"The Script" December 2005

The official newsletter of the New Zealand Shareholders' Association Incorporated

2006

It is fairly clear that 2006 will be a rough year for New Zealand in general and as a result the share market in particular. Shareholders will need to be increasingly vigilant to ensure that executives ride the wave down just as shareholders will be expected to. If Shareholder returns are declining so too should CEO rewards. This said, there is a bevy of consultants available that will recommend increasing rewards for CEO's even in a declining market.

It is not uncommon for companies to have a portion of reward at risk, in fact we encourage it. The problem as always is the fine print. Often the stretch hurdle is to ensure that the company's returns are in the top quartile of performance relative to either NZX in general or a composite industry index. So guess what happens if the market in general losses 40% but your company only retreats by 30%? You lose 30% of your wealth and the CEO gets a bonus.

Shareholders should now be pushing boards to have bonuses paid based only on absolute returns. The concept of absolute return is common sense. If you don't make at least the bank rate (a proxy for a risk free rate of return) you have made no return for the risk taken and no bonus should be paid. The case for transparency of reward plans needs to be made now and compellingly to all companies. See our Web page for the discussion document on Executive reward.

What's Wrong with New Zealand?

The balance of payments deficit is now at third world levels. What it collectively means is that New Zealand Inc spends more than it earns and has done so now every year for more than 20 years. Maybe Hellaby can do this too!

We are allowed to live this way at the behest of foreigners who either lend us money at ever-increasing interest rates or buy things that we are prepared to sell them. Small wonder then that debt as a percentage of GDP is rising and the level of foreign ownership of our business, listed and unlisted, is increasing. Winston can complain as much as he likes, but the increasing pattern of foreign ownership of NZ land is something we are going to have to get used to as there is not much else left to sell.

As a society New Zealand will have to face some tough choices in the near future. Do we intend to become an economic colony controlled from offshore? Do we intend to triple our population with wealthy migration? Or do we intend to take responsibility for our own future?

It really is simple, we have to earn a dollar and spend less. The bit we don't spend has to be invested in New Zealand based businesses that create jobs, and profits that are in turn reinvested. A couple of other interesting statistics. According to Bollard, NZ households collectively spend 12% more than they earn. The average household income in New Zealand is $50,000 approx. 75% of New Zealanders don't have a net worth.

So guess what, if we want to change NZ's future the 25% with a net worth and disposable income are going to have to do the initial work to change our future. To do this we need to invest in productive assets run by smart honest people. This is a tall ask as financial literacy in New Zealand is also very low.

So here is the short-term formula for New Zealand not to become a colony or a country drowned with new immigrants in our lifetime:

1 Improve the financial literacy of the New Zealanders with the means and the will to

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invest, thereby improving investment effectiveness.

2 Encourage investment in New Zealand by making it safer. Identify the good guys and the bad guys, and encourage shareholders to behave like owners to avoid the costs of central government policing, the inevitable gap filler for lazy investors who won't do it themselves. (And it doesn't work anyway).

3 Champion the concept of independence rather than dependency. Independence comes from taking responsibility for yourself and being encouraged to so do. Financially comfortable is one path to independence, complete destitution is another, work out which you want. Money won't make you happy but it sure does help. Make saving a virtue and encourage it. Adopt a 20-year target to have 75% of New Zealanders with a Net worth. People with something to lose tend to make more responsible citizens, less crime etc. Build an ownership society.

As a society we must save more and earn more. To earn more requires capital and intelligent labour. This only happens through affordable and relevant education. Education must be available to all, Student loans must be abolished. Fees must be nil for New Zealand Citizens, And to keep New Zealanders at home creating wealth for New Zealand our capital must stay at home to provide the opportunity. Capital without rational application built on sound financial literacy won't cut the mustard. Free education to our kids, and financial literacy for those with investment capital are musts.

Now our members should all feel important, because this is exactly what the NZSA want to help achieve, independent, financially literate, responsible business owning investors building the basis for a sane, safe and secure New Zealand.

Bruce Sheppard

AGMs

Nuplex

The Chairman reported the Akzo Nobel investment was a strategic move for Nuplex as they were currently in markets which they had a reasonable market share and at the same time addressed future technology needs which were important if they were to stay competitive.
The combined group now has the size and resources to develop new products so they can grow the business world-wide.
Although Asia and China is a growing region it did not offer technology leadership required by the group. This is why Akzo Nobel was attractive because it focused on Europe, South and North America. Now the group have world class Distribution, Research and Development facilities in all key markets.
The Chairman then went on to say it was important they had a policy for orderly replacements of Directors now Nuplex is a truly international company. A new appointment is being made in Australia to reflect the importance of that market to the group which should send the right signals to their customers and investors.
The 2006 interim dividend may be the last to carry 100% imputation credits to the NZ shareholders. Australian shareholders will continue to enjoy full franking credits due to the level of profit generated from that market. The chairman did point out now they own a number of over seas companies compliance cost in NZ is a lot higher than if they were based in Australia. This is an issue they have taken up with our government without much success.
EPS is forecasted at NZ$0.45 pre abnormal of NZ$2.1 million. Trading is on line with expectation this financial year. The Chairman stated forecast was strong for the full year's performance.
Nuplex has a team of senior managers with many years in the business.

Construction Products
Will not match last years record profit?

Specialty Products.
Performance in line with last year. Longer term growth- a good turn around expected.

Resins.
Raw material cost rising again. Expecting growth in Asia. Australia and NZ markets softening. Some segments performing well. Paper segment showing growth.
Coating Resins.
Are consistent in NZ with Australia steady. Europe remains low. Sth and Nth America strength continues.

DISCLAIMER

Sth East Asia looking good. China business growing market share.

Integration of the group.
Knowledge transfer well advanced. New management structure in place. Strategy development well advanced.

Nuplex introducing 25 to 30% new products to the market every five years. They see the importance of developing new products to maintain market growth and earnings to stay competitive.

Desmond Hunt

Smiths City Group

As usual a good attendance of approximately 70 shareholders. Chairman Craig Boyce opened the meeting by mentioning the passing of David Smith, son of the founder of the Company. He gave an overview of Smith City's place in the market and stressed that the Company was the only "big ticket" retailer currently listed on the NZX. Big ticket items make up about 80% of turnover. Board is disappointed with the present share price considering gross yield is nearly 10% and P/E just over 4.
Smiths City feels the ups and downs of the economy long before the commentators are aware of it. He then went on to detail Warren Buffett's 6 principles of investment and considered that the Company has adhered to all of them and should therefore be considered a good long term investment.
Highlights of the 2004/5 operation were
NZX Listing
Completion of negotiations with IRD over the 3.6m tax refund
The purchase of L.V. Martin & Son

To meet the challenge of the impending downturn in the economy the Company will be:

Increasing the number and size of stores
Restructuring the Finance Company
Expanding in to the North Island

This latter strategy provoked a shareholder to warn that moving in to the North Island should not repeat the problems of the 80/90's. Craig Boyce assured the meeting that the board was very cognizant of the previous problems which had been caused mainly by due diligence not being carried out on the leases of the stores being purchased and being locked in to high rentals that could not be sustained in the economic downturn. This would not be allowed to happen again.
Another shareholder enquired if the 15% return on Shareholders Funds could be maintained – the answer was "not sure at this stage".

All the matters on the Agenda including the increase in Directors' Fees were passed without dissent. No other matters of business were brought up.

The writer would like to make comment on the courtesy and friendliness extended to the presence of the NZSA Representative and for them allowing the display and distribution of brochures etc. A number of shareholders expressed interest in joining the NZSA and took away our new brochure.

Ritchie Mein

Telecom AGM

Held in the Auditorium of the Christchurch Town Hall on 6th October it was the usual well run meeting we have come to expect from New Zealand's largest company. Between Roderick Deane and Theresa Gattung nothing was left to chance. Strategically placed microphones for shareholders to use for question were manned by hostesses to introduce the speakers. Shareholders had been provided with Question forms with their Notices of the Meeting but this appeared to the writer to stifle discussion rather than add to it. The Chairman referred to receiving a number of questions but did not go in to detail as to what concerns were being raised.

The Association had sent a four page letter raising a number of issues most of which were reasonably satisfactorily answered. Arguing over Theresa Gattung's very generous remuneration was not an issue where any points would be scored by raising it and the writer did not think it prudent to raise the matter. However the issue of political donations had been downplayed in Telecom's reply as a non-event due to the rather insignificant amount of only $150,000. So the question was asked of the Chairman to explain to the shareholders "what are the benefits obtained by Telecom as a result of such donations?"
The Chairman did not listen well enough to the question and went on to explain the reason for giving political donations was to assist the democratic process in New Zealand and the amount was spread in ratio to the support of each party with $70,000 given to each of Labour and National. The issue of the benefit to Telecom was not covered. Regrettably the Reporter from the Press stumbled over the same point in that she thought she heard the question as referring to the amount of the donation whereas it was asking as to the benefit derived by Telecom. Roderick Deane expressed surprise that this was the only question raised by NZSA. He was apparently expecting a barrage of questions but I could see no point in raising matters which they had already covered in their reply to our letter. It was obvious that the Directors and CEO had taken many of our comments on board and so the objective of the NZSA in swaying Telecom to our way of thinking had been achieved before the meeting commenced. Great effort was put in to pointing out to the shareholders how proactive the company was being in its marketing strategies and the technical innovation which would be introduced over the ensuing year. So, o.k. our little prod had the desired result.

Canterbury Branch had sought and received approval to set up our Display Stand at the meeting and a site was put aside for us. Unfortunately it was in a real backwater and was not seen by 99% of attendees. At the end of the meeting every one rushed up the stairs for the bun fight and it was only later that it was realised we were set up in the wrong spot. The situation was saved to a certain extent by grabbing the brochures and handing them around whilst people munched on their croissants etc. A learning curve for the Association's newest branch.

Much of the content of the meeting was in explaining how the Company was in process of changing from a lines company to a broadening range services in communications, news and entertainment. Some 1500 IT specialists are now employed. Through recent acquisitions Gen-I and Computerland they now have 20% of the New Zealand IT Market and believe there is scope for a considerable improvement on that share.

The policy of paying out 85% of surplus will be maintained and it is expected to pay out 2 interim dividends of 9.5 c.p.s. and a special dividend of 10 c.p.s.

Telecom is traversing through a period of transformation brought on by the ever changing advance of technology. The Company we knew 10 years ago is no more and what we see today will not be there in less than half that time. Hang on tight for the joy ride.

Ritchie Mein,
Chairman,
Canterbury Branch.

Calan Health Care Properties Trust

The wide open spaces of Clearwater Resort with its pools and running water everywhere, was the stunning venue for Calan Health Care's first Annual Meeting in the South Island. Was it C.E.O. Miles Wentworth's cunning plan to get a company trip back to his place of birth, Christchurch, or was he aware that Christchurch was going to turn on some brilliant weather for them? Regardless of the reasons the Trust Executive gave a warm welcome to all the unit holders and none less to the Shareholders' Association by allowing us to put up our display and to distribute our brochures.

Being a Trust the Annual Meeting takes a different format from Shareholders' Meetings in that the Trust does not need to seek the approval of unit holders for the annual report. That is the Trustee's responsibility. However this did not deter the Chairman and CEO from giving the unit holders an insight into the Trust's present position and future expansion plans both in NZ and Australia. There are no plans as yet for a South Island foray but Miles Wentworth did state that he would welcome discussing any suggested prospective projects.

The vacant land next to Ascot Hospital is under negotiation for sale with a leaseback of the ground floor and first refusal on the leasing of the other floors should demand from tenants prove sufficient. A successful conclusion of these negotiations will mean that all assets are now income yielding enabling the Trust to retire or offset additional debt.

Unit holders all seemed pleased with the performance of the Trust and were soon tucking in to the wine and nibbles put on for the "after match" function.

Ritchie Mein,
Chairman,
Canterbury Branch

Provenco Group

The meeting was held in the Carlton hotel and was well attended although I suspect employees and invited guests outnumbered shareholders. The chairman reviewed the previous year and then made a dividend policy statement. As these statements go, it was convoluted and difficult to interpret. As the chairman said, they had to place a few stakes in the ground to cover extraneous items such as capital expenditure, economic conditions and profit provisos. Ultimately, there were so many stakes that the statement ended up being a veritable pa. To précis; shareholders can expect a continuing dividend twice per annum in April and October and every endeavour will be made to pass on imputation credits to the maximum available. I wondered whether such comment was really worth mentioning at a general meeting.

Shareholders will have been encouraged to hear from the CEO, David Ritchie, who gave a thorough overview of the activities of the group; his enthusiasm was clear and encouraging for shareholders.

Your representative sought the opportunity to clear any misunderstanding shareholders may have had by seeking and receiving from the chairman a categorical assurance that the penalties imposed on the directors personally in the Securities Commission statement of 3 October have already been settled by the directors themselves and not the company. Again, your representative expressed the view that the statement by the Securities Commission was far from satisfactory in that minimal information was given to the market. Once again the opportunity to set out the obligations and structures required to ensure insider trading and continuous disclosure are plain to all participants has been kept under a veil of anonymity. An opportunity lost.

As a result of the business covering 23 countries the audit was put out for tender and KPMG are the new auditors with the retiring auditors Gosling Chapman confirming at the meeting that there were no professional reasons why the new firm should not act.

To summarise, an interesting company despite its rather lurid past. The coming year will be critical for those who look for further growth before committing.

Oliver Saint

Auckland International Airport

The 8th Annual General Meeting was held at the new Telstra Clear Pacific Events Centre, Manakau City at 10.30am, 27 October,2005, attended by a large number of shareholders.

The chairman Wayne Boyd reviewed the 2005 year end results.

Profit	$105.6m	12% increase on previous year
Dividends	$102m	95% payout ratio

Plus a special dividend of 12 cents per share $146.7m paid August 2005 and a $53m on market share buy back as part of a $200m distribution to shareholders.

The company will keep reviewing its capital structure to maximise its return to shareholders; it has an "A stable" long term capital rating from S & P.
Future dividend policy at 90% payout was projected subject to imputation credits and cash flow requirements. Refinancing existing debt with a current $150m Bond Issue was due to close at the end of the month. Surface access to the airport was now recognised as a constraint to future growth and the company was now actively involved in discussions and submissions with local and central Government and transit authorities for improvements to road and rail infrastructure and increased capacity of Mangere Bridge.

The current quarterly update to September showed passenger numbers growth had eased to 4%, the outlook was positive for 2006 with after tax profits expected to exceed $100m from revenue and ebitd growth. Interest costs to increase $8m.

CEO Don Huse reviewed the airport development master plan and said that each
phase and cost would be timed to coincide with revenue growth. Forecast Capital Expenditure for the next 3 years was $400m.

The review of Aeronautical charges has commenced with discussions with airlines for new charges from Sept 2007. The last was in October, 2000.

He said that he wanted to comment on criticism by Air NZ at their recent AGM of landing charges for a B 747 at Auckland of $5000 compared with Brisbane at $3300. Their comparison of AIA charges with other airports was misleading. They also accused them of extravagant projects at the airport to increase airline charges. Set out on a large screen was AIA's comparison of charges establishing that AIA was lower than Brisbane. AIA do not charge "take off" fees, they are included in the landing charge. Valid comparisons with other airports needed in depth analysis of total overall costs for airlines and passenger fees to correct misconceptions.

He said AIA was rated with a low risk profile with prudent levels of gearing. Possible risks included an Avian Flu outbreak.

Questions from the floor.

1 Increased debt levels and S & P rating was questioned. - considered manageable

2 Airport access to city was of major concern. - Acknowledged and being considered at board level

3 Airport parking and drop off space was questioned. The withdrawal of parking meters was necessary as facilities were under pressure and visitors should use the carparks.

4 Terminal preparedness for the A380 in 2006 was in place.

5 Future terminal development of a 2 level set up for arrivals and departures was under consideration.

6 Governance procedures for selection and succession planning were outlined.

After the reappointment of Directors, tribute was paid to the retirement of Wilson Whineray who has served on the Board since 1992.

Noel Thompson

Port of Tauranga

The company's new chairman, Mr John Parker, convened his first AGM with about 400 shareholders present.
The company celebrated its 50th year with record tonnage volumes up 3.1% and fractionally improved profit achieved on reduced revenue. This was a good result; log volumes were down 20% and the container throughput was up 11%. The container volumes through Metroport rose by 32%. The dividend remained the same as last year
Operationally, a new container crane was commissioned and the other three cranes were reconditioned and upgraded. Three new $1m straddle carriers were introduced during the year

The first quarter result for the 2006 year was down a disappointing 10% to $7.3m. This is a situation that may continue until the exchange rate drops or the log trade improves, preferably both. The port waits hopefully for the long awaited announcement which ports the shipping companies are going to use to export the bulk of the Fonterra produce.

The highlight of the meeting was the farewell to the highly respected CEO, Jon Mayson, after 33 years, the last 9 as CEO. This was an emotional time. During his tenure Jon had built up a strong executive team who helped bring success to his drive and vision

The NZSA team was active in unsuccessfully opposing the autopilot provisions into the company's constitution as required by the NZX. It was our view that "the control of the company's constitution should stay firmly in the hands of the company's shareholders". A consolation was an undertaking from the chairman to report back to shareholders any changes made to the constitution.

One hilarious incident occurred when Howard Zingel called for a poll on the autopilot resolution. It took 10 minutes to establish the correct procedures to handle this unheard of situation- and then the poll did not proceed!

Bruce Anderson rose and requested that, in future, the proxy notices contain four options, namely For, Against, Proxy to decide and Abstain. This suggestion was favourably received.

It was a good meeting.

Lloyd Christie

EBOS Group

After some concern that our request to set up our display had been declined, common sense prevailed and permission was eventually granted. As usual the Chairman and Managing Director gloated over the results achieved over the year and lulled the shareholders in to a sense of comfort that all was well with their investment. So much so that some did not take kindly when the matter of a second generous increase in Directors Remuneration of some 24% was questioned in view of the 25% increase approved the previous year. The usual platitudes of increased workload and responsibility on the directors and the rates being still lower than those of other companies was trotted out. This received the response enquiring if shareholders were being warmed up for a request for another 25% increase next year. The increase was duly approved by the meeting.

The meeting then progressed on to Resolution 6 – The New Constitution. Despite the suggestion from Oliver Saint that the Auto Pilot Clause matter had been thrashed over the past 18 months, I still considered that it was an important issue requiring discussion by shareholders. From comments made to me by a disgruntled shareholder at the conclusion, it is quite obvious that the local shareholders had not put any thought in to the consequences of approving the resolution being placed before them. The comment was even made as to why would the NZX ever contemplate doing anything to the detriment of shareholders. Yeah! Right!!

A plea was made for shareholders to vote against this resolution so as to retain their right to absolute control over the Company's Constitution and destiny. But the directors had them all eating out of their hands and could do no wrong in their eyes and so the plea fell on deaf ears. In fact further discussion was stifled when a call was made to put the motion. This was put to the vote and passed. At the end of the meeting NZSA members present were convinced that the Chairman on passing the motion to Put the Motion then overlooked putting the original motion to the vote. It then raises the question as to whether the Constitution was indeed changed. I think legal advice may be necessary before grabbing that thorny issue.

Although it can become old hat bringing up the same issues time and time again, I still consider that if the issue is important enough, then we must continue to batter at the walls until a breach is made. I would hazard a guess that very few investors in the South Island are even remotely aware of the implications of the Auto Pilot Clause. It is obvious that the Business Reporter from the Christchurch Press does not have a grasp of the issues involved as it was not mentioned in the report of the meeting. Or was it left out because it could upset some advertisers. It is disappointing to reflect that when the Canterbury Branch of NZSA was proposed the Press was one of the first to voice support as they were looking forward to more interesting discussion at shareholders' meetings. When a controversial issue such as the Auto Pilot clause is raised it does not even justify a mention from their so-called Business Reporter, even after pointing out the glitch on the putting of the motion.

Despite the foregoing, the Company continues to be well managed with good prospects and investors should be well rewarded for their support in future years.
Ritchie Mein,
Chairman, Canterbury Branch

Pumpkin Patch

The meeting was held on 22 November. The year to 31 July 2005 produced excellent results and several shareholders congratulated Board, Management and Staff on fulfilling IPO expectations (after tax profit of $24.6 million versus $15.3 at prospectus time) and living up to the high expectations of shareholders; a fantastic start to life as a listed company. There was nevertheless a twinge of disappointment when the chairman advised the meeting that there would be no market update. The meeting took place almost four months after the 31 July year end and the expectation was that the least the chairman could have done was to advise the meeting how the results compared with the previous year or whether they were in line with budget. The comment made was that the company was on track to exceed projections. Leaving members to draw their own conclusions does not necessarily make for a very informed market.

The current year will see 1 (3) new store in New Zealand, 8 (10) in Australia, 6 (6) in the UK, 3 (10) in the USA. The figures in brackets are those that were given in the same meeting in the previous year. The company now has 2,500 employees world-wide. There were some interesting questions. A shareholder commented that the level of donations seemed high (double last year's figure) and it was explained, to applause, that this figure included the value of clothes etc donated to the Tsunami victims. The related party transaction covering the CEO's interest in a fit-out company that provided considerable work for the group was also raised. The chairman indicated that this matter was dealt with in the prospectus, and reaffirmed that there had been no adequate pool of suppliers to complete their numerous store fit-outs to specifications. Maurice Prendergast confirmed that he was a passive shareholder of Espies Shopfitters Limited. After prompting, the directors up for re-election gave an impressive explanation of their commitment to the Company. A shareholder asked, in view of the number of stores across the Tasman, whether there was any chance that headquarters or listing would be moved from New Zealand - there was no present intention. The old chestnut of a loyalty bonus and/or shareholder benefits was raised and the Board was emphatic that this would not be contemplated. A more serious question was raised by a shareholder about the quality control in operation because she had bought clothes for her child that very quickly developed a hole in the front of the garment. Unfortunately the garment was not returned so there was little that the company could do except to remind shareholders that they made over 15 million garments per annum and their return rate was low; they valued their reputation for quality garments. One of the last speakers sought information from management on the development and design of garment manufacture. Chrissy Conyngham was in her element and reeled off facts and figures that may have surprised some present. There were 2,000 styles per season which

meant that 4,000 styles were developed each year. There are 12 key designers and 30 people were in the team including advisers. The styles are developed with the assistance of scrutinising catalogues from around the world as the business is very international and experience has been that the match for New Zealand is appropriate also for UK and USA. International artists are used for work on garments.
Oliver Saint

Sky City Entertainment Group

The Conference Centre room can hold a maximum of 1,100 people and attendance at the meeting was short by about 100 seats of this maximum. The number attending may have been a compliment to expectation of the usual high standard of catering always offered by the company. Each shareholder on entering the meeting received a $20 food and beverage voucher, free parking available once at any time over a 3 month period and a reminder that the half price happy hour at the Grand Lobby Lounge lasts from 5.30 to 7.00pm every evening.

The meeting began with a 5 minute introductory warm up video after which Board members filed in from the side of the stage in military fashion and took their seats. Following the usual introductory formalities, the chairman and CEO presented their addresses and the meeting started its real business about 30 minutes into the meeting. This is slightly better than many meetings where the addresses and formalities can drag on for more than 45 minutes.

The chairman, Rod McGeoch, highlighted in his address the changing and increasingly difficult problem of the environment of gambling. He took the opportunity to stress that Sky had, historically, taken the initiative and been at the forefront in determining benchmarks for the regulatory environment. He conceded that there was a change occurring in the area of harm minimisation and stressed that future regulations needed to be fair and balanced. During question time I took him up on this point and sought information from the Board on what pro-active steps were being taken to ensure that government and new ministers were offered practical experience in this area so that the Company was seen to be on top of this difficult problem. The response was lengthy both from the Chairman and the CEO but no specifics were disclosed.

The CEO, Evan Davies, gave an excellent address and continued with the previous practice of setting out and talking to the targets for 2006 as well as comparing the results achieved in the previous year with the objectives set that year.

With the start of question time, the Chairman gave the Association a particularly friendly introduction and mentioned the tables outside the foyer where our representatives were at hand to distribute brochures. It was an unsolicited comment and greatly appreciated, given the size of the audience.

Question time provided some interesting and thoughtful questions – another feature of the latest round of annual meetings, and one that gives immense encouragement to your Association. One of the first questioners sought a response from the Board on the threat from on-line gambling. The Chairman advised that both Australian and New Zealand governments were opposed to these activities becoming widespread and available although he did indicate that the Lotteries Commission was entering this area aggressively. The Company would be keeping an eye on these developments and conceded it was a concern to them. Peter Ventura of Christchurch mildly criticised the reduction in the amount of operational detail now omitted from the Annual Report (room rates at hotels, casino participation rates etc) and sought a return of this type of information. The Chairman did suggest that more detail is included on the company website (skycitygroup.co.nz). Gordon Wallace also sought more data on the conference centre and how it was performing. The response here from Evan Davies was that it was a little too early to tell but the Centre was being used extensively.

The resolution for the appointment of Patsy Reddy and Bill Trotter again prompted me to take the floor after the Chairman, in introducing the subject, advised that some considered 6 years to be the optimum time to be on the Board after which attitudes might be lost and the director might become too close to the business. I felt it was worth mentioning that if after 7 years a director had not made his or her mark, a further 3 years would be unlikely to change the situation and it was time for a change. Also, an element of familiarity of the foibles of the director would be apparent to management and may be another negative factor. However your representative advised that he supported the re-appointment of Ms Reddy. As with many corporate governance directions, strict limitations are not always the best way of managing change; there should be an element of flexibility to most rules.

The final resolution was to consider the issue of share rights and restricted shares to the CEO. This was an item that shareholders found difficult to come to terms with and I hope I expressed their views when suggesting the Chairman was no doubt glad he was not in Australia where they are now required to vote on a Remuneration Report although any such vote is non-binding on the directors. The problem was that only part of the story was being disclosed. The terms of reference for the three reports were not stated nor were the rest of the terms of the contract with the CEO, particularly any golden parachute or other benefits on resignation. All these made consideration difficult not the least being that there were no less than three appraisal or comfort letters from experts the cost of which I requested be revealed in the next annual report. As Noel Thompson, a member, stressed, we were only being asked to consider the issue or rights to secure shares. A lone voice against the package was Coralie van Camp, our former Auckland chair who spoke against the resolution. Voting was by poll.
Oliver Saint

Tourism Holdings

Their financial summary & statistic department data provided a telling picture of the company's appalling performance -

	2005.	2001.	% change
THL Turnover ($000s) 69% in NZ	$172	$210	-18%
Net profit ($000s)	$ 11	$ 13	-15%
Inbound tourists (000s) from Stats			+23%
Inbound tourists spend ($000s) from Stats			+20%

I was interested to hear an explanation for the above performance.
As usual the Chairman's address dealt with excuses - this time it was the weather, the strong currency, fuel costs & tourist numbers being boosted by low spenders.
He talked of good rental performance, the demise of 2 competitors, Australia on it's feet at last……but not of any major change in thinking & any vision for the future.
His own report stated that the "tourism environment in the region remains sound."
Clearly the company is failing to gain the profit from the "sound environment".
The cash flow is good resulting in an increased dividend (excluding last year's special dividend).
They are investing in unique eco tourism in the form of Fullers Bay of Islands operation, expanded Waitomo cave experiences & Milford Sound boats.
They will need to make hard decisions on activities where competitive entry hurdles are low (eg coaches & vans).
The 2006 profit forecast was for a 10% approx drop on this year after adopting the new financial standard & ceasing to write off $5M goodwill - which worries me a lot.
They forecast an 11c dividend versus 10c this year.
I asked what the board were doing about reversing the 4 year trend above & got a "non answer".
Brian Gaynor honed in on unfulfilled promises & lack of any vision.
Harry Price, a director since 2000 was up for re-election so I spoke against him as he had presided over a decline in a booming environment.
He was re elected!

After the meeting I was approached by a number of recent additions to the top management who indicated that far more emphasis was to be given on resource value, premium marketing & return on investment and maybe out of that will develop some profit making strategy for 2007.

Tony Sullivan
Auckland member.

The Warehouse

During the year the NZ operations were refocussed ,Australian sheds sold for $99M,operating NP up 17% & the Warehouse Stationery top management replaced in the light of disappointing results.
The need to refocus is obvious when the sales per sq M of floor space is compared –
1996 $3681
2005.$3539
The entire sales growth has come from opening new stores, not making existing stores more attractive.

Ian Morrice (CEO since 2004) outlined the 3 year strategy to refocus the $2bill business.
The vision is to provide value leadership ,recognising that consumers today want more than just good prices.
-Create brand leadership in the price range,
-Provide products which make the "desirable, affordable",
-Improve procurement & supply chain to reduce stock in 3 years by 28% & increase availability 15%,
-Improve the stores to make for a better shopping experience.
-Create a world class retail model through good staff hiring & (re)training.
In 12 months brands have been overhauled, product range refined, improved , prices on 10000 items reduced, stock reduced by $10mill,
a laboratory store opened in Te Rapa (& shortly the Pakuranga store will get the makeover) & staff retrained.
Staff I spoke to after the meeting appear 100% behind the new model.

Warehouse Stationery will go through a similar review under new management.

The Australian operations would have cost $100M plus to generate the reasonable scale to achieve profits .
In 2005 their sales per sq M were $2029 vs the NZ stores' $3539.
Management has enough to do for the next few years fixing the NZ operations without an Australian distraction.

2006 they see as a challenge to offset reduced consumer confidence by making a better offer.

I suggested that there were enough good legal & accounting firms to avoid the related party transactions involving 3 directors.
Keith Smith replied that he has since resigned as a partner, one other director has resigned but "took on board" the comments.
Afterwards I warned the 3rd director that questions would continue to be asked.
Another questioner accused the board of complacency in recent years over its results which have been flat since 1999.
At least they have now woken up!
On the share incentive scheme I queried why Ian Morrice (QEO) is a director & beneficiary of the trust which manages the scheme.
I also queried what the hurdle was for vesting shares in 2006 & was told that the remuneration committee would be setting a target share price shortly-which told the meeting nothing.
A shareholder resolution requiring the board to review directors' workload was defeated. The chairman's response was that the board conducts an externally managed review of board performance annually.ly.

Tony Sullivan

Hellaby

Hellaby's AGM was a low key affair as, despite a 30% drop in share price, flattish earnings for 2005 and a projected 15% drop for 2006, shareholders were a largely contented bunch.

Shareholders heard that retail was slow, the BBQ factory was not performing to expectation and surprisingly Number One Shoes is a stand out performer. Not so surprising when you consider that the vendors' price for the business is based on this and next year's performance and Gerard Petersen, the vendor, is still in control. He is a good operator, and was a co founder of the Warehouse. The manufacturing businesses truck along.

To the annoyance of some shareholders and at least one director I spent nearly 50 minutes questioning the CEO and the board on performance.

I raised four key issues:

Firstly that the dividend did not appear to be sustainable and the payout of earnings relative to cash generated has been increasing every year for the last four, and in the last two years has exceeded the group's free cash flows. Houldsworth is not concerned, but even grandma knows that you can't earn $1.00 and spend $1.20 forever, especially when you are financing the difference with debt. Hellaby now has debt of $75m.

Secondly I raised the question of investment philosophy and execution, as the BBQ factory doesn't appear to fit within the group and performance is less than expected. Shareholders heard that the company bought the business on limited and ineffective warrantees, a mistake that hopefully will not be repeated.

Thirdly I examined conflicts of interest. Hellaby is an investment company owned 35% by interests associated with Hugh Green, himself an investor. I was concerned that Hugh Green might be cherry picking the opportunities presented to Hellaby; the related party notes suggested that this might be a possibility. According to Falconer it is not. Houldsworth does the work and the board then decides if it wishes to proceed. In one instance the board of Hellaby decided not to proceed with a particular investment and Hugh Green and Houldsworth then took it up personally. You judge if this sort of conduct might give rise to less than optimal performance. If the major shareholder in Hellaby with 50% board representation and Hellaby's CEO think it is a good idea, how come the Board of Hellaby did not?

Finally I examined company culture and values. Values underpin strategy and this in turn drives future returns. Hellaby's stated purpose is to be "good business owners". Therefore the conduct of the company should be consistent with this, and I might add that it is. This said, the Board drives the conduct of the company and the board is collectively the sum of its members. It is therefore relevant to understand the philosophy of board members individually and where half the board operate as representatives of one shareholder, it is doubly important to understand the thought processes of that subgroup of the board, particularly since that group and the underlying shareholder have the power to remove the entire board. Words are cheap but actions are indisputable. Therefore I brought up the conduct of Hugh Green at Dorchester where he sacked two independent directors without notice or explanation. The question posed was " Is this the action a responsible business owner should take?" I don't think so, but you judge.

As a result of this extensive inquiry I was criticised by one shareholder for bringing another company's affairs into the Hellaby meeting. The discussion was not about Dorchester it was about the conduct of Hugh Green and it is relevant to both Hellaby and his fellow shareholders as he is the controlling shareholder and a director of Hellaby and the matter was relevant to understand the man we were asked to vote for on reappointment.

In summary Hellaby is at a turning point, but at least the board recognises this.

Bruce Sheppard

Feltex

This was a fascinating meeting where Chairman Saunders spent the best part of an hour explaining the woes of the company in a question and answer format. We had considerable dialogue with him before the meeting and the format of his speech was based on our recommendations. This said, it did come across as a" blame everyone else" address.

The essence of the matter is that the Board did not adequately weight economic risks when preparing the prospectus forecasts. The sales number in the forecast was made of market size, pricing, exchange rates and market share. Simply put, take the size of the market, multiply it by the price you expect, convert it to NZ dollars and take your assessed market share and voila you have a sales forecast. They got all of the assumptions wrong including the assumed market share. They were predicting an increase of 1% in market share and in effect it actually fell.

When you are running a manufacturing business with nearly a three month lead time, it is easy to see how stock levels can blow out. If you expect sales of $100, and you only get $80, the rest will be in stock. Now comes the next blow to profit. If you want to reduce stock you have to reduce manufacturing capacity. Carpet manufacture has a high fixed cost, so when you slow the plant down the fixed costs run on regardless and this results in unrecovered manufacturing overhead hitting the bottom line as well. When I suggested that the company might have over reacted to the slow down compounding its loss, Sam Magill nodded furiously, but then he was generally just furious.

The company has $120m in debt and the board wants to reduce it to $80m. The $40m must come out of profits and or asset sales. Shareholders should not expect a dividend at any time soon. The board would not give the shareholders any guide as to current year profitability. Reading between the lines, that is because for 2006 at least there won't be any profit.

Sam Magill surprisingly attended the meeting. Full marks for fronting up and taking his medicine, and presenting his views on the company. It was an extraordinary experience for shareholders to see such public board dissent, it is so rare. Sam Magill was voted off the Feltex board and he did not vote for himself, again full marks Sam.

The new CEO, Peter Thomas, doesn't look like the right man for the job. Merchant banker running a manufacturing operation? Time will tell.

Bruce Sheppard

BRANCHES

Bay of Plenty Branch

The Port of Tauranga held its AGM on Monday 31st October and several of our members attended. See report above.
The last monthly committee meeting of the year was held on Thursday 10th November and as well as the usual house
keeping matters a fruitful discussion was held on topics for next year's monthly discussion meetings. If you have suggestions or would like to contribute yourself give Bruce Anderson a ring 5410688.
November's discussion group meeting at the Gate Pa Bowling Club was held over to December 2nd.
Programme— 1.Discuss takeovers. Carter Holt, Capital Properties, Metlife and Oyster Bay. Explain takeover procedures.
2.Your buy or sells this year Why did you?
Our end of year Christmas function will be held at Daniel's Function Centre in 11th Avenue at 12 midday on Friday 16th December.
Your committee wishes you all the best for the festive season. Clear your mind of balance sheet figures and have a jolly good time.

Bruce Anderson

Auckland Branch

We are currently planning our next year's company visits as well as whom we intend to invite as guest speakers to our branch meetings.
It has been a busy period attending a number of AGM's. We have handed out some 1500 NZSA brochures which we hope will lead to a number of new members joining the Association.
We have had people manning our stand at the recent AGM's.
Auckland Airport.
Contact Energy.
Sky City.
Telecom.
The Warehouse.

Des Hunt

Waikato Branch

NEWS for: October – November - December 2005

It was with great sadness that we learned that Ken Winton, a founder member of the committee of the Waikato Branch, had died on the 15th November whilst on a visit to the U.K. Ken was in charge of Activities on the committee; a position that he relished, and in which he displayed enthusiasm and ability in organising visits and discussion groups. He was the prime organiser of the very successful national AGM held in August at Mellow Manor. He will be missed for his friendly affable manner and his intense knowledge of many company activities and personnel.

The committee elected at the Branch AGM in September have settled very quickly into attempting to provide an interesting and challenging programme for the members. The committee have been very pleased with the increase in membership this year and see this gain of interest in matters of investment as a challenge to their ability to organise a comrehensive programme.

Oliver Saint had expressed an interest in, and a responsibility for, visiting the branches of NZSA. We were delighted to welcome Oliver and his wife to Hamilton on November 2nd. The meeting took the form of an address by Oliver on Company Research followed by a question and answer session. This type of meeting is appreciated by the members especially when all attendees recognise that their queries can be aired and responded to.

The Branch was grateful to the Auckland Branch for the invitation to join their members visiting Auckland International Airport on the 17th November. Those of us who took the opportunity to visit the airport were impressed by the company's representation at the gathering – all their top personnel were there. The addresses were excellent and the interruption to the proceedings by a (practice) fire drill was handled by the executive with aplomb. The bus tour of the airport, on both sides of the fence, was most interesting and comprehensive.

The success of last year's Christmas Gathering, with Brian Gaynor as a guest speaker, has prompted the committee to arrange a similar function in December. The topic chosen for Brian's address is "Stars and Dogs" and we are looking forward to a final meeting that will cheer us , but also remind us to be aware of pitfalls.

The Waikato Branch can look back on a very good year of activities and challenges that have been met and resolved with success. Happy Christmas everyone.

Alex Eames

KEN WINTON

The New Zealand Shareholders' Association was saddened and surprised to learn of Ken Winton's untimely death while on holiday in the UK and expresses its deepest sympathy and condolences to Ken's family and to the branch he served so well We well recall his oversight of the very successful annual meeting hosted by the Waikato Branch earlier this year and his close personal attention to every detail to ensure that a busy day went without a hitch.

MAKING A DIFFERENCE

NZSA is fighting for improvements to the stock market in New Zealand, both at the regulatory level, and company by company.

Every member has an interest in the market, or else they would not have joined. We now have about four members for every listed entity in New Zealand, and we think it is time to start using the power of that simple fact.

We would like every member to take on a research responsibility for one listed entity. Ideally, it will be an entity you already invest in. The Board will co-ordinate the spread of researchers and team each member up with the others also responsible for that one entity.

The idea is a simple and powerful one. Let's pool our collective skills, for our mutual benefit. Team up, help everyone learn something, and gain both more enjoyment and more profit from your investments.

We invite every member to forward a list of companies they invest in. This will, of course, be kept confidential. We ask that only investments that you consider to be long term be listed and that you place a rating from 1 to 10 (being the most important) so we can allocate in accordance with your wishes. We do not want to know the number of shares held, just their significance to your portfolio. We will sort out some teams, and notify you (a) of your particular research target and (b) of your team mates and contact details.

Through the newsletter we will provide guidance in how to analyse the target and who to report back to. If you are a branch member you can report back (in some way) to your branch as well (if you wish). The skills you learn in the process, and the chance to contribute to a team, we are sure will be of benefit to you, even if you end up with a target in which you are not an investor. Please forward your list (with your contact details) to Oliver Saint at P O Box 6310, Wellesley Street, Auckland.

THE LAST WORD!

In an address to the Australian Corporate Lawyers Association the chairman of ASIC indicated that fraudulent activities were facilitated or disguised by a range of factors including:

1 Weak and ineffective boards of directors dominated by a charismatic imperious chief executive;
2 Lack of internal controls and inadequate corporate governance structures;
3 Corporate cultures that covered up problems;
4 Breaches of directors' duties including reckless behaviour, corruption and greed;
5 Auditors who are not independent or sufficiently critical;
6 Poor or misleading disclosure to the market; and
7 Gross mismanagement of the business.

Acknowledgement to the Australian Institute of Company Directors – Boardroom Report

LETTER TO THE EDITOR

BRICKBATS and BOUQUETS

The Awards committee comprising Joe Turnbull, Howard Zingel and Ritchie Mein would like to thank those members who participated by nominating candidates for the 2005 Beacon Award and/or the Golden Glob. For reasons that are not altogether clear to us, our national executive called " time out " but we would like to share with all members the nominations in a Brickbats and Bouquets form.

Brickbats -

George Gould : say no more.

J B Were : Promoting broker to the Feltex float, it looks as if it might get worse yet.

Tim Saunders : Chairman of Feltex- same sorry story.

Keith Smith: Chairman of Tourism Holdings : think of a number, any number does it matter! Most recent purchases have been lemons. He is also chairman of The Warehouse Group, Wrightson and Skellmax, Deputy chairman of Genesis , a director of Macquarie Goodman (NZ) and a partner in BDO Spicers New Ltd, believe it or not specialising in directorships and is a director of and advisor to companies in a diverse range of industries, including printing, media, meat by -products, tannery processing and exporting. Does the man ever sleep! Maybe a few fewer commitments might make us all a bit richer.

NZX: Rules and more rules; give us a break we are only a few small islands somewhere in the South Pacific. We happen to honour fair play above all else- we don't need or want Big Apple regulations.

W.C.Lu : Main man at Trans Tasman Properties, little concern for kiwi shareholders. Only quoted company that has had a motion of censure passed at an AGM. Appropriate initials.

Tony Radford : Chairman of NZOG listed in 1981- shareholders are still waiting for a dividend. But the company is on the cusp of big things, let's give him a little more time.

Bouquets:

Ralph Norris : CEO at Air New Zealand. Great leadership and a real turn around in the affairs of what is nationally a very important company. Pity airlines are almost always lousy investments- banks are nice though and no doubt he will do well for Commonwealth.

Keith Tempest: CEO of Trust Power, the money just keeps pouring in.

Ralph Waters: CEO of Fletcher Building; last year's Beacon winner, the good story continues.

Michael Daniell : Chief Executive of Fisher and Paykel Healthcare; good track record, good results and clear objectives

Maurice Prendergast : Managing director of Pumpkin Patch; strong consistent results and sticking to the business they know well.

Howard Zingel

DIRECTOR RE-APPOINTMENTS AT GENERAL MEETINGS

Cavalier Corporation and Michael Hill International have much in common. The two companies are fine performers, in fact it would not be stretching superlatives to suggest that in woollen carpet manufacture and niche jewellery manufacture and retailing respectively, they have few peers in the world. Both companies stick to their knitting (pun recognised) and are quick to change direction if needed. They both began as family companies and expanded with the help of Stock Exchange listing a couple of decades ago. They have grown organically without the assistance of large acquisitions; have cultivated a very supportive shareholder base; take their responsibilities for corporate governance seriously and have strong management teams that are well represented at Board level. So what is the problem?

The annual meetings of both companies in November went by the book until it came to the re-appointment of directors. Michael Hill, after having introduced his directors with appropriate cv information at the start of the meeting asked me WHY when I sought a word or two from a director who was up for re-election. The question deserves a much more detailed response than my suggestion that, after having heard his vision of the future of the company for half an hour, it would be good to hear how at least one of his team could add to Board deliberations. After a short pause, my request was granted.

Under normal circumstances there is now only one significant matter on the agenda for an annual meeting – the reappointment of directors. This has always been a very important item of business and one that should be, but usually is not, taken seriously by shareholders. In a family oriented listed company where the vision is apparent there may be a temptation to move too quickly, to lose the need for transparency, to overrule criticism, to forget that the machine behind may be unable to cope with the speed of expansion and to ignore a host of other warning signs. This is why, for the sake of those investors who have placed their money in a listed company, non-executive directors are needed of sufficient calibre to ensure that all financial and corporate governance matters are addressed. If you like, it is a brake mechanism to ensure and assist steady progress.

At the Cavalier Corporation all directors were re-elected unopposed. At the previous meeting I had sought comment from one of the directors who was being re-elected and this was willingly provided, for the benefit of all those present. The Cavalier chairman and Board did not get the message this year as there was no discussion. I did not ask the question this year hoping that the Board would have learned the lesson. Sadly this was not the case although the Chairman did insist that each Board member stand when he introduced them to shareholders, a nice touch which other Boards might like to emulate.

Our Association would like to assure all directors who are coming up for re-election that the reason we seek comment from each is so that all investors can be assured that their trustees have the right attitude and will properly fulfil their responsibilities. Remember that each director is being asked to address shareholders once in three years. We do not believe this is too onerous a duty; it is entirely necessary. Whilst it may need considerable thought to ensure that what is said is appropriate, there are many directors who will testify that it can be a gratifying and exhilarating experience when the meeting acknowledges the effort.
Oliver Saint

USA CLASS ACTION SETTLEMENTS FOLLOWING CORPORATE COLLAPSES

This short article is directed towards those New Zealand investors who have had the misfortune to lose all or substantially all of their investments in companies such as Enron, WorldCom and others with seemingly little understandable news of what is happening. The following is the text of an email that was forwarded to our Association from our neighbours, the Australian Shareholders' Association. We have copied the relevant parts of the email for the interest of members. We point out that we can accept no responsibility for any costs that members may incur in following this lead. It is informational rather than advisory.

'I am writing to let everyone know that I can assist Australian shareholders who may receive USA court notices concerning successful class action settlements in USA following company collapses there.

As mentioned to you, I have now completed 11 such claims for Australian clients in respect of 4 USA company collapses/successful class actions (WorldCom, Veritas, Broadcom and Global Crossing/Asia Global) and there are very many other class action settlements in which Australian investors are eligible to participate. However, the USA court notices advising shareholders of eligibility to claim and participate in those class action settlements are tailored to USA resident investors and many Australian investors would be at a loss how to put together the documentation required for the Proof of Claim.

Therefore if you receive any enquiries, I am happy to help any other Australian investors put together their claim so that they may participate in the USA settlements.

My Sydney contact details are set out below and my electronic business card is attached for convenience. I also have an office in Melbourne so if there are Victoria shareholders needing assistance, am happy to assist those also.

In addition, as mentioned, I would imagine that there are NZ investors eligible to participate in the myriad of USA class action shareholder settlements and needing assistance to do so. As I have family in Auckland (and am very happy to visit there at any time!), you may also wish to pass this email to your contacts at the NZ Shareholders Association so that they could notify any of their NZ members who may need assistance also.

(My work is promoted by Austrade on its Australian Suppliers Database, the website link is set out below.)

Kind regards,

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Promoted by Austrade on its Australian Suppliers Database at http://www.austrade.gov.au/BusinessSearch/?cbsid=CANB7645212'