakdown of results by business unit to which Ken replied they didn't want to give too much information to their competitors, but it was likely that they would be breaking it down further as international accounting standards are adopted.

There were only three other questions from shareholders, one asked if there would be imputation credits available for the next dividend to which Ken replied that Wrightsons was on track to meet its \$16 million NPAT so there should be. The next question asked if Wrightsons would continue its focus on research and on computerising farmers – Barry Brook responded yes to seed research, but he didn't seem so enthusiastic about biotech or computers. The last question was from a farmer who was heartened by Wrightsons back to basics approach and said many mistakes could have been avoided if there had been a farmer on the board – to which Ken replied there is a farmer on the board – Murray Flett. Murray looked a bit unsure about that.

Martin Dowse

## SHAREHOLDER EDUCATION

### Courses

Courses have been held recently in Auckland, Canterbury and Wellington with pleasing attendances at all three. These were the first in Wellington and Christchurch - well done Christchurch and Wellington Branches. This kind of breadth of activity of NZSA must be helping to draw our membership up to now more than 600!

Starting in the Sharemarket, Investing in Shares and the new follow up course Understanding Company Reports are the courses available so far for 2005. Watch for 2005 dates and locations on [www.nzshareholders.co.nz](http://www.nzshareholders.co.nz) (click on Shareholder Education)

We hope to extend the courses to other provinces in 2005. Let me know if you can help with that – Gore or Whangarei all OK for courses if the demand is there.

### Books

NZSA is looking to provide an on line book shop with recommendations through our website. This is in response to requests for book recommendations at the courses

As a taste for this:

Bruce Sheppard recommends the 'Essays of Warren Buffet', by Cunningham.

Ross Dillon recommends The Bemused Investors Guide to Company Accounts in New Zealand by Bill Jamieson published by Shoal Bay Press Ltd (1997) and Finance for Non-Financial Managers by Gene Siciliano published by McGraw-Hill (2003)

I recommend 'One up on Wall Street' by Peter Lynch and John Rothchild Penguin Books

### Favourite Broker- let us know!

Another question asked at courses is for me to recommend a broker. Do you have recommendations I could pass on?

Send Name of Broker, Name of Broking Firm and why you recommend them to me, at [nzsabrokers@invested.co.nz](mailto:nzsabrokers@invested.co.nz), or P O Box 90821 Auckland 1030 or Ph 093767368 or Mob 0274767368

I'll name any favourites that come up a few times in one of the next Newsletters

Thanks to all those who have come to the courses and Howard, Martin, Ritchie and Bryan, for making them possible and so enjoyable.

Graham Wilson  
Director of Shareholder Education NZSA

## BRANCHES

### Auckland

On 10 November, about 30 members had an informative visit to the Papatoetoe headquarters of Cavalier Carpets. The group appreciated the generous amount of time that was given by senior management and other employees in explaining the business during a meeting and tour of the factory, and particularly the evidence presented of increasing return on capital employed in the operation. The visit ended after an appetising lunch.

There was a large attendance this week on 1 December at the final meeting for the year, addressed by NZSA member and well known commentator, Brian Gaynor, followed

by a social hour.

The first meeting for 2005 will be on Wednesday 16 February, addressed by Hon Margaret Wilson, Minister of Commerce, and there are trips planned to NZ Refining and Northport for early March

### Bay of Plenty

A visit by Oliver Saint at the time of the Port of Tauranga AGM was very well received. NZSA members who are visitors to the Bay are welcome to our activities, email or phone the Secretary to get details of monthly events. At a recent meeting, a presentation by Bruce Cronin, Trust Manager of the Bay of Plenty Community Trust about "The chal-

allenges of running a hundred million dollar portfolio” was enlightening and informative. They have established objectives, an evolving investment strategy and an agreed execution plan. The same things we should all have in place. Bruce went on to say investing is easy “only buy shares that go up”. We are pleased that the Board has accepted our offer to draft proposed protocols for the Association’s “Beacon” and “Golden Globe” Awards -something for our members to do over Xmas [ if you have any thoughts email our secretary].

We ended the year with a Xmas Bash at the Armitage Hotel. As in previous years, spouses were welcome and as we now know each other quite well it is a fun thing - good food helped. At the last monthly discussion meeting Paul Zingel gave a well received presentation on Charting - in a word: if the share doesn’t go up, don’t buy it, and always have trading rules and FOLLOW THEM.

The branch is developing a share club where we will manage a phantom portfolio which we will post on [www.stockwatch.co.nz](http://www.stockwatch.co.nz) user name tgashare password phantom; don’t play around with our holdings otherwise we will change the password.  
Howard Zingel

### **Canterbury**

Canterbury members, ranging from rank beginners to experienced investors, had plenty of positive comments on the two shareholder education courses held in the city recently. Both courses, Starting in the Sharemarket and Investing in Shares, presented by Graham Wilson of Investment Education, generated a wealth of relevant information and very active class discussion !

One keen Dunedinite even travelled up for the afternoon course. Topics covered in

the morning included the kinds of shares available, the value (ratios etc), using a sharebroker, diversification and strategy. This was expanded on in the afternoon with discussion on choosing companies - their board and management, understanding their business and pricing as well as useful future sources of information. Now to put it all to good effect!

Georgina Hall

Merry Christmas and Happy New Year, from the rapidly growing Branch in the Deep South, to all our fellow NZSA members – Ritchie Mein

### **Waikato**

On 3 Nov a Discussion Group meeting was held where three members outlined their portfolios, explained their investment decisions, and commented on their results. A valuable meeting for all those who attended, in order to recognise different approaches to investment and to evaluate their own investment decisions.

On 16 November nineteen members, with five visitors from the Bay of Plenty Branch, visited the Vertex company in Hamilton. We were well received. Explanations and information were given of the company procedures and a tour of the plant showed us how some of their products were made.

The final meeting for the year will be on 7 December and will be a Christmas gathering with an address from Brian Gaynor. A good end to a good year.

Alex Eames

### **Wellington**

Wellington Branch continues to grow rapidly in numbers, with membership now nearing 40. Branch members enjoyed a company visit to Kirkcaldie & Stains on 25 November, and a number participated in the NZSA share market training courses on 27 November.

Ray Jack