

"The Scrip"

February 2007

The official newsletter of the New Zealand Shareholders' Association Incorporated

'TIS THE TIME FOR REFLECTION'

Xmas has come and gone, navel gazing at the beach is sinking in, and many are now planning their investment and other actions for 2007.

The consensus appears to be that 2007 will be a good year, stock and housing markets continuing on to heady heights, despite our strong currency and the sceptre of even more interest rate rises. What is more they might be right, but there are some dark clouds on the horizon which with careful investment selection might be avoided.

While in bull markets such as these investors think they know what the returns are with exuberant optimism, what also happens in bull markets is that new investors in particular don't focus on the consequences of risk and more importantly their base psychology to the consequences of risk.

Risk at its very core is the probability of loss. This probability can be mitigated with a spread of investments and time. The more time you have with a particular individual investment (that is well managed and in a sensible sector with favourable economics) the less your probability of taking a loss when you want or need to exit. Thus risk taking is most affordable for the young, but it is generally the older generation who take most of the financial risks as they are the sector of the population with financial and other assets.

The purpose of sensible risk taking is to make your money work harder so that it produces more. The big question that risk takers should ask themselves is "Why am I taking risk?" The simple answer is either that you need to or you want to. Need arises from the reality that you don't have enough to feel secure and you need more so the choices are work longer and harder, save more or make that which you have work harder, i.e. take more risk. If you already have enough and you choose to take risk then you are doing so because you want to. This could arise from a sense that risk taking is the modern meaning of life and it is a game that you need to play to be in the swim, or it could be that you are taking risk because it is fun, you enjoy it and it is stimulating. If the latter is the case ask yourself why you would use a fund manager. In the words of my now aging but sensible mainlander Uncle, Financial planners and fund managers products are like watching paint dry.

Now before you start to take risk, not only do you need to know why you are doing it, you also need to know 'yourself'. The essence of this is how you will react when the risk becomes real and you suffer a loss? For some people their temperament is such that they should never take a risk, as when they take a loss they react so badly that it is destructive to their personal and financial wellbeing.

Some time ago I attended an EGM of an unlisted public company with some 2000 shareholders. This company had raised over \$40m to pursue what it thought was the holly grail of wind power. The company lumbered on for over 5 years, continually raising more capital at ever increasing prices. AGM's were always a spectacle of

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continuing optimism, and you didn't leave an AGM feeling bad about your investment. It was however a venture capital investment with VC risks, and most of the shareholders in the company didn't understand this, and further did not know that VC has a track record of 40% failing completely, 20% failing relatively, 20% surviving but not succeeding and 20% prospering to a lesser or greater degree.

The EGM was called when some bright spark worked out that the cost of augmenting a windmill with this particular technology would cost about the same as building an extra windmill but the energy uplift was only 80%, i.e. the technology could not produce anything useful at current costs of energy and construction, the project was a flop and everyone's money was lost. The board now came up with a concept of inverting the windmill and putting it underwater to harvest tidal flows, complete nonsense of course.

The EGM was called to consider liquidation or pursuing the new dream.

Interesting the 200 odd shareholders listened to all of this and fell into a number of subgroups. It was a wonderful case study on attitudes to the consequences of risk.

The biggest group probably over 50% was what I call possums. They listened silently and watched as the headlights came and ran them over. These people can take risk and survive it emotionally provided they have a portfolio of risks they can survive financially.

The next biggest group were "I have lost my money it must be someone's fault who do I hang?" In my experience these people should never take risk, simply because trying to work out who to blame (in the absence of fraud) is fruitless, and soul destroying.

The next biggest group was the "I have not lost my money, how much more do you need from me to make this thing work underwater?" These people can survive risk taking but they do need to learn when not to double down.

The smallest group was the "Bugger, lost at this particular poker table; where is the next table to play at and how will I play better next time" group. These people in my view have the right attitude to risk. It is fun if you always gain something from an investment even if it is a loss, because you end up with great dinner party stories and a better knowledge base on which to invest in future.

So before you act upon your reflections regarding return, reflect on why you are taking risk, and how you will react to the consequences of risk.

If you are taking risk because you want to and it is fun, being a member of the NZSA can add to that fun.
Bruce Sheppard

AN UPDATE ON TAXATION OF OVERSEAS INVESTMENT INCOME

I am sure many of you will welcome a short update on what the present position is regarding the above. **It is all over; the Bill is signed and sealed.** You will no doubt have seen the information in our October and December newsletters and I will assume you have read these articles. The following comments were written on 9 February and I doubt much has happened since then.

The first remark I would make is that our Chairman's urging that you take up your pen and write to your MP about the new taxation charge was overtaken by events in that the second reading of the Bill had occurred at about the time that you will have received the December newsletter. However your letter will be added fuel for the fire and we are grateful for those of you who have attacked this Bill from the start. If you feel that your contribution was wasted because of the sly, deceitful tactics of our parliamentarians join the clan, you are in good company.

The second reading of any Bill is the important stage of the legislative process as Winston Peters inferred when he approved the first reading without really casting too critical an eye on the Bill. Unfortunately the rules of parliament must have been invoked whilst the majority of members were out buying Christmas presents because the second reading was taken after the Select Committee reported back to Parliament on 5 December, under urgency, according to the *National Business Review* in an article on 15 December 2006.

At this stage, perhaps a reminder of the procedures of Parliament is timely. The second reading is the main parliamentary inspection process where changes made by the select committee can be considered in detail

and voted on. It is important to note here that the entire Bill that related to overseas investment income was changed out of all recognition and from a wide ranging capital gains tax we now have the start of a wealth tax on overseas incomes. It is a requirement that at least three working days must pass after receipt of the Select Committee Report before a second reading of a Bill can take place. However the second reading is not the end of the matter. After the Second Reading, a Committee of the whole House is convened to consider and hear speeches on the controversial parts of the Bill. This is where the Bill is examined in detail and as the Report of the Select Committee was not unanimous and the National Party put their minority view, it must be presumed that there was some debate at this time. This Committee stage took place after the Second reading. There then comes a Third Reading that according to the NZ Parliament website is 'usually a summing up debate on the bill in its final form'. The vote at the end of the debate is the final vote in the House which then becomes law and receives the Royal Assent. I have been advised that the voting was 61 for, 53 against and 6 abstentions. This has left me wondering what had been going on and where were the reports in our newspapers of what has been a disgusting process from the start. In summary I cannot help commenting that the whole proceedings cast a huge question mark on the financial competence of not only our parliamentarians but also every section of the media for their disregard of what may well prove to be the introduction of a completely new form of taxation.

Over the holidays I wondered whether we should all accept what has happened but I felt that the process had been handled with such cunning and disregard for the due process that we all deserve some explanation. Our communication to Shane Jones, the Select Committee chairman, and to the two cabinet ministers, the letters to both of these parties are now on our website under correspondence. These letters should be digested as this is a separate thrust that I hope we can develop. For the benefit of the few who do not have a computer link I will state that I was seeking from the Select Committee chairman an explanation of how it was possible to devise a wholly different Bill from that on which Parliament had asked the Committee to comment. I sought under the Official Information Act to obtain from the two ministers a copy of their letter to the Select Committee where they acknowledged that the unrealised capital gains tax should not proceed and asked for an alternative – a diluted form of wealth tax as it turns out – that was eventually substituted. At the time of writing there has been no acknowledgement of these letters.

Oliver Saint

CREATING AN INFORMED, CONFIDENT AND ACTIVE INVESTOR COMMUNITY

It was interesting to read recently in the NZ Herald that global corporate governance adviser Institutional Shareholder Services (ISS) has begun monitoring the governance of 67 of New Zealand's largest companies. ISS assists over 1,600 institutional funds worldwide, including the New Zealand Superannuation Fund, to decide how they should cast their votes in key shareholder resolutions, for example the appointment of directors and CEO remuneration.

That large funds require the services of organisations such as ISS to assist in the active management of their holdings highlights the difficulties faced by typical private investors when it comes to:

1. Securing a reliable and timely flow of information about each of their investments
2. Finding time and having the skill set required to analyse this information effectively
3. Feeling confident that independent directors are effectively representing their interests

Assisting smaller investors overcome to these hurdles, so that they can confidently and proactively participate in the sharemarket is a key goal of NZSA. There are thus significant parallels between the role ISS plays for institutions and that which the NZSA provides for its members.

NZSA representatives spend significant amounts of time meeting with company boards to promote good corporate governance and discuss issues of concern to shareholders, particularly smaller investors. The NZSA also regularly communicates with institutional investors and where possible works in conjunction with them on key issues to present a united argument, for example over recent issues at Telecom, Waste Management, Contact and Feltex.

Like ISS, NZSA's preference is always to reach agreement on issues in advance of AGMs, though we of course are not afraid to openly debate issues and vote against resolutions on which we cannot reach agreement. Similarly we will also make our opinions known in the media if we are unable to resolve matters through direct discussions with a company.

It is important to note that the NZSA does not limit its interactions with companies to those times where there is a matter of dispute. We enjoy opportunities to communicate praise of good corporate performance and governance and also proactively seek opportunities for company visits for our members. We have found many listed companies amenable to these visits, which typically involve a Q&A session for our members with one or more member of the board and/or senior executive team as well as a tour of some of the company's facilities.

This type of first hand interaction with key company officers is invaluable when making investment decisions. It also emphasizes to directors and CEOs that our focus is on constructive engagement on an ongoing basis, not simply knocking on the door when we have a bone of contention.

In addition to activity focused on individual companies, the NZSA also devotes time to the more general advocacy of good corporate governance habits. For example, like Dean Paatsch, regional head of operations at ISS, we have for some time been arguing for a broadening of the pool of professional directors in New Zealand.

Drawing directors from a wider range of backgrounds and skill sets is critical to ensure boards have an appropriate range of skills to reflect their companies' areas of operation and broader environments. Few boards in New Zealand could be accused of lacking in accounting and legal expertise but just as few jump out as having a healthy mix of operational, technical and marketing experience. The mix is essential for a board to be able to effectively evaluate and contribute to the strategies being pursued by the CEO and his or her senior management team. For example, we continue to argue for Telecom to upweight the technical and marketing expertise on its board.

A larger talent pool would also assist in avoiding the pitfalls associated with the informal networks and alliances that undoubtedly exist amongst New Zealand's rather limited professional director community. Such networks are not transparent to the everyday investor and, particularly when it comes to "independent" directors, can result in conflicts of interest that should, at the very least, be disclosed.

Independent directors have a significant role to play in representing and protecting the interests of shareholders and their performance is fundamental to investor confidence in individual companies and the market as a whole. Unfortunately, in the world of professional directors, vocally expressing a dissenting view tends not to be the best career move, likewise resigning over a point of principle is rarely treated as a badge of honour.

Of course, independent directors are not alone in often finding it difficult to speak out on contentious issues. Witness the reticence to comment of most broking firms in the face of injudicious corporate behaviour and their consistent dearth of sell recommendations. The cynical amongst us find it hard to believe that concerns about securing the next big float, capital raising, M&A deal etc play no role here.

These shortcomings in the willingness of some parties to play a more active and public role in the monitoring and management of corporate governance activity are what make the existence of organisations like the NZSA and ISS so important. While New Zealand's institutions are becoming increasingly vocal, led by individuals such as Simon Botherway, many still feel more comfortable forgoing public comment, even in the forum of AGMs.

Similarly, the actions and policies of the NZX do not always send reassuring signals to small investors. For example, in the often contentious area of CEO and Board remuneration, there have been a number of cases where the stock exchange has given a waiver allowing the board to avoid getting shareholder (i.e. owner) approval.

The legal process also offers little for the smaller investor, with costs likely to be prohibitive in most cases, especially as directors in many cases will have no compunction about expending shareholders' funds to defending any such actions. Thus, just as ISS offers "class action recovery services" for its clients, the NZSA maintains a fund to allow it to undertake legal action on behalf of shareholders against rogue companies and/or their directors.

In conclusion, empowered, confident and active private investors are a fundamental component of successful capital markets. With well-resourced institutional investors commonly seeking the support of advisers like ISS to monitor and provide advice on matters of corporate governance, it is only logical that many smaller investors should seek a similar service from a representative body. This is the rationale for the existence of the NZSA and why we pursue ongoing growth in our membership base. With scale comes enhanced credibility,

influence and effectiveness, all of which benefits our members and, we strongly believe, the market as a whole.

Des Hunt

Director, Corporate Liaison

DISCLAIMER

Any comment or information contained in this Newsletter should not be construed as providing investment advice under the provisions of the *Investment Advisors(Disclosure) Act 1996*.

COMPANY MEETINGS

Scott Technology Limited

The Christchurch Netball Centre in Hagley Park was the venue for the AGM of Scott Technology Ltd. on 6 December 2006.

The Company is still suffering from the effects of the high dollar but was still able to achieve a before tax profit of \$392,000 only slightly down on p.c.p. of \$459,000. During the year the Company had sold to management the Package Handling Division as it was somewhat conflicting with the new arm of Appliance and Meat Automation Systems. A small profit was made on the sale.

Managing Director, Chris Hopkins, then gave a run down of the Company structure. The Company was started in 1913 and in 2001 diversified in to Automation/Meat Processing, Palletising & Automated Warehousing and also Robotics and Automatic Appliance Production. Staff total 175 of which 169 are Engineers. He then showed a video of an automatic washing machine production line which produces one washing machine every 13 seconds. The Company has gone in to a joint venture with PPCS to produce a robotic carcass cutting machine. Cutting of the rear-quarters has been developed and they are presently developing for the fore-quarters. So far the payback period on the cost of the machine is proving to be quite short, in the region of twelve months possibly.

Scott's expect a reduced performance in the first half of the new financial year with an improved performance expected in the second half due to (hopefully) an improved exchange rate and a more balanced workload. A new Technology Centre is being built in Dunedin.

It was stressed that Scott's were in the business of selling confidence in creating systems to overcome customer problems rather than just selling machinery.

Another little NZ Company at the forefront of Global Production Technology. Canterbury Branch has arranged a Company Visit for early in 2007 and it looks like it will be one not to be missed.

Ritchie Mein,

Chairman, Canterbury Branch

Tower – 8 February 2007

This was an interesting meeting for those who treat these occasions as an opportunity to seek answers. There were some good, some bad and some unique events and I will cover them all, beginning with the less than good.

It has become a regular process for many listed companies to include with their notice of meeting a page for shareholders to list their queries. This allows the Board to complete research before the meeting so that answers to shareholders can be full and complete. There are companies who use the procedure in a more cold blooded way to ensure that they have their evasive story to hand and who have no intention of revealing any information at the meeting. In contrast you will have seen in the December newsletter that Michael Hill International genuinely used this opportunity to advantage. The Board shared the question and answer session with shareholders and we were all that much more comfortable with the team for that reason. Tower, despite the chairman telling me before the meeting that all questions would receive a written response, did not mention any shareholder query during the meeting and in fact the queries that I mailed prior to the meeting in the format requested did not even reach the Board. The result was that I gave my copy of the queries to the Chairman and was in the embarrassing position of having to recall the four queries I raised. The questions were as follows:

1. The separation of the Australian and New Zealand operations has meant that total assets of around \$4.4 billion assets are no longer relevant to the NZ operations. It would have been helpful if a pro forma set of accounts had been produced showing what would remain after the separation, particularly the balance of equity. Any chance of showing this at the meeting?
2. Tower is still registered and listed in New Zealand. How can the audit report be signed and emanate from Australia and will the Australian auditors be present at the meeting?

3. It is noted that IFRS has been adopted for the first time. As is normal practice there are extensive notes in the accounts dealing with this matter but unfortunately, along with all other companies who have changed so far, there is no indication of how the current year results have been affected by the change. Is it possible to give a very rough ballpark figure to the meeting?
4. Please confirm that there were no substantial amendments to the net assets of the Australian operations following their transfer at changeover date.

In my chat before the meeting, chairman Tony Gibbs, thought that the pro forma accounts had already been sent to shareholders in the divestment documentation and this query was not raised.

I had previously obtained confirmation from the New Zealand Institute of Chartered Accountants that it is indeed possible for an Australian auditing firm to complete the audit of a New Zealand registered and listed company. I believe that this is the first occasion that a New Zealand registered and listed company has been audited from Australia and in this respect the audit report is a unique document. This however will be the only occasion since divestment of the Australian assets has meant that the accounts are exclusively New Zealand transactions. The Board confirmed in relation to query 4 that there were no substantial differences other than foreign currency transactions outstanding and these were not material.

The New Zealand representative of PricewaterhouseCoopers was attending the meeting on behalf of his Sydney colleagues who audited the accounts for the first and last time. I took the opportunity to question, through the chairman, whether there were any matters in the latest management letter to the Board at the conclusion of the audit that were repeated from the previous year. In a very full response, the auditor indicated that aside from the usual insurance and actuarial related matters that occur on a regular basis, there was nothing that had caused them concern. I was grateful that the chairman allowed the auditor to respond to this question as replies carry more weight if given by those with first hand experience.

On a personal basis, I think the opportunity should be used more often at meetings to question auditors as this tends to highlight that their report is addressed to the Members. If we do not question them from time to time we may well fall into the trap of government believing we do not care and future amendments to the Companies Act may reflect this thinking.

There were a number of queries under general business and it soon became clear that the two matters that caused most concern to shareholders were the lack of any dividend paid out for the last five years and the \$2 million paid out to the former CEO. The chairman was adamant that he would leave no stone unturned to see that shareholders received a dividend in the current year. He also expressed sympathy with the anger at the level of money paid to the former CEO although this did not happen during his watch. John Wilson, a shareholder and Association member, made the comment that many shareholders of insurance companies feel a certain nervousness about the industry as a whole. Those familiar with the UK Equitable Life Assurance debacle, a 250 year company that was, arguably, forced to its knees by a decision of the House of Lords, will appreciate his apprehension. Actuaries, like all professional bodies, can get things dreadfully wrong at times. Even the great Warren Buffett has found that his insurance investments have been cause for concern. This raised the query about International Financial Reporting Standards and the chairman of the Audit and Compliance Committee, John Spencer, endorsed Tony Gibbs' comment that on the whole the new standards were working well although there was some way to go in the measurement process.

Oliver Saint

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

In the last newsletter I commented on the steps taken by both the IFRS and the FASB to seek convergence on the question of common standards. I would now like to update you on developments since that last newsletter.

On 8 December, we received from the IASB an invitation to attend a session of the discussion round-table conferences that had been scheduled for 16 and 17 January in Hong Kong. Other meetings are being held in London (29 January) and in Norwalk, USA (1 February). Due to time constraints and availability of funds it was decided that we would not be represented at the conference but we did ask the shareholder activist, David Webb, who lives in Hong Kong, if he would hold a watching brief on our behalf. This he agreed to do and we arranged with the organisers that he take our place at the conference. David Webb sent us a very interesting summary of the discussions that took place and this is produced for your information below.

"I participated in the session on 17-Jan in my personal capacity as an investor activist, but also drawing on my experience as a current director of a listed company (Hong Kong Exchanges and Clearing Ltd). It was a very useful and productive 3-hour discussion, chaired by Sir David Tweedie. A lot of it centred on the question of when to use historical cost and when to use fair market value in accounts.

I am in favour of fair-value accounting, because if 2 identical companies have the same assets and liabilities, but they acquired them at different times, then their balance sheets should show the same values, regardless of when they bought them. Under historical cost, that is not the case, so it becomes impossible to make fair comparisons of different companies. I do not see how accounts can present a "true and fair" view of the assets and liabilities if they are not stated at fair value.

However, some participants held the opposite view, saying that it depended on the "intent" of management/board in relation to the assets, as to whether accounts should reflect historical cost (amortised if appropriate) rather than current replacement cost (or market value). A delegate from the Security Analysts Association of Japan who held that view, said that analysts can ask the company if they need information about fair values. I said I didn't think we should obfuscate financial statements so that analysts can add value for clients by discovering inside information!

Although it wasn't on the agenda, there was also some peripheral discussion (mainly driven by me) about the presentation of the income statement and the utility of it to investors. I called for the presentation to be revised so that it was easier for investors to understand what is recurrent, core earnings per share, and what is changes in capital items per share (including, for example, gains/losses on property revaluations, gains/losses on sale of subsidiaries and so on). Currently, anyone can get there, but it takes work, so many don't bother, and the result is misleading P/E ratios. The statements could save us that work.

Talking with Sir David afterwards, I also made the point, which I think was well taken, that the IASB should reach out to include more investor representatives (including both institutional and retail investors) in these round-table discussions, because they are the end-users of the financial statements and make decisions based upon those statements.

No doubt there will be other round-tables in the future to discuss other aspects of accounting treatment.

Finally, I would mention that the three hour audio transcripts of all of the discussions may be found on the IASB website – iasb.co.uk. I warn those wanting to listen to the proceedings that each of the sessions takes three hours. Broadband with plenty of download time is essential.

Oliver Saint

REGULATION

Government seems intent on destroying the investment industry of this country with the introduction of what is, in essence, the start of a wealth tax. The fact that this new tax relates, at this stage, to overseas income only follows the old tried and true procedure of bringing in what seems at first flush to be a harmless addition to the system but can over time be adapted with very little alteration to incorporate all income.

Markets these days have an ability to see through the harshness of legislation and adapt to changing circumstances quickly which is why I suggest that our investment industry is about to be destroyed. You may think this comment is excessive but I want to give you an example that I read about in the February 2007 issue of the Australian *Company Director* journal.

"Over-regulation in the stock market can have a huge effect. The Economist published a chart on 23 November 2006 showing a vast global shift in IPOs by value, which they attribute primarily to the heavy-handedness of Sarbanes-Oxley. The combined monetary IPO volume of the London Stock Exchange and the London Alternative Investment Market is now greater than that of the New York Stock and NASDAQ. Seven years ago, the two US exchanges had a volume five times larger than London. There is a lesson here that should be heeded by those who want to burden the Australian public company system with more and more regulation."

I was frankly astonished at the speed with which the markets had reacted to new regulations in the US and I am sure that this will be no different in New Zealand. I had wondered why the exchanges in the US had been

so interested in the London International market and this of course becomes clearer when it is seen that the London market is the growth area and the US market is becoming less popular. It seems that our own stock exchange CEO has the same intelligent approach to the Australian markets since he can see that the local market will offer scant future attraction to investors.

There is also a cautionary note for the direction the Securities Commission is taking in its efforts to introduce new regulations that may well become oppressive in nature. Perhaps it is worth suggesting that if more effort and time was taken to ensure that existing regulations were enforced we might find a more compliant and acceptable investment environment. This Association has prepared at least 5 submissions on various matters during the course of 2006. We have reached the stage where it has become clear that our efforts are wholly useless in the face of concerted international agendas that insist on the introduction of similar global regulations whatever the size of the market if 'community of membership' is to be maintained. We never hear much about enforcement which if allowed to lapse places strain on credibility and acceptance of the law. I recall the 40 odd page document I was asked by my UK banker of 54 years to complete because I wanted to open a broker trading account in the UK a year or so ago. Even the proposed Money Laundering regulations permit a bank to maintain records for no more than 5 years! Such is the importance placed on 'knowing ones client' and such also is the ignorance of banks that now rely on computers and do away with branch networks.

Finally, let us treat the failings at Feltex Carpets as a testing ground. If it takes the Securities Commission longer to complete their deliberations into the failings of this group than it does to introduce new legislation then clearly we have a credibility problem of massive proportions.

Oliver Saint

RESEARCH

The links page of our website now includes reference to a site – www.smallcaps.co.nz – a research organisation that concentrates on many of the smaller listed New Zealand companies including some on the Alternative Market. It also includes a sprinkling of unlisted companies which are denoted by the suffix '.ul' after their code. We should also mention that for a small, cost professional research reports are available either by email or post and there is an educational page explaining the more commonly used ratios and investment terms.

A tip which some will no doubt already be using is to go to google.co.nz to see if any listed companies have websites. The quality of websites varies and some of the quality sites pay little or no attention to financial or investor information. However there are frequent occasions when websites can surprise with the information provide and seeking knowledge from this area should be a first step in the investor search campaign.

ARE YOU INTERESTED IN BECOMING A MEMBER OF THE NZSA BOARD?

Elections will be held at the Association's AGM later in the year, for a number of positions on the Board, at least two of which are actual vacancies.

If you have the time, energy and expertise to stand for one of these voluntary positions, and can attend Board Meetings held in Auckland, then forward your nomination to the NZSA Secretary, Chris Curlett, P O Box 6310, Wellesley Street, Auckland, or to chris.curlett@xtra.co.nz

CORRESPONDENCE

I have received the following letter from a member which, in view of its contents, may strike a chord with many former Feltex Carpets shareholders:

26th January,

2007

Dear Mr. Saint,

Re Feltex Fiasco

I am disappointed to find that I appear to be the only shareholder who blamed the Feltex IPO collapse directly on to Credit Suisse. This was done in writing to their Head Office in Switzerland on 23rd September 2006. They have finally responded to say "it would not be appropriate to respond to my letter pending legal proceedings in connection with this IPO".

Whilst I agree that there were plenty of others that played support roles for causing this fiasco (e.g., the Feltex Directors, the auditors, the ANZ Bank, the co-managers, etc, etc) the key driving force for implementing this major financial disaster was, was without any doubt, Credit Suisse via their branches – Credit Suisse First Boston Private Equity Inc., and Credit Suisse First Boston Asian Merchants Partners L.P.

The 10,166 shareholders who originally bought shares in Feltex have, in my opinion, been effectively conned by Credit Suisse. I am appalled that no one other than me is willing to say it directly to their Chairman of Directors. It is now clear after the event that this IPO never had any chance of success.

Whilst I am aware Credit Suisse are a huge financial organisation with over 40,000 staff worldwide, it is also now clear that this company has been questioned last year by the U.S. Securities regarding other questionable IPO's – identical to the Feltex fiasco. Feltex was not the first for them.

It has been quite clear that our Securities Commission does not have the ability, the fire power or the will to carry out an investigation to the level that is needed. It is also clear that the relatively mute reaction by shareholders has convinced our parliamentarians that they need do nothing and consequently they have done nothing.

Our Shareholders' Association and Tony Gavigan have separately battled bravely for the scraps but in my opinion they were both too late to really do battle and have scrupulously avoided putting the blame fair and square directly onto the real culprit – Credit Suisse. I can not understand why they haven't!

In the accrued wisdom from hindsight I believe that if written complaints had been sent immediately after the collapse by all the Feltex shareholders, combined with the full support of New Zealand Shareholders Association and the New Zealand Government, Credit Suisse could have been forced to cancel the IPO, refund the money they took and be required to manage the Feltex operation until it was a made viable commercial business. Sadly – I believe the die has been cast and Credit Suisse have got off scott free with our \$260 million.

Many thanks to those Feltex Shareholders that did take some action. Quite simply there were never enough like you. I have learnt the hard way not to trust anything that comes out from Credit Suisse in the future. I recommend you do the same.

Yours sincerely
R.A. DENNIS

BRANCHES

Auckland

With the holiday season over, it is back to business for the Branch Committee. Where possible, we have tried to contact all new branch members to welcome them to the Association, and to give them a brief run down on the branch programme for the year. Currently, our 330 branch members are notified regularly by email or post of meeting topics and dates and upcoming company visits.

Our first meeting for the year at Alexandra Park Functions Centre is on Wednesday 21 February at 7.30pm, when the speaker is Sherry Maier from Sheffield & Co Ltd and her topic is CEO Remuneration. There will be at

least five other meetings during the year, with Mark Weldon, CEO of the NZ Stock Exchange, confirmed for 20 June, and Brian Gaynor, Executive Director of Milford Asset Management, confirmed for 28 November. Company visits are confirmed to Nuplex on 8 March, and F & P Healthcare on 27 March. Others to be confirmed are to F & P Appliances, Freightways, Methven, Telecom, Delegates and Michael Hill International. Since numbers on company visits are limited to about 30, places need to be booked through Joe Turnbull, who can be contacted on 09 631 5071 or rjytturnbull@xtra.co.nz.
Des Hunt, Chairman

Bay of Plenty – No report

Enquiries about branch activities should be addressed to the Chairman, Lloyd Christie, on 07 576 3744 or at lloydchristie@clear.net.nz, or the Secretary, Kerry Drumm at di.kerry@xtra.co.nz

Canterbury

It has been great to see the numbers of new South Island members flowing through. It is an ill wind that blows nobody any good and I suppose we have our “friends” at Feltex to thank for encouraging investors to seek safety from these shark infested waters by joining our ranks. With such an influx of new members throughout the South Island we may soon be looking at encouraging the setting up of other Branches in the South Island or even just a few members getting together as a sub-branch of Canterbury. Branch Membership is currently 73 with a further 60 or so non-Branch members spread throughout the South Island

Our committee has been investigating running further education days using our own resources but under the guidance of Graham Wilson, NZSA Director of Education. Our thoughts are to run one in Christchurch after Easter so as to iron out any problems and then to look at running further ones in other centres of population throughout the South Island so as to spread the good word of the association further afield.

On 22 February we have our first Company Visit of the year to Scott Technology. We understand that they have a large project getting close to completion for us to view and some of their directors may be on hand to meet us. Having attended their AGM late last year where a video presentation showed some of the projects they are working on I am sure that members will be treated to an interesting if not mind blowing couple of hours seeing what one of our global leading companies is doing in pioneering technology production solutions. Numbers are restricted so be in quick.

Robin Harrison and Peter Heffernan are well down the track with organising our Computer Seminar on Software suitable for tracking Share Portfolios. We hope to run this within the next two months or so.

March 13 is the Association's Branch Conference in Auckland, where Max Smith and I hope to represent your Branch and discuss the future direction of the Association. If any members have any matters which they would like to see discussed then please email me at ritchiemein@clear.net.nz with details.

With the latest round of Company Reports due out shortly, I trust that they will contain good news regarding your investments.

Ritchie Mein, Chairman

Waikato

The committee have been busy getting prepared for the 2007 year. Making contact with the new members and arranging our systems for communication to members has been a satisfying task. We now have 74 branch members out of 97 NZSA members in the region.

Conversations with new members reveal that some were shareholders of Feltex, and have joined NZSA through the initiative of the national office. Others were just supportive of the association, reflecting the value of publicity of the activity by Bruce Sheppard and his Auckland colleagues in the interests of the small shareholder.

The February meeting will welcome Frank Jasper of Fisher Funds. Carmel Fisher was our guest speaker at the 2006 AGM and we were very impressed by her delivery and understanding of the investment world. We are all looking forward to Frank's analysis of the Australian investment scene. In March we are planning a visit to the Affco plant at Horotiu (north of Hamilton), and for our AGM, in June, we are expecting to welcome Peter Masfen as our guest speaker.

There will be a full programme for the year which the committee are confident will give the members opportunities to meet and learn about the investment business. If the year continues with increases in the stock values achieved so far we shall all be very happy.

Alex Eames, Chairman

Wellington

Wellington Branch held it first meeting for 2007 on 13 of February. The key highlight was guest speaker Phil Kelliher, who gave an enlightening presentation on the new Kiwi Saver. This inspired a great debate amongst members about the merits of the Kiwi Saver Scheme. The presentation was followed up with a progress report on the Wellington Branch's performance in the stock game. The performance looks pretty good, Wellington

Branch appears to have a number of good stock pickers. Another reason to come along to the branch meeting to pick up some good stock ideas. At the next meeting likely to be held in April we are planning to get Sam Knowles CEO of Kiwi Bank to talk about his business and its fantastic growth it is achieving relative to the Australian owned main banks. We look forward to seeing you all there.

Ray Jack, Secretary

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Research Volunteers Required

Late last year the Association decided that it should research all listed companies on the New Zealand Alternative Market. This decision means that we will expand our base by a further 30 or so companies this year. We are therefore seeking the help of members with the required skills to monitor the companies on this Alternative market.

We would like to hear from any member who has the ability to read and critique an annual report and prepare the necessary summary for suggested action in the event that there are questions relating to corporate governance, procedures or other matter that the member feels might be brought to the attention of shareholders. It is not essential to attend annual meetings or write letters to companies if these skills are absent.

The attributes necessary for this work are an enquiring mind, an understanding of annual reports and matters of concern to a shareholder and some spare time. A knowledge of financial reporting is certainly critical but a thorough knowledge of Stock Exchange rules is not necessary in the initial stages as these requirements can be quickly assimilated. Communication is mainly by email so computer literacy is vital.

The work needed for the supervision of say one company is not onerous and ideally requires a willingness to read an annual report as soon as it is circulated so that there is time for the team to consider whether action is needed before the annual meeting. Usually there is a small period of time between the publishing of an annual report and the meeting and it is in this period that questions, if they are to be asked at the meeting, must be prepared and action plans devised.

We are keen to hear from all members who would like to participate in this worth-while endeavour. The ability to network and talk with other like-minded members is a distinct bonus for the keen investor. Please contact any director who you know or email me at the following:

Oliver Saint
judenol@ihug.co.nz

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