

Market Analysis

Issue No. 366

P.O. Box 34-162, Auckland

December 10, 2002.

Inside Market Analysis

Cavalier Corporation starts the year well	3, 4	C.S.R. announces de-merger plans	6
Richina Pacific seeks new equity to finance rapid growth in China	4, 5	Neglect Ratings	8,10
Renaissance, Cellnet, Julia Ross Recruitment shares fall on poor trading results	4, 6, 7	E.R.G. restructuring offers speculative investment opportunity through its convertible notes	11, 12

Editor and Research Director: James R Cornell (B.Com.)

Summary and Recommended Investment Strategy.

Hold all existing recommended NZ and Australian shares, while building up a small cash reserve (i.e. from dividends and new savings) in anticipation of new "Buy" situations emerging over the next few months.

Investment Outlook.

The interesting thing about the stockmarket is that the outlook is seldom clearly favourable or unfavourable - but indicators always seem to offer a range of mixed messages.

On the one hand, global interest rates are close to historical lows, shares of quality companies trade at low valuations, the US stockmarket (i.e. the S&P 500) is up 20.5% from its low, the NASDAQ index is up 32.7% and stockmarkets look ready to climb a wall of worry. On the other hand, the NZ and Australian stockmarkets are still weak, show few signs of recovery from the declines of the last year, and economic growth may weaken owing to the impact of climatic factors on the rural sector. In this situation we can see many *potential* new investments, but as their share prices continue to weaken (offering even better value each month) there is no hurry to rush out and Buy, Buy, Buy!

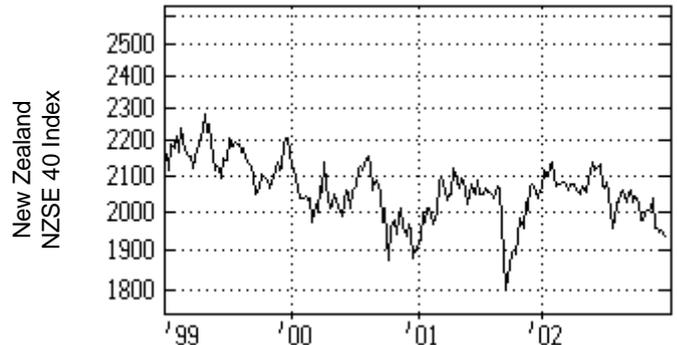
Our Forecasting models reflect this situation with forecasts that range from slightly bearish, to neutral to slightly bullish.

In this situation we are happy to remain close to fully invested in the Recommended Investments, while holding a small cash reserve which we are allowing to grow with dividend income and new savings. In the meantime we continue to study potential new share investments that we shall probably add to our portfolio over the next six months.

When marketing their services, institutional investors often talk about the importance of "actively managing" investments - yet they fail to earn even average returns after deducting brokerage and management fees. In contrast, we believe the correct management of an *investment* portfolio is to *do nothing* most months - just "actively" hold existing shares and "actively" search for shares that you may wish to buy in 3-12 months time. If you spend the time to find good companies and buy shares at the right price, then you won't need to change your portfolio every three months!

Stockmarket Forecasts

	<u>One-Month</u>	<u>One-Year</u>
Australia:	61% (Bullish)	54% (Bullish)
New Zealand:	53% (Neutral)	36% (Neutral)



Performance Forecasts

"Performance Forecasts" are computer generated predictions of the relative future price performance of a company's shares over the next three to six months. Performance Forecasts are calculated for every listed NZ share (except Investment Trusts) on a rating scale using the letters "A" (Highest potential for capital appreciation over the next 3-6 months), "B" (Above Average), "C" (Average), "D" (Below Average) and "E" (Lowest). These predictions are NOT buy or sell recommendations, but can be useful to help time planned purchases or sales, or to identify shares worthy of further study and analysis.

	Performance Forecast	Price	Price/Sales Ratio	P/E Ratio	Gross Yield		Performance Forecast	Price	Price/Sales Ratio	P/E Ratio	Gross Yield		Performance Forecast	Price	Price/Sales Ratio	P/E Ratio	Gross Yield		
A. Barnett Ltd	B	143	0.72	21	Nil	Fletcher Build.	A	325	0.38	13	6.4	RetailX Limited	C	20	4.57	NE	Nil		
AMP Limited	C	1345	2.09	18	4.6	GDC Communicat.	B	131	0.72	14	4.0	Richina Pacific	D	50	0.06	11	Nil		
AMP NZ Office	C	88	8.98	14	8.1	Genesis Res.	C	151	1.97	NE	Nil	Richmond Hold.	D	240	N/A	NE	Nil		
AXA Asia Pac.	B	270	0.45	10	4.4	Goodman Fielder	C	163	0.49	12	6.1	Rocom Wireless	D	15	0.23	NE	Nil		
Advantage Group	D	27	0.37	10	Nil	Guinness Peat	C	155	0.79	6	2.2	Rubicon Limited	D	67	2.53	NE	Nil		
Affco Holdings	D	15	0.03	7	Nil	Hallenstein G.	B	270	0.90	14	10.2	Ryman Health.	C	160	2.58	14	3.5		
Air New Zealand	E	51	0.33	NE	Nil	Hellaby Hold.	B	304	0.44	11	8.8	Sanford Limited	C	495	1.20	13	6.0		
Akd Int Airport	B	529	9.12	26	3.8	Heritage Mining*	N/R	5.0	N/A	NE	Nil	Savoy Equities	E	1.6	3.02	NE	Nil		
Allied Farmers	A	213	0.23	7	11.2	Iron Capital Energy	B	380	3.64	13	6.7	Scott Tech. Ltd	B	235	1.77	21	7.0		
Apple Fields	C	2.7	0.20	NE	Nil	IT Hizonal Ltd	E	2.7	1.71	NE	Nil	Seafresh Fish.	D	2.8	0.38	NE	Nil		
Beauty Direct	D	9.0	2.76	NE	Nil	Ind Newspapers	C	295	1.43	25	4.3	Selector Group	E	1.5	2.11	NE	Nil		
Blis Technology	D	37	N/A	NE	Nil	Infratil NZ	C	178	2.12	15	2.5	Shotover Jet	B	66	1.16	8	2.8		
Botry-Zen Ltd	D	17	N/A	NE	Nil	Kingsgate Int'l	E	18	0.93	7	Nil	Skellmax Indust	C	103	1.02	8	10.1		
Brierley Invest	D	57	5.29	36	Nil	Kirkcaldie & St	B	399	0.75	19	4.5	Sky City Leisur	C	170	0.19	15	Nil		
Briscoe Group	B	265	2.19	32	3.7	Kiwi Property	B	103	6.59	11	9.9	Sky City Ltd	B	752	3.04	16	7.5		
Broadway Ind	C	37	0.20	7	4.1	Lion Nathan Ltd	A	600	1.72	17	3.3	Sky Network TV	E	317	4.23	NE	Nil		
CACI Group Ltd	D	42	0.59	NE	Nil	Lyttelton Port	B	141	2.32	9	11.6	Software of Exc	E	125	1.94	NE	Nil		
CDL Hotel NZ	C	24	0.41	8	4.4	Mainfreight Grp	C	108	0.20	12	9.0	South Port NZ	C	159	2.94	16	6.1		
CDL Investments	E	18	1.65	45	Nil	Metro. LifeCare	C	105	1.08	13	Nil	Southern Cap	D	58	3.02	9	Nil		
Cabletalk Group	E	19	0.15	NE	Nil	Michael Hill	A	568	1.02	18	4.5	Spectrum Res.	D	1.2	0.86	NE	Nil		
Cadmus Tech Ltd	D	8.0	1.73	NE	Nil	Mid-Cap Index *	N/R	190	N/A	NE	Nil	Steel & Tube	A	305	0.81	15	9.3		
Calan Hlthcare	C	79	6.51	12	8.6	Mooring Systems	D	118	N/A	NE	Nil	Straightedge	C	48	N/A	NE	Nil		
Cap Properties	B	86	2.24	9	11.4	Mowbray Collect	C	80	1.47	NE	Nil	Strathmore Grp	C	1.1	N/A	NE	Nil		
Carter Holt	C	175	0.80	12	3.4	Mr Chips Hold	C	120	1.04	33	4.4	Submarines Aust	C	4.0	2.05	NE	Nil		
Cavalier Corp	A	794	1.52	19	6.8	NGC Holdings	C	137	1.50	19	4.7	Summit Gold Ltd*	N/R	5.5	N/A	NE	Nil		
Cedenco Foods	B	175	1.01	6	Nil	NZ Experience	C	15	N/A	8	Nil	Tag Pacific Ltd	E	9.5	0.20	NE	Nil		
Cert Organics	D	25	N/A	NE	Nil	NZ Invest Trust*	N/R	480	N/A	NE	1.7	Taylor's Grp Ltd	C	151	0.69	11	8.4		
Col FS Property	B	110	6.27	11	9.6	NZ Oil and Gas *	N/R	37	2.95	NE	Nil	TeNZ *	N/R	87	N/A	NE	Nil		
Col Motor Co	A	310	0.23	11	10.1	NZ Refining Co	B	1800	2.42	12	14.5	Telecom Corp	C	465	1.57	13	6.4		
Commssoft Group	D	0.4	0.05	NE	Nil	NZIJ.co.nz	D	30	2.20	NE	Nil	Tourism Hold.	D	107	0.53	42	4.2		
Compass Com.	B	41	N/A	58	Nil	Nat Property Tr	C	84	5.15	13	10.7	Tower Limited	C	166	0.26	4	18.1		
Contact Energy	B	395	2.17	19	7.2	Newcall Group	C	3.0	0.22	NE	Nil	Trans-Tasman	E	26	1.46	8	Nil		
Cube Capital	D	10	0.58	NE	Nil	Northland Port	C	300	4.52	NE	Nil	Tranz Rail Hold	D	98	0.26	NE	Nil		
Cue Energy Ltd *	N/R	6.5	1.73	15	Nil	Nuhaka Forestry	D	900	N/A	NE	Nil	Trust Power Ltd	C	357	1.08	NE	5.3		
DB Breweries	B	605	1.06	16	6.7	Nuplex Indust	A	337	0.48	11	7.5	Turners Auction	C	252	N/A	NE	Nil		
Dairy Brands	C	64	7.41	NE	Nil	Opio Forestry	D	52	9.32	NE	Nil	United Networks	A	986	3.28	13	5.3		
Design Textiles	B	88	N/A	10	5.1	Otter Gold Mine*	N/R	29	0.68	NE	Nil	Utilico Int'l	C	65	6.60	8	Nil		
Dorchester Pac	B	155	0.65	8	6.4	Owens Group Ltd	D	78	0.10	10	4.5	Vending Tech.	C	180	2.61	10	Nil		
Ecademy Hold.	E	0.4	6.67	NE	Nil	Ozzy (Tortis) *	N/R	195	N/A	NE	Nil	Vertex Group	B	138	0.49	7	15.4		
Ebos Group Ltd	B	295	0.39	13	7.3	Pacific Retail	C	280	0.32	8	Nil	WN Drive Tech.	C	36	N/A	NE	Nil		
Eldercare NZ	D	18	0.86	NE	Nil	Port Tauranga	B	436	5.32	23	5.6	Wakefield Hosp.	C	136	0.55	18	3.3		
Elect Trans Tec	D	3.6	N/A	NE	Nil	Ports Auckland	B	620	4.15	15	7.2	Warehouse Group	B	713	1.16	26	2.8		
Evergreen	E	51	3.40	11	Nil	Powerco Limited	C	156	2.13	11	12.5	Waste Mgmt NZ	B	286	1.82	21	3.9		
F & P Appliance	A	1055	2.01	25	3.5	Property F. Ind.	C	91	8.47	41	7.6	Williams Kettle	A	400	0.32	8	8.6		
F & P Health.	A	1023	4.88	17	3.6	Pure NZ Limited	D	5.1	4.95	NE	Nil	World Index Fd *	N/R	115	N/A	NE	Nil		
FC - Forests	D	95	0.80	7	Nil	Pyne Gould G.	B	110	0.43	9	11.5	Wrightsons Ltd	B	116	0.23	7	14.8		
Feverpitch Int.	D	12	N/A	NE	Nil	Renaissance	E	26	0.05	NE	Nil	Ave of 142 Cos	C	201	0.47	19	3.4		
Finzsoft Solns	D	45	1.02	NE	Nil	Restaurant Brds	C	136	0.49	11	11.0								
AMP Diver. Prop	B	264	9.78	14	7.4	Computer Share	C	192	1.36	20	1.6	News Corporatio	C	1211	0.87	21	0.2		
AMP Ltd	C	1209	0.48	12	3.9	Corp Express	C	470	1.41	28	1.3	Onesteel Ltd	A	168	0.30	19	3.9		
AMP Office Trt	B	118	N/A	13	7.8	Deutsche Div Tr	B	117	7.95	13	7.7	Orica Ltd	B	1048	0.69	14	4.2		
AMP Shop Centre	B	147	7.39	15	7.6	Deutsche Ind Tr	A	172	6.90	15	8.7	Origin Energy	B	368	0.98	19	1.4		
ANZ Bank	B	1808	1.70	12	4.7	Deutsche Office	B	125	7.34	13	8.0	Pacifica Group	C	365	0.46	NE	2.3		
APN News Media	B	296	2.13	26	5.0	Downer EDI Ltd	C	54	0.21	9	4.4	Paperlin X Ltd	B	480	0.49	13	5.6		
AWB Limited	B	360	0.42	9	6.9	Envestra	C	94	2.47	NE	10.1	Patrick Corp	C	1290	2.68	23	1.6		
AXA Asia Pac	B	246	0.83	11	5.0	Fairfax (John)	B	309	1.90	42	3.6	Perp Trust Aust	C	3115	3.99	16	5.1		
Adelaide Bank	B	725	1.27	15	4.4	Flight Centre	B	2284	0.56	32	1.6	Publishing & Br	C	848	2.19	21	2.5		
Adelaide Bright	A	112	1.36	18	3.6	Foodland Assoc	A	1730	0.41	19	4.3	O.B.E. Insur.	C	788	0.49	NE	3.8		
Alintagas Ltd	B	430	3.14	22	2.6	Foster's Group	B	459	1.88	17	3.7	Qantas Airways	B	366	0.51	13	4.6		
Alumina Ltd	C	471	2.48	23	6.2	Futuris Corp.	B	126	0.11	12	9.5	Reece Australia	B	621	0.97	15	2.7		
Amcor Ltd	B	827	0.80	8	3.4	GWA Internat'l	B	248	1.12	15	6.9	Rio Tinto Ltd	C	3399	0.83	5	3.4		
Ansell Ltd	C	726	0.60	NE	Nil	Gandel Retail	B	136	8.98	15	6.6	Rural Press Ltd	A	487	1.26	10	3.2		
Aristocrat	B	525	3.05	28	2.3	General Prop Tr	B	286	8.15	15	6.9	Seven Network	C	477	1.10	20	4.3		
Aust Pipeline	A	251	2.51	17	8.6	Goodman Fielder	B	148	0.61	11	5.1	Sigma Company	B	440	0.36	28	2.3		
Aust Pharm. Ind	C	269	0.28	15	4.8	Guinness Peat	C	139	3.03	13	0.4	Simsmetal Ltd	B	737	0.47	14	4.9		
Aust Gas Light	B	1025	1.38	23	5.1	Gunn's Ltd	B	839	1.29	13	3.2	Smorgon Steel	B	108	0.31	18	6.0		
Aust Stock Exch	C	1140	5.52	20	3.6	Harvey Norman	C	255	2.32	21	1.8	Sonic Health	B	635	1.90	48	3.1		
Austereo Group	C	145	2.32	11	5.5	Hills Motorway	A	484	N/A	37	4.0	Southcorp Ltd	C	463	1.21	11	4.8		
Australand Hold	B	138	0.53	8	8.7	ING Indust Trt	B	168	N/A	13	8.0	Spotless Group	A	515	0.48	33	4.3		
BHP Steel Ltd	C	319	N/A	NE	Nil	ING Office Fund	B	120	6.68	12	8.8	St George Bank	B	1790	2.28	21	4.5		
BRL Hardy Ltd	C	666	1.49	16	3.0	Incitec	B	775	1.03	16	4.8	Stockland	A	485	4.82	16	6.1		
Bank of W. Aust	B	392	3.94	15	4.5	Insurance Aust.	C	256	0.81	NE	4.1	Suncorp-Metway	B	1093	1.28	18	4.9		
Bendigo Bank	A	815	3.47	20	3.6	Investa Prop.	B	211	6.78	14	7.0	TAB Ltd	B	300	1.51	18	4.3		
Bidvest	B	360	0.20	12	2.8	James Hardie	B	642	2.47	51	1.5	Tabcorp Holding	B	1045	1.97	15	6.0		
Billabong Int'l	C	677	2.71	22	2.8	Jupiters	B	502	1.27	13	4.2	Telstra	C	456	1.40	8	4.8		
Boral Limited	B	410	0.66	12	4.6	Leighton Hold	C	916	0.49	15	4.6	Ten Network	D	215	1.23	NE	Nil		
Brambles Ind.	C	440	0.43	8	4.5	Lend Lease Corp	C	990	0.34	19	1.8	Toll Holdings	B	608	1.24	23	1.6		
Brickworks Ltd	B	619	4.89	16	2.5	Macquarie C'Wde	B	165	9.60	14	8.1	Transurban Grp	C	394	N/A	NE	0.6		
C'wth Prop Off.	B	122	8.73	14	7.3	Macquarie Good.	B	150	5.87	13	7.9	UNIRAB Ltd	A	437	1.57	23	3.4		
C.S.R. Ltd	B	609	0.79	10	3.9	Macquarie Off.	B	124	9.24	14	8.8	United Energy	B	272	2.34	24	6.3		
CSL Limited	C	1960	2.30	25	1.7	Macquarie Infra	B	328	5.77	12	2.8	Wesfarmers Ltd	B	2841	1.43	26	3.9		
Centro Prop.	A	384	N/A	16	6.8	Macquarie Bank	B	2294	1.91	16	4.1	West Aust News	A	510	3.56	21	4.9		
Challenger Int.	C	182	0.89	3	4.9	Mayne Group Ltd	C	306	0.48	14	4.6	Westfield Trust	B	344	8.26	15	6.7		
Coal & Allied	B	2430	1.36	10	3.1	Metcash Trading	B	196											

Recommended Investments

Cavalier Corporation has started the new financial year *very strongly*. The company is now predicting its first half year profit (to 31 December) will be 56% higher at around \$9 million (29 cents per share), with the full year result at least 22% higher at \$16 million (51 cents per share). The first interim dividend has been raised 28.6% to 9.0 cents (plus full imputation tax credits).

The company will also make a share split (as *Market Analysis* goes to press) which will divide each existing share into two new shares.

The majority of Cavalier Corporation's carpet sales go into new homes. So the current strong results are a result of the boom in new house construction in NZ and Australia which not only lifts total demand but also boosts profit margins. A slowdown in home construction will therefore impact on profitability - which is why the company is conservatively forecasting *only* a 22%

increase in profits for the full year. The higher NZ dollar exchange rate also depresses the profit margin on exports to Australia.

Cavalier Corporation is a well managed business with low debt levels. Despite the recent jump to 794 cents the shares still offer reasonable value. The Price/Sales ratio is a little high at 1.52 and so is the Price/Earnings ratio at 19, but the Dividend Yield is still attractive at 6.8%. Of course, growth in profits and dividends will improve these fundamental statistics. Technically the shares are in a strong uptrend, with a Relative Strength rating of +8.5%, ranked 7 (on a scale of 0-99), so investors should let their profits run!

In addition, "index funds" will *need* to buy Cavalier shares - at *any* price - to match the new NZSE 50 index from early next year. So while new house construction may weaken *at some stage* (Continued on Page 4)

Portfolio of Recommended Investments

CURRENT ADVICE	Company	Initial Recommendation Code	- Date -	Price	Perfor- mance Forecast	Issued Shares (mil.)	Vola- tility Ratio	Price/ Sales Ratio	Price/ Earnings Ratio	Gross Dividend Yield	Recent Share Price	Cash Dividends Rec'd	Total Return %
NZ Shares													
BUY	CDL Investments Ltd	CDI	12/01/99	25	E	187.1	2.1	1.65	45	Nil	18	6.1	-4%
HOLD+	Cavalier Corporation	CAV	05/12/95	312	A	31.5	0.6	1.52	19	6.8	794	207.0	+221%
HOLD+	Colonial Motor Company	CMO	10/11/92	150	A	27.9	0.6	0.23	11	10.1	310	231.8	+261%
HOLD+	Lyttelton Port Company	LPC	12/12/00	150	B	101.8	0.8	2.32	9	11.6	141	21.3	+8%
HOLD	Michael Hill Int'l Ltd	MHI	11/06/91	46*	A	38.5	0.5	1.02	18	4.5	568	120.0	+1396%
BUY	Nuplex Industries Ltd	NPX	11/02/97	350	A	59.7	0.8	0.48	11	7.5	337	68.0	+16%
HOLD	Renaissance Corp	RNS	13/08/96	85*	E	37.1	2.2	0.05	NE	Nil	26	10.4	-57%
BUY	Richina Pacific	RCH	03/11/95	119*	D	72.2	1.7	0.06	11	Nil	50	11.9	-48%
HOLD	South Port New Zealand	SPN	13/02/96	120	C	26.2	0.9	2.94	16	6.1	159	62.8	+85%
BUY	Steel & Tube Holdings	STU	08/08/00	146	A	87.9	0.9	0.81	15	9.3	305	52.0	+145%
HOLD+	Taylors Group Ltd	TAY	09/11/99	102	C	24.3	0.9	0.69	11	8.4	151	21.5	+69%
BUY	Wrightson Limited	WRI	13/01/98	83	B	134.2	1.3	0.23	7	14.8	116	29.8	+76%
Australian Shares (in Aust cents)													
HOLD+	Abigroup Limited	ABG	09/03/99	265	B	47.7	0.8	0.16	13	4.0	200	49.0	-6%
HOLD+	Atlas Pacific Ltd	ATP	14/05/96	73	B	83.3	1.5	2.64	7	10.5	38	6.0	-40%
HOLD+	Auspine Limited	ANE	08/02/00	210	B	57.0	0.7	0.63	13	6.0	232	48.0	+33%
BUY	Austral Coal Ltd	AUO	16/01/01	19	C	154.4	1.2	0.59	11	Nil	57	Nil	+200%
HOLD	Biron Capital Ltd	BIC	12/04/94	171*	B	38.2	1.6	2.48	21	3.0	33	11.5	-74%
HOLD	Brazin Limited	BRZ	11/12/01	160	B	116.4	1.0	0.46	10	6.9	195	13.5	+30%
HOLD	Campbell Brothers Ltd	CPB	12/10/99	418*	B	39.0	0.6	0.50	16	6.6	452	85.5	+29%
HOLD	Cellnet Group Ltd	CLT	12/02/02	152	C	49.3	1.1	0.13	6	9.7	93	9.0	-33%
BUY	Commander Comm.	CDR	11/09/01	92	B	145.0	1.1	0.58	12	3.4	80	5.3	-7%
HOLD+	C.S.R. Limited	CSR	11/07/00	436	B	937.6	0.7	0.79	10	3.9	609	47.0	+50%
HOLD	Julia Ross Recruitment	JRR	14/08/01	92	B	57.4	1.2	0.24	6	9.2	65	9.0	-20%
HOLD+	McPherson's Ltd	MCP	10/10/00	125	A	39.2	0.6	0.34	9	5.4	222	24.0	+97%
HOLD	Nufarm Limited	NUF	11/02/97	418*	B	155.3	0.8	0.34	9	5.7	317	99.3	-0%
HOLD	OAMPS Limited	OMP	15/05/01	132*	B	68.3	0.7	0.38	13	8.5	235	17.3	+91%
BUY	Skilled Engineering	SKE	12/03/02	126	A	86.4	0.8	0.23	13	6.3	158	10.0	+33%
HOLD	Toll Holdings	TOL	08/09/98	60*	B	275.4	0.7	1.24	23	1.6	608	29.0	+962%
HOLD	UXC Limited	UXC	11/01/00	55*	C	118.0	1.5	0.22	10	8.2	61	14.0	+36%
BUY	Villa World Ltd	VWD	11/06/02	68	A	102.9	1.0	0.35	6	12.2	74	5.0	+16%
HOLD	Vision Systems Ltd	VSL	10/11/98	69*	C	161.1	1.1	1.48	14	3.5	110	20.1	+89%
HOLD+	Volante Group Ltd	VGL	13/03/01	132	B	68.1	1.1	0.20	16	7.6	105	13.0	-11%

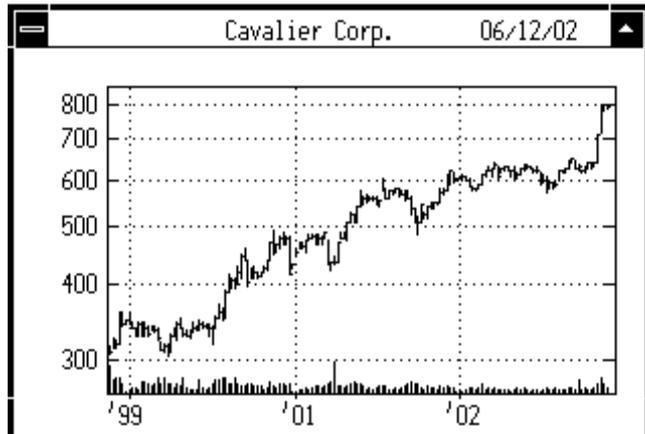
The average Total Return (i.e. both Capital Gains/Losses plus Dividends received) of all current investments from initial recommendation is +113.6%. This is equal to an average annual rate of +28.3%, based upon the length of time each position has been held.

The average annual rate of gain of ALL recommendations (both the 32 current and 117 closed out) is +28.9%, compared with a market gain of +8.7% (by the SRC Total Return Index).

CURRENT ADVICE is either Buy, Hold+, Hold, Hold- or Sell. Hold+ indicates the most attractive shares not rated as Buy. Hold- indicates relatively less attractive issues.

* Initial Recommendation Prices adjusted for Share Splits, Bonus and Cash Issues.

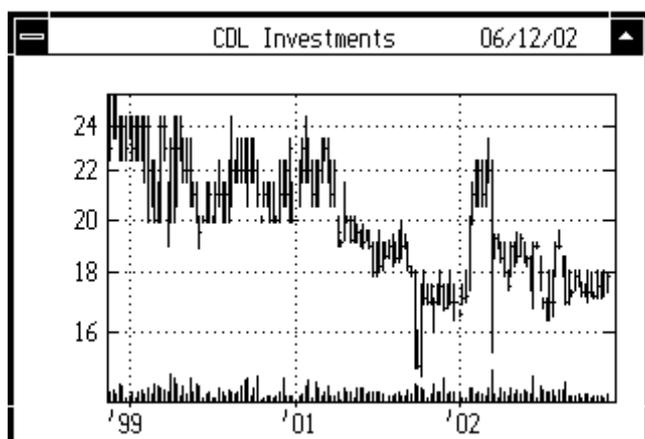
Recommended investments (Continued from Page 3) in the future, Cavalier is currently enjoying good trading conditions and offers investors both a high current income and the potential for further significant capital appreciation over the next year. "Hold+" for further gains.



While our investment in Cavalier Corporation has more than *tripled* in value (from both income and capital appreciation) we would remind investors that patience is often required to achieve these excellent returns. After initially recommending the shares at 312 cents in December 1995 the price steadily declined, losing over 40% of their value over the next two years until hitting a low of 186 cents in February 1998! Our successful long term investment in Michael Hill International also suffered a major set back at one stage. During the smaller companies boom of 1991 and 1992 Michael Hill shares rose six-fold in price, then lost 65% of that value over the next three years falling to a low of 94 cents! Shares in good companies, bought at the right price can make you rich - but the stockmarket is *very volatile* and even the best investments can fall significantly in price over the short to medium term! In fact, this type of volatility is the *rule*, not the *exception!* Diversify widely, follow a sound investment strategy based upon value and long term potential - and then stick with it!

Residential land developer, **CDL Investments**, should also be experiencing good trading conditions with the housing boom. As earlier reported, the company returned to profitability in the half year to 30 June with a profit of \$2,587,000 (1.4 cents per share) with strong operating cashflows of \$5.4 million.

Land development is a volatile business. So suffers



more than most businesses in a downturn, but also benefits more when housing construction is buoyant as at present. The company should therefore be experiencing higher revenues *and* higher margins - which would mean significantly higher profits. Dividends should be restored this financial year ending 31 December and are usually paid in April. "Buy".

Lyttelton Port Company and its unions have agreed to mediation talks over 24 hour manning at the port. The outcome may not be optimal (i.e. labour may be too expensive and too inflexible to allow the port to attract large container vessels) but the business remains a good cash generator and the shares are attractive for high income.

Renaissance Corporation reports that trading conditions have "tightened in recent weeks" and now expects to trade at a loss for the full year to 31 December.

The business may struggle to find a profitable niche, but could be liquidated for close to its net asset value of 31 cents, so the current share price of 26 cents is too low. The Conduit and Educational divisions should also be worth considerably more than the small asset investments in these businesses. "Hold".

Richina Pacific plans to make a 1 for 1 cash issue in February next year. The new shares will be issued at US 14.5 cents - although NZ investors will be able to pay in NZ dollars at an exchange rate set at the time - to raise US\$10.5 million (about NZ\$20.9 million).

For the six months to 30 June, Richina Pacific generated total revenues of \$233.0 million and a net profit of \$4,200,000 (5.8 cents per share). Since then the business has performed very strongly. Revenues for the *quarter* to 30 September were \$141.6 million with a net profit of \$4,046,000 (5.6 cents per share).

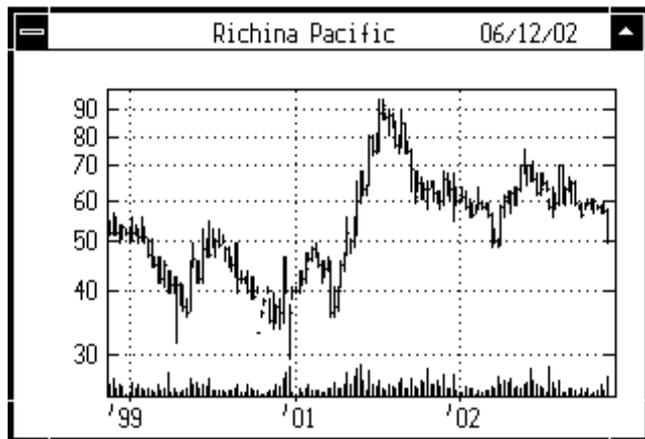
Shanghai Richina Leather earnings (before interest and tax) were \$6.2 million for the six months to June 2002 and a further \$5.2 million over the last quarter. Unfortunately, however, rapid growth produces *negative* cash flows as the operation needs to finance increased stocks and debtors as well as purchase new processing equipment. These operations are forecast to require additional investments of \$4.5 million for working capital and \$2.1 million for capital expenditure this year, and \$12.2 million for working capital and \$12.5 million for capital expenditure in 2003. Mainzeal construction will also require an additional \$7.3 million in working capital next year.

So overall Richina Pacific requires around \$7.3 million this year and \$32.5 million in 2003 to finance growth in its businesses. This will be partially funded from the sale of *Mobil-on-the-Park* for \$60 million, less the mortgage of \$33.5 million, related party loans of \$10.7 million and other borrowings of \$4.6 million, with the balance funded from the planned \$20.9 million cash issue.

Richina Pacific's earnings for the first nine months of this year total \$8,266,000 (11.4 cents per share), so at 50 cents the shares trade at a very low Price/Earnings ratio despite the rapid growth of its Shanghai Richina Leather business. Unfortunately, *growth* businesses require additional investments in working capital and processing equipment - which is difficult to finance when the share

price is so low. Pricing the cash issue so far below the current share price will benefit the major shareholder who is underwriting the issue - as they will pick up new shares cheaply if other shareholders do not take up their entitlement or sell their rights.

Richina Pacific shares will probably remain weak during the the rights trading period (i.e. until early March). In addition to taking up entitlements to new shares, investors can use this as a period to add to existing shareholdings in Richina Pacific. "Buy".



Wrightson reported increased revenues for the first four months of the current financial year but owing to unfavourable weather and "the most difficult spring season for farming in the last 20 years" November was a "poor trading month" and the company's revenues have now fallen behind the previous year. Expenses were also "considerably higher", mainly owing to \$2.5 million of "one-off costs on strategic initiatives and restructuring" that will "lower the overall cost base for the year". The director's have a "positive outlook" for the full year, as the company historically earns most of its profits in the second half of the financial year.

Profits to 31 December are expected to be about 50% lower at around \$3-3.5 million (2-2½ cents per share). While the full year outlook remains favourable, the stockmarket has reacted to the short term weakness in the rural sector and marked down Wrightson's share price.

After selling its Finance subsidiary in 1998, Wrightson has re-entered the Finance business. Being able to provide short term finance not only helps the company to make sales, but this business also provides a stable source of revenues and profits. The company is currently providing \$8 million in seasonal finance and this is expected to increase rapidly.

Wrightson Livestock Exports is seeking to significantly expand its "highly successful" cattle export business. 2,000 hectares of farmland has been leased for cattle finishing and quarantine, which will allow the company to double exports to 8,000 cattle annually within three years.

Wrightson shares trade on a very low Price/Sales ratio of 0.23, a very low Price/Earnings ratio of 7 and offer a gross Dividend Yield of 14.8%. The company is soundly financed, with little interest bearing debt, so remains an attractive investment despite short term weakness in the rural sector. "Buy" and Hold for current income and capital appreciation.



Australian Shares

(This section is in Australian currency, unless stated.)

Atlas Pacific is forecasting steady revenues of around \$11 million for the current financial year to 31 December 2002 - down on forecasts of \$15.7 million made by the company one year ago. Revenues are expected to rise to around \$13 million in 2003 - which is also down on the previous forecast of \$20 million. The 2003 profit will be "close to \$5 million" (5.7 cents per share) - which is significantly less than the previous forecast of \$9.7 million.

The company's new joint venture pearl farming interests will "increase pearl quantities in 2004 and beyond".

Partly the lower forecasts reflect "timing differences between pearl harvests and pearl sales" as Atlas Pacific carries forward more unsold stock to maximise long term revenues and profits from the sale of matched sets. Another factor is the company's "experience in relation to the value of the different categories of pearl" being produced - which in plain English means that current harvests appear to be of lower value pearls than previously. Finally, Atlas Pacific is now being more conservative in its estimates - which is to say that perhaps they were a bit *too optimistic* when making last year's forecasts. Our resident "conspiracy theorist" suggests that excessive optimism may have had something to do with boosting the share price ahead of the management/vendor options which expired last October. There have been nine *insider* sales over the last year as directors sold shares on-market to raise cash to exercise those options.

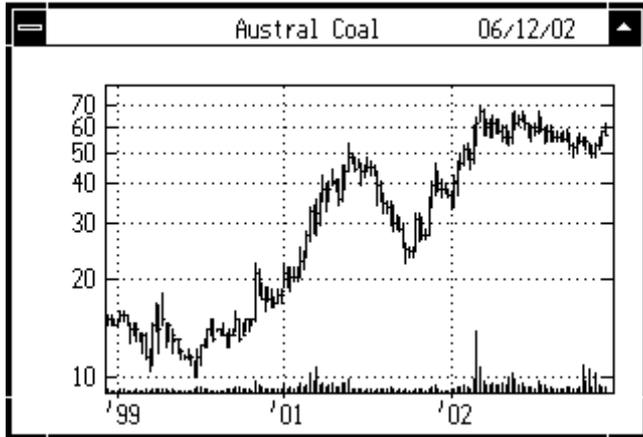
While the lower forecasts make it unlikely that Atlas Pacific shares will reach our estimated price of 95-110 cents in 2004-2005 (i.e. at full production and profitability) the shares are still an attractive investment. This is a very profitable, high cash generating business that offers a high dividend yield of 10.5%. Furthermore, the shares should still appreciate to at least 50-80 cents over the next 1½-2½ years, so offer a potential 30-100% gain. We have, however, downgraded the shares to a "Hold+" at this time.

Austral Coal's bankers have offered a new \$76 million facility that will replace its existing \$18 million bank facility. This will complete the financing of the Tahmoor North expansion and also allow Austral Coal to hedge its US dollar export revenues up to US\$105 million.

(Continued on Page 6)

Recommended Investments (Continued from Page 5)

To complete its expansion Austral Coal needs to invest a further \$64 million in three final contracts. **DBT Australia** has been selected as the preferred tenderer to provide longwall roof supports, an armoured face conveyor and stageloader, a pump station and electrical equipment. This will enable production capacity to double to four million tonnes per annum. **Joy Manufacturing** will provide a *Joy 7LS2* shearer. The longwall package and the shearer should be installed by December 2003 or January 2004. **Roberts & Schaefer Australia** has won the contract to upgrade the coal preparation plant by July 2003, increasing capacity from 550 tonnes per hour to 750 tonnes.



Biron Capital is predicting a profit of \$700,000 (1.8 cents per share) "before any provisions" for the six months to 31 December 2002.

The company does not intend to raise additional equity in the immediate future, with growth in the lending portfolio - possibly to \$30 million by June 2003 and \$50 million in 2-3 years - funded from bank borrowings and/or issuing debentures or establishing a mortgage trust to raise funds directly from investors.

Campbell Brothers lifted revenues 6.2% to \$180.0 million for the six months to 30 September, but profits fell 14.2% to \$5,130,000 (13.2 cents per share). The interim dividend will remain steady at 13.0 cents.

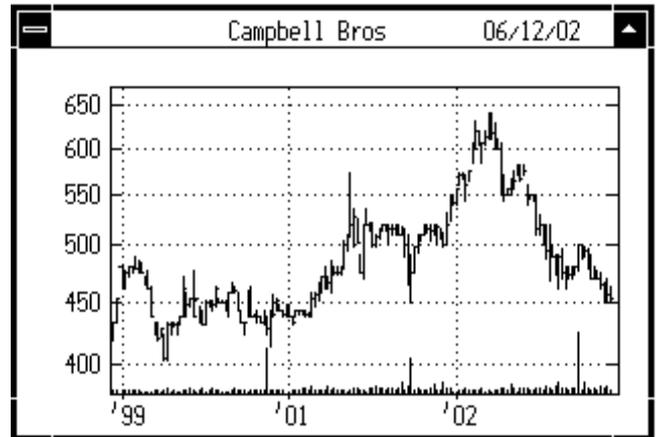
This first half decline in profits was signalled by the company five months ago, but the second half is showing "improved business performance" and the company now expects to "at least equal" last year's annual profits.

The **Consumer** division saw revenues down 3% to \$74.7 million while earnings fell 42% to \$2.8 million. The **Industrial** division lifted revenues 4% to \$50.6 million with earnings up 12% at \$3.4 million. **Laboratory Services** was the star performer with revenues 26% higher at \$54.2 million and profits 25% higher at \$7.4 million.

In October the Industrial division acquired **Albert Crocker & Son**, which distributes non-food consumables to the hospitality industry, for \$4.6 million.

While the Consumer and Industrial divisions are sound businesses, providing steady, low risk, cash flows and profits, it is the global Laboratory Services businesses that offer the best potential for growth and high profit margins. To date, this investment has not performed as well as we would have hoped. However, the shares have produced a steady dividend income and growth may

finally be emerging from the Laboratory Services business. "Hold".



Cellnet Telecommunications has reported revenues down 20% for the first four months of the current financial year. This downturn is worse than that number would suggest as the company expanded rapidly in the second half of the year to June 2002 - taking over mobile phone distribution for **Telecom NZ**, **AAPT Mobile**, **Vodafone** and **Digicall** - so revenues should have been considerably higher this year! This weak consumer demand is likely to be just a short term glitch - with the industry expecting total mobile phone sales for the year to June 2003 to be up on last year.

IT products now account for 32% of revenues so the company has changed its name to **Cellnet Group**.

Cellnet Group's upgraded warehouse is currently operating at just 51% capacity - so the business is capable of achieving "substantial future growth with little or no increase in operational costs" and is "in a strong position to capitalise on increased handset" sales.

In response to the announcement of lower revenues, Cellnet Group's shares plunged 40% to a low of 82 cents - but recovered after director JJ Goldberg purchased 2,045,000 shares on market for \$1.82 million (at an average price of 89 cents per share).

Cellnet Group's Managing Director M Brookman has resigned and been replaced with the company's other co-founder, S Harrison.

While we believe Cellnet Group is an efficient warehousing and distribution business that will ultimately be successful, we are reluctant to buy into *weak* shares - as they can often continue to drift lower or underperform the market. The current Strength Rating is -5.8%, ranked 51 (on a scale of 0-99). We therefore rate the shares a "Hold" at present, but will probably upgrade them to a "Buy" when the Strength Rating turns *positive*.

CSR's revenues for the six months to 30 September slipped 1.2% to \$3,725.0 million, but profits rose 15.3% to \$319,400,000 (34.0 cents per share). A steady 11.0 cents interim dividend will be paid.

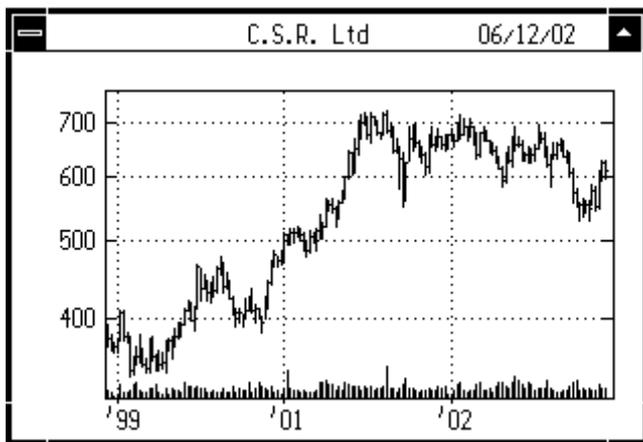
The company has announced general details of its de-merger plans. The group will be split into two companies early next year: **Rinker Group** and **CSR**. Rinker Group will consist of about two-thirds of the current group, with 85% of earnings coming from US operations (i.e. Rinker Materials) and 15% from Australian businesses (i.e. Readymix and Humes).

Rinker Group will be one of the ten largest heavy building materials companies in the world and “a disciplined, top quartile performer in its sector”. Based upon the current value of CSR shares, the market is pricing Rinker at only half the value of similar heavy building material companies. So as a separate company the Rinker’s value should rise strongly as the shares are re-rated and as it is “able to participate more effectively in the global consolidation of the industry”. Rinker is viewed as a *growth* stock that will be significantly re-rated by the market *or* will be an under-valued situation and likely yield a substantial capital gain as a takeover target.

The “new” CSR will continue to be a conglomerate with the group’s Building Products, Aluminium and Sugar. This company will be a high *income* investment, yielding around 7% plus full franking credits.

A \$10,000 investment in CSR shares today is likely to result in an approximate \$7,000 investment in Rinker Group and \$3,000 in the “new” CSR. The Rinker investment could grow to \$8,000-12,000 over the next year, while the high yield from CSR could see these shares increase in value to around \$3,500. So by splitting these businesses, our investment in this group could increase in value by about 15-55% over the next year! We have upgraded CSR shares to “Hold+”.

CSR has also moved to improve profitability from its cement business by merging **Australian Cement Holdings** (ACH), a NSW and Victorian based joint venture 50% owned by CSR and **Hanson plc**, with **Queensland Cement**. CSR will own a 25% interest in this merged group which will be the largest cement group in Australia, producing three million tonnes of cement annually with revenues of \$750 million. There is little overlap between these businesses, but the Queensland business has excess capacity while the NSW and Victorian markets have excess demand. Merging the businesses will enable excess Queensland production to be diverted away from low value exports and enable ACH to avoid the large capital investment needed to increase capacity. Cement prices had been stable for over a decade but Queensland Cement recently announced a 15% price increase from early next year which will improve profitability for these businesses.



Julia Ross Recruitment has warned that first quarter revenues were down 9% with earnings down 31%. The first half profit is predicted to be “up to 50%

lower” than last year. The downturn is blamed on the temporary recruitment market with competition squeezing profit margins and higher costs from “superannuation, insurance and other overheads”.

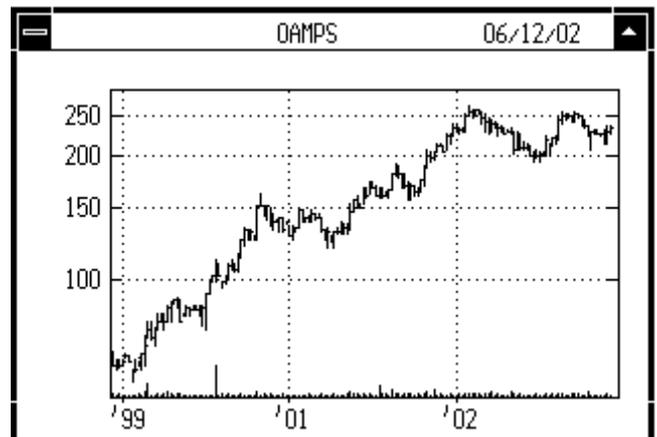
Temporary office staff make up a large part of Julia Ross Recruitment’s business although it is now seeking to expand its permanent recruitment business. The downturn in the temporary market is expected to be “short term” although may always generate lower profit margins than in the past. While profits will be down for the full year, the directors “presently intend” to maintain the annual 6.0 cents dividend rate.

Julia Ross Recruitment has invested heavily in technology over the last year to help run its business efficiently. The long term success (or otherwise) of the company depends upon management’s ability to apply that technology to create a competitive advantage that will allow it to expand - either by winning market share from weaker competitors or from acquiring those businesses cheaply. Unfortunately, a lower share price means the company cannot finance acquisitions with shares, while lower profits leave less money for cash acquisitions. Fortunately, the company is soundly financed so could borrow to fund expansion while potential acquisitions in this service industry trade at low prices relative to their cash flows and earnings. So acquisitions will earn a much higher return than the interest cost on their purchase price.

Expansion of the permanent recruitment operations will be helped by the purchase of Sydney based **Balance Accounting Professionals** for \$100,000 in cash immediately and up to another \$400,000 based on future performance.

As with Cellnet Group, we have downgraded Julia Ross Recruitment shares to “Hold” (from “Hold+”) owing to their Relative Strength rating of -11.3%, ranked 67. However, if the company maintains its 6.0 cents annual dividend then investors will be rewarded with a 9.2% dividend yield for holding on through the current downturn.

OAMPS has now made its 1 for 2 bonus issue - which lowers our initial recommendation price to 132 cents per share.



UXC has increased its shareholding in **IT & E** from 8.79% to 19.96% after issuing 2,334,625 UXC shares to an undisclosed investor in exchange for 9,338,500 IT & E shares.

Computer Selections of NZ Shares based upon our Comprehensive Share Selection Criteria

See "Market Analysis" issues 298-301 or the Reprint sent to all new subscribers for details. These shares are not formal "buy" and "sell" recommendations, but the "Under-Valued", "Best Performing" and "Income" shares should be considered for purchase, while the "Over-Valued" and "Worst Performing" shares can generally be sold to release money for re-investment in more attractive shares.

Company	STRENGTH RATING										Market Cap'n	Company	STRENGTH RATING										Market Cap'n		
	Share Price	Cur. rent	4-Wk Chg.	Rank 0-99	Brokers Following	Price to NTA	Return on Equity	Vola-til-ity	Price Earn. Ratio	Divi- Yield			Price Sales Ratio	Share Price	Cur. rent	4-Wk Chg.	Rank 0-99	Brokers Following	Price to NTA	Return on Equity	Vola-til-ity	Price Earn. Ratio		Divi- Yield	Price Sales Ratio
UNDER-VALUED SHARES: Lowest Price/Sales, Yld > 0, Rel Strength > 0													OVER-VALUED SHARES: Highest Price/Sales Ratios, Relative Strength < 0												
Col Motor Co	310	+4.4	+1.1	19	-	1.1	10	0.6	11	10.1	0.23	86	Opio Forestry	52	-1.1	-0.3	45	-	0.6	-	0.7	NE	Nil	9.32	8
Allied Farmers	213	+2.3	+0.4	27	-	1.3	19	1.0	7	11.2	0.23	23	Brierley Invest	57	-0.4	-3.1	41	1	0.5	1	1.1	36	Nil	5.29	806
Wrightsons Ltd	116	+8.4	-2.4	8	1	1.3	18	1.3	7	14.8	0.23	156	Sky Network TV	317	-9.9	-1.1	78	5	22.5	-	0.6	NE	Nil	4.23	1,234
Williams Kettle	400	+4.8	+1.3	17	-	1.2	15	0.6	8	8.6	0.32	59	Ports Auckland	620	-1.8	+0.2	49	5	1.9	13	0.5	15	7.2	4.15	657
Fletcher Build.	325	+5.9	+2.4	15	5	2.0	16	1.0	13	6.4	0.38	1,126	Evergreen	51	-5.5	+0.6	65	-	0.6	5	0.7	11	Nil	3.40	74
CDL Hotel NZ	24	+0.5	-1.1	35	-	0.4	5	1.9	8	4.4	0.41	84	NZ Oil and Gas	37	-4.6	+5.1	62	-	1.3	-	0.9	NE	Nil	2.95	43
Hellaby Hold.	304	+6.7	+1.9	13	1	1.8	17	0.7	11	8.8	0.44	151	South Port NZ	159	-0.9	-1.8	43	-	3.2	20	0.6	16	6.1	2.94	42
Nuplex Indust	337	+2.0	+1.7	28	3	1.6	15	0.8	11	7.5	0.48	201	Vending Tech.	180	-7.2	+1.0	72	-	3.4	34	0.7	10	Nil	2.61	54
Dorchester Pac	155	+5.1	-3.4	17	-	1.5	18	1.1	8	6.4	0.65	30	Lyttelton Port	141	-8.4	-1.6	74	3	5.1	58	0.5	9	11.6	2.32	144
Kirkcaldie & St	399	+1.4	-0.6	31	-	1.8	10	0.7	19	4.5	0.75	30	Contact Energy	395	-1.0	-0.2	44	6	1.4	8	0.5	19	7.2	2.17	2,386
Steel & Tube	305	+6.2	+1.3	14	3	2.2	15	0.9	15	9.3	0.81	268	Powerco Limited	156	-6.5	-2.8	70	2	0.8	8	0.6	11	12.5	2.13	347
Hallenstein G.	270	+2.1	-0.2	27	3	3.7	27	0.7	14	10.2	0.90	159	AMP Limited	1345	-15.3	+0.5	85	-	1.3	7	0.4	18	4.6	2.09	15,178

BEST PERFORMING SHARES: Strongest Shares, P/E < 20, P/S < 1.0

Sky City Leisur	170	+18.2	-7.5	2	-	17.5	-	1.4	15	Nil	0.19	11
Wrightsons Ltd	116	+8.4	-2.4	8	1	1.3	18	1.1	7	14.8	0.23	156
Pacific Retail	280	+7.8	-6.1	10	1	1.9	22	0.9	8	Nil	0.32	142
Hellaby Hold.	304	+6.7	+1.9	13	1	1.8	17	0.6	11	8.8	0.44	151
Steel & Tube	305	+6.2	+1.3	14	3	2.2	15	0.7	15	9.3	0.81	268
Fletcher Build.	325	+5.9	+2.4	15	5	2.0	16	0.8	13	6.4	0.38	1,126
Dorchester Pac	155	+5.1	-3.4	17	-	1.5	18	0.9	8	6.4	0.65	30
Williams Kettle	400	+4.8	+1.3	17	-	1.2	15	0.5	8	8.6	0.32	59
Col Motor Co	310	+4.4	+1.1	19	-	1.1	10	0.5	11	10.1	0.23	86
Kingsgate Int'l	18	+3.8	-7.0	21	-	0.5	7	1.8	7	Nil	0.93	71
Allied Farmers	213	+2.3	+0.4	27	-	1.3	19	0.8	7	11.2	0.23	23
Hallenstein G.	270	+2.1	-0.2	27	3	3.7	27	0.5	14	10.2	0.90	159
Nuplex Indust	337	+2.0	+1.7	28	3	1.6	15	0.7	11	7.5	0.48	201
Kirkcaldie & St	399	+1.4	-0.6	31	-	1.8	10	0.6	19	4.5	0.75	30
CDL Hotel NZ	24	+0.5	-1.1	35	-	0.4	5	1.5	8	4.4	0.41	84

INCOME SHARES: Highest Yields, Capitalisation > NZ\$100 million

Tower Limited	166	-23.4	-8.4	91	6	0.3	9	0.6	4	18.1	0.26	313
Wrightsons Ltd	116	+8.4	-2.4	8	1	1.3	18	1.0	7	14.8	0.23	156
NZ Refining Co	1800	+2.4	+0.6	26	1	1.3	11	0.2	12	14.5	2.42	432
Powerco Limited	156	-6.5	-2.8	70	2	0.8	8	0.6	11	12.5	2.13	347
Lyttelton Port	141	-8.4	-1.6	74	3	5.1	58	0.5	9	11.6	2.32	144
Pyne Gould G.	110	-2.7	+0.1	55	-	1.1	12	0.7	9	11.5	0.43	110
Restaurant Brds	136	-9.3	-3.9	76	4	3.1	29	0.8	11	11.0	0.49	127
Hallenstein G.	270	+2.1	-0.2	27	3	3.7	27	0.5	14	10.2	0.90	159
Skellmax Indust	103	-4.7	+1.0	63	-	5.7	69	0.9	8	10.1	1.02	103
Steel & Tube	305	+6.2	+1.3	14	3	2.2	15	0.7	15	9.3	0.81	268

WORST PERFORMING SHARES: Weakest Shares, P/S Ratio > 0.25, Yield < Twice Average

Tranz Rail Hold	98	-30.8	-0.4	92	4	0.4	-	0.7	NE	Nil	0.26	220
Cert Organics	25	-25.1	+1.3	92	-	-	-	1.7	NE	Nil	N/A	6
Summit Gold Ltd	6	-22.4	-4.9	90	-	1.3	-	2.0	NE	Nil	N/A	5
Software of Exc	125	-21.3	-2.4	89	-	4.1	-	0.7	NE	Nil	1.94	27
Genesis Res.	151	-21.2	-0.7	88	-	0.8	-	0.8	NE	Nil	1.97	39
Blis Technology	37	-18.0	-0.3	85	-	4.5	-	1.2	NE	Nil	N/A	23
AMP Limited	1345	-15.3	+0.5	85	-	1.3	7	0.4	18	4.6	2.09	15,178
Advantage Group	27	-15.2	-2.2	84	3	1.4	14	1.4	10	Nil	0.37	23
Elect Trans Tec	4	-12.0	+4.3	82	-	-	-	3.2	NE	Nil	N/A	8
GDC Communicat.	131	-11.4	+6.9	81	-	3.1	22	0.8	14	4.0	0.72	50
Sky Network TV	317	-9.9	-1.1	78	5	22.5	-	0.6	NE	Nil	4.23	1,234
Ind Newspapers	295	-9.4	-0.5	76	4	1.1	4	0.5	25	4.3	1.43	1,246
AXA Asia Pac.	270	-8.3	+0.1	73	-	1.2	12	0.5	10	4.4	0.45	4,759
Eldercare NZ	18	-7.6	+1.7	73	-	0.8	-	1.5	NE	Nil	0.86	35
Vending Tech.	180	-7.2	+1.0	72	-	3.4	34	0.6	10	Nil	2.61	54
Ozzy (Tortis)	195	-6.7	-0.2	71	-	-	-	0.6	NE	Nil	N/A	64
FC - Forests	95	-6.6	-1.1	71	6	2.3	33	1.0	7	Nil	0.80	528

"Neglect" Ratings of NZ Shares

"Neglected" Shares = 1-6 Brokers, "Moderately Followed" Shares = 7-8 Brokers, "Widely Followed" Shares = 9 or more Brokers.

Company	No. of Brokers Following	Market Capitalisation (NZ\$ Mill.)	Company	No. of Brokers Following	Market Capitalisation (NZ\$ Mill.)	Company	No. of Brokers Following	Market Capitalisation (NZ\$ Mill.)	Company	No. of Brokers Following	Market Capitalisation (NZ\$ Mill.)
AMP NZ Office	4	440	F & P Health.	6	1,047	Mainfreight Grp	3	79	Sanford Limited	2	474
Advantage Group	3	23	FC - Forests	6	528	Michael Hill	2	219	Sky City Ltd	7	1,561
Air New Zealand	5	1,489	Fletcher Build.	5	1,126	NGC Holdings	3	1,062	Sky Network TV	5	1,234
Akd Int Airport	6	1,607	Guinness Peat	2	919	NZ Refining Co	1	432	Steel & Tube	3	268
Brierley Invest	1	806	Hallenstein G.	3	159	Northland Port	1	124	Telecom Corp	8	8,711
Briscoe Group	6	557	Hellaby Hold.	1	151	Nuplex Indust	3	201	Tourism Hold.	3	98
Cap Properties	4	150	Horizon Energy	1	95	Owens Group Ltd	3	46	Tower Limited	6	313
Carter Holt	9	3,043	Ind Newspapers	4	1,246	Pacific Retail	1	142	Trans-Tasman	1	156
Cavalier Corp	1	250	Infratil NZ	1	331	Port Tauranga	5	584	Tranz Rail Hold	4	220
Col FS Property	3	160	Kiwi Property	5	475	Ports Auckland	5	657	Trust Power Ltd	2	654
Contact Energy	6	2,386	Lion Nathan Ltd	1	3,205	Powerco Limited	2	347	Warehouse Group	7	2,174
DB Breweries	1	305	Lyttelton Port	3	144	Property F Ind.	6	163	Waste Mgmt NZ	6	280
F & P Appliance	8	685				Restaurant Brds	4	127	Wrightsons Ltd	1	156

Computer Selections of Australian Shares based upon our Comprehensive Share Selection Criteria

See "Market Analysis" issues 298-301 or the Reprint sent to all new subscribers for details. These shares are not formal "buy" and "sell" recommendations, but the "Under-Valued", "Best Performing", "Income" and "Insider Buying" shares should be considered for purchase, while the "Over-Valued", "Worst Performing" and "Insider Selling" shares can be sold to release money for re-investment in more attractive shares.

Company	Share Price	STRENGTH RATING			Insider Buy-Sell	Brokers Following	Price to NTA	Return on Equity	Volatility	Price/Earn. Ratio	Dividend Yield	Price/Sales Ratio	Market Cap'n
		Cur. rent	4-Wk Chg.	Rank									
OVER-VALUED SHARES: Highest Price/Sales Ratios, Relative Strength < 0													
Pro Medicus Ltd	104	-4.5	-1.5	46	0.0	110.4	48	0.5	22	2.4	9.99	104	
Repcol Ltd	47	-4.8	+1.9	47	2.0	-	-	0.9	62	Nil	9.57	51	
Chrome Global	3	-1.3	+0.4	35	0.0	-	-	1.7	NE	Nil	8.95	10	
Herald Resource	40	-11.1	-2.6	66	0.0	-	-	0.7	NE	Nil	8.81	21	
Gradipore Ltd	99	-23.2	-2.6	88	9.1	1.2	-	0.8	NE	Nil	8.72	47	
Solbec Pharm.	11	-18.3	+0.9	81	0.2	-	-	1.2	NE	Nil	8.59	18	
Dolomatrix Intl	16	-17.4	+4.0	79	2.1	-	-	1.7	NE	Nil	8.56	12	
Novogen Ltd	218	-2.1	+8.1	38	0.1	2	3.6	-	0.9	NE	Nil	8.56	208
Go Connect Ltd	9	-0.3	+2.2	30	0.0	-	-	1.1	NE	Nil	8.41	6	
Bougainville Co	14	-5.5	-4.7	49	0.0	-	-	0.9	13	7.6	8.19	56	
Anadis Limited	22	-18.7	+2.0	82	0.1	-2.2	-	1.2	NE	Nil	8.09	18	
Westfield Hold.	1379	-7.6	+1.8	56	3.5	7	5.3	16	0.5	33	1.5	8.04	7,772
Cochlear Ltd	3831	-3.6	+0.3	43	1.0	1031.9	64	0.3	50	1.3	7.85	2,012	
Renew. Energy	8	-38.6	+2.5	99	3.0	1	0.8	-	1.4	NE	Nil	7.37	12
Aust Net.com	17	-2.5	-0.9	39	0.0	-0.3	-	0.8	NE	Nil	7.33	8	
Cockatoo Wines	58	-7.0	-2.3	54	4.0	-2.9	14	0.6	21	Nil	6.94	27	
Catuity	370	-13.8	-1.2	72	5.0	-3.7	-	0.8	NE	Nil	6.71	30	
Wilson Invest.	117	-1.5	+0.3	36	2.0	-1.0	-	0.4	NE	3.2	6.64	15	
Loftus Capital	59	-0.2	-0.3	30	12.0	-0.8	-	0.5	NE	2.5	6.63	22	
Neighbourhood C	9	-16.2	+2.6	77	1.0	-	-	1.5	NE	Nil	6.44	15	
Infomedia Ltd	85	-5.3	+2.1	49	0.0	5	8.5	41	0.6	21	3.2	6.20	276
Gold Mines Sard	35	-5.7	+2.5	50	0.1	-3.5	-	0.7	NE	Nil	6.12	92	
Psiron Limited	11	-9.8	+13.1	62	1.0	-	-	1.3	NE	Nil	5.90	7	
Sally Malay Min	27	-11.7	-3.3	68	0.0	-	-	0.8	NE	Nil	5.89	11	
Macquarie Infra	328	-1.0	+2.9	33	0.2	7	1.6	13	0.3	12	2.8	5.77	6,209
Baxter Group	103	-1.3	-2.2	35	0.0	-	-	0.8	19	Nil	5.70	34	
Aust Stock Exch	1140	-6.6	-0.9	53	0.0	6	6.0	31	0.7	20	3.6	5.52	1,162
Iress Mkt Tech	183	-11.7	-2.1	68	1.0	3	9.1	48	0.4	19	3.9	5.51	185
Perilya Mines	50	-14.4	-8.1	73	0.0	-	-	0.5	NE	Nil	5.45	60	
Platinum Capl	204	-1.9	-3.1	37	0.7	-1.2	11	0.5	11	7.4	5.31	226	
Meditech Rsrch	12	-26.6	-1.5	92	4.0	-	-	1.3	NE	Nil	5.04	9	
SSH Medical Ltd	10	-26.9	+0.3	92	0.0	-	-	1.5	1	Nil	4.97	8	
Brickworks Ltd	619	-2.3	-1.0	39	12.0	2	1.5	10	0.4	16	2.5	4.89	815
Institute Drug	237	-14.9	+2.2	74	3.0	1	4.7	20	0.8	24	2.1	4.76	101
Ecorp Limited	42	-1.0	+2.4	33	0.0	-4.2	-	1.5	NE	Nil	4.54	292	
BresaGen Ltd	50	-27.4	+3.7	93	1.0	-1.7	-	0.7	NE	Nil	4.50	27	
World.net Serv.	25	-4.3	-1.2	46	0.0	-2.5	-	0.7	NE	Nil	4.36	14	
Minerals Corp.	19	-14.7	-0.3	74	1.4	-1.0	-	0.8	NE	Nil	4.35	38	
Optiscan Image	37	-25.6	-3.0	91	0.1	1	1.9	-	1.3	NE	Nil	4.28	30
Autogen Limited	47	-10.8	+2.7	65	0.0	-4.7	-	0.6	NE	Nil	4.23	18	
Hunter Hall Int	399	-7.3	-1.1	55	4.7	-10.0	45	0.8	22	4.9	4.16	91	
Reef Casino Trt	138	-3.0	-0.2	41	0.0	-0.8	10	0.7	8	8.9	4.07	68	
Amrad Corp.	40	-23.7	+2.3	89	16.0	1	0.8	-	0.6	NE	Nil	4.03	52
Perp Trust Aust	3115	-12.7	-2.8	70	5.1	8	6.4	41	0.3	16	5.1	3.99	1,181
Bank of W.Aust	392	-5.0	-0.3	48	0.0	9	2.0	13	0.5	15	4.5	3.94	2,238
Reed Resources	18	-2.7	-7.5	40	0.0	-	-	1.1	NE	Nil	3.92	6	
Biota Holdings	47	-6.5	+0.8	53	0.0	2	1.2	-	1.3	NE	Nil	3.86	35
Oriel Comm.	3	-17.7	-1.1	80	0.0	-	-	1.7	NE	Nil	3.86	10	
Bass Strait Oil	351	-0.6	+1.3	32	0.0	-	-	0.2	8	12.3	3.72	154	
Horizon Oil NL	9	-16.3	-7.5	78	0.0	-	-	1.3	NE	Nil	3.69	33	

WORST PERFORMING SHARES: Weakest Shares, P/S Ratio > 0.25, Yield < Twice Average													
Hire Intell.	12	-45.4	+1.8	99	1.1	-1.2	5	1.0	27	Nil	1.76	9	
Silex Systems	57	-40.5	+2.8	99	0.2	1.4	-	1.0	NE	Nil	N/A	72	
Renew. Energy	8	-38.6	+2.5	99	3.0	1	0.8	-	1.3	NE	Nil	7.37	12
Argosy Minerals	12	-37.2	+1.3	98	0.0	-	-	1.3	NE	Nil	N/A	11	
Selwyn Mines	25	-35.4	-2.4	97	0.6	-	-	0.9	21	Nil	0.39	24	
Acclaim Explor	4	-35.2	-0.8	97	2.0	-	-	2.2	NE	Nil	N/A	8	
Quadtel Limited	1	-35.1	-1.0	97	0.0	-	-	2.5	NE	Nil	0.28	5	
RMG Limited	4	-34.9	+3.3	97	2.0	-	-	1.6	NE	Nil	0.46	24	
Axon Instrument	19	-34.5	-1.4	97	0.0	2	1.0	2	1.4	61	Nil	1.29	91
Envirostar E.	9	-33.8	+1.9	97	0.1	-0.9	-	1.0	NE	Nil	N/A	5	
Matrix Oil NL	4	-33.3	+1.5	96	0.0	-	-	1.6	NE	Nil	0.82	19	
Gro Pep Limited	51	-32.8	+1.2	96	2.1	-1.0	-	0.7	NE	Nil	2.19	22	
Quadrant Irid.	10	-31.8	-1.7	96	0.0	-0.2	-	1.5	NE	Nil	0.98	6	
Compass Res	14	-31.3	-5.5	96	0.0	-	-	1.0	NE	Nil	N/A	6	
E.R.G.	11	-30.5	-2.8	95	1.1	2	-	1.6	NE	Nil	0.32	97	
Horizon Energy	9	-30.3	+3.4	95	4.0	1	0.2	0	1.3	75	Nil	N/A	30
Kaz Group Ltd	22	-29.6	+1.7	95	3.0	4	2.2	13	1.4	17	3.0	0.69	176
Anaconda Nickel	18	-29.3	-5.6	94	0.1	-	-	1.4	NE	Nil	0.39	83	
Orbital Engine	17	-29.1	-1.1	94	3.0	1	-	1.2	NE	Nil	1.16	60	
Data & Commerce	9	-29.0	-1.5	94	14.2	-	-	1.6	NE	Nil	0.99	6	
Kalrez Energy	1	-28.3	+4.3	94	0.0	-	-	4.2	NE	Nil	0.47	5	
BresaGen Ltd	50	-27.4	+3.7	93	1.0	-1.7	-	0.7	NE	Nil	4.50	27	

Company	Share Price	STRENGTH RATING			Insider Buy-Sell	Brokers Following	Price to NTA	Return on Equity	Volatility	Price/Earn. Ratio	Dividend Yield	Price/Sales Ratio	Market Cap'n	
		Cur. rent	4-Wk Chg.	Rank										
Advanced Engine	4	-27.1	+0.8	93	0.0	-	-	1.6	NE	Nil	2.31	6		
Hansen Tech.	31	-26.9	+8.1	93	2.0	1	-	1.3	NE	3.2	N/A	29		
SSH Medical Ltd	10	-26.9	+0.3	92	0.0	-	-	1.4	1	Nil	4.97	8		
Peptech Limited	93	-26.7	-9.5	92	2.0	1	3.1	-	0.7	NE	Nil	N/A	142	
Metal Storm Ltd	50	-26.7	-0.7	92	0.1	-	-	0.4	NE	Nil	N/A	219		
Meditech Rsrch	12	-26.6	-1.5	92	4.0	-	-	1.2	NE	Nil	5.04	9		
Intellect Hold	31	-26.0	+1.3	92	0.3	1	3.1	32	1.0	9	Nil	0.75	66	
China Converg.	0	-25.8	+1.6	92	0.0	-	-	5.9	NE	Nil	N/A	6		
Pinnacle VRB	13	-25.7	+2.8	91	0.0	-	-	1.0	3	Nil	N/A	8		
Optiscan Image	37	-25.6	-3.0	91	0.1	1	1.9	-	1.2	NE	Nil	4.28	30	
Sthn Pacific	25	-25.0	-5.5	91	0.0	-	-	0.9	NE	Nil	N/A	95		
Advantage Tele.	14	-25.0	-5.1	91	2.0	-	-	0.8	NE	Nil	2.49	16		
Snowball Group	32	-24.5	+1.0	90	0.0	-	-	0.9	NE	Nil	1.82	10		
Redflex Holding	49	-24.5	+3.7	90	0.4	-0.8	1	0.8	1	0.8	75	Nil	0.82	22
Hutchison Tel.	26	-24.4	-3.0	90	1.0	6	-	1.4	NE	Nil	0.37	173		
Poltech Int'l	65	-24.4	+0.6	90	5.0	-2.2	-	0.7	NE	Nil	1.30	13		
Travel.com.au	14	-24.3	-16.4	89	0.0	-0.7	-	1.1	NE	Nil	0.54	8		
Quitrak Netwks	2	-24.0	+1.1	89	15.4	-	-	2.0	NE	Nil	1.41	21		
Thundelarra Exp	26	-23.8	-1.1	89	6.4	-	-	0.8	NE	Nil	N/A	11		
Amrad Corp.	40	-23.7	+2.3	89	16.0	1	0.8	-	0.6	NE	Nil	4.03	52	
Equity 1 Res.	3	-23.4	+2.2	89	0.0	-	-	2.3	NE	Nil	N/A	7		
CSL Limited	1960	-23.4	+1.6	88	8.1	7	10.9	43	0.4	25	1.7	2.30	3,111	
Energy Develop.	223	-23.4	-4.8	88	7.1	5	0.7	6	0.5	12	1.2	2.20	256	
Sanford Limited	16	-23.3	-1.6	88	0.0	-1.6	-	1.1	NE	Nil	0.30	8		
Minotaur Res.	97	-23.3	+0.4	88	0.0	-	-	1.5	NE	Nil	N/A	24		
Antisense T.	7	-23.2	-4.0	88	0.0	-	-	1.2						

"Neglect" Ratings of Australian Shares

"Neglected" Shares = 1-4 Brokers, "Moderately Followed" Shares = 5-10 Brokers, "Widely Followed" Shares = 11 or more Brokers.

Company	No. of Brokers Following Company	Market Capitalisation (A\$ Mill.)	Company	No. of Brokers Following Company	Market Capitalisation (A\$ Mill.)	Company	No. of Brokers Following Company	Market Capitalisation (A\$ Mill.)	Company	No. of Brokers Following Company	Market Capitalisation (A\$ Mill.)
A.P. Eagers	1	83	Clough Limited	1	196	Iress Mkt Tech	3	185	O.B.E. Insur.	9	4,735
AMP Diver. Prop	6	1,382	Coal & Allied	2	2,104	James Hardie	8	2,931	Qantas Airways	12	6,245
AMP Ind Prop Tr	4	402	Coates Hire	5	376	Jubilee Mines	2	177	Queens'd Cotton	2	83
AMP Ltd	8	13,705	CocaCola Amatil	11	3,763	Julia Ross Rec.	2	37	RG Capt'l Radio	3	122
AMP Office Trt	4	1,043	Cochlear Ltd	10	2,012	Jupiters	5	1,011	Ramsay Health	9	440
AMP Shop Centre	6	1,039	Coles Myer	14	7,558	K&S Corporation	2	83	Rebel Sport	1	163
ANZ Bank	14	27,182	Collection Hse	7	258	Kaz Group Ltd	4	176	Reece Australia	1	619
APN News Media	12	1,290	Colorado Group	3	237	Keycorp Ltd	1	93	Renew. Energy	1	12
AWB Limited	4	984	Com'wealth Bank	10	34,333	Leighton Hold	8	2,475	Ridley Corp.	3	371
AXA Asia Pac	11	4,336	Commander Comm.	2	116	Lend Lease Corp	7	4,302	Rio Tinto Ltd	12	16,955
Adacel Tech.	1	37	Computer Share	7	1,065	Lihir Gold	9	1,348	Roc Oil Company	2	152
Adcorp Aust.	2	50	Cons Rutile	1	151	M.I.M. Holdings	12	3,037	Rock Build Soc.	1	50
Adelaide Bank	8	637	Corp Express	7	895	M.Y.O.B. Ltd	2	158	Rural Press Ltd	6	558
Adelaide Bright	3	606	Count Financial	2	90	MTM Entert'ment	1	19	SMS Mgmt & Tech	1	106
Adsteam Marine	6	405	Crane Group	5	410	Macarthur Coal	2	176	STW Comm Group	2	400
Adtrans Group	1	62	Cranswick Wines	1	38	Macquarie C'Wde	6	664	Santos Ltd	9	3,534
Ainsworth Game	3	39	DCA Group Ltd	2	207	Macquarie Good.	5	1,145	SecureNet Ltd	1	66
Alesco Corp Ltd	2	144	David Jones	8	427	Macquarie G Mgt	1	304	Servcorp Ltd	2	108
Alintagas Ltd	6	688	Deutsche Div Tr	6	1,107	Macquarie Leis.	2	103	Seven Network	12	1,311
Altium Limited	4	99	Deutsche Ind Tr	4	517	Macquarie Off.	6	1,019	Sigma Company	6	607
Amalgamated Hld	1	298	Deutsche Office	6	1,435	Macquarie Infra	7	6,209	Silex Systems	2	72
Ambri Limited	1	45	Downer EDI Ltd	6	517	Macquarie Bank	9	4,646	Simsmetal Ltd	4	668
Amcor Ltd	9	6,818	E.R.G.	2	97	Mayne Group Ltd	10	2,478	Skilled Eng.	3	136
Amrad Corp.	1	52	ETRADE Aust.	1	32	McGuigan Simeon	6	436	Smorgon Steel	5	933
Anaconda Nickel	1	83	Ellex Medical	1	24	Mermaid Marine	1	17	Solution 6	3	92
Aristocrat	8	2,385	Emperor Mines	2	71	Metabolic Phar.	2	110	Sonic Health	7	1,649
Auspine Ltd	1	132	Energy Develop.	5	256	Metcash Trading	5	1,198	Sons of Gwalia	7	362
Aust Pipeline	6	612	Energy Resource	1	217	Mia Group Ltd	6	481	Soul Pattinson	1	1,236
Aust Pharm. Ind	7	531	Envestra	5	663	Millers Retail	6	410	Southcorp Ltd	10	3,423
Aust Gas Light	9	4,444	EservGlobal Ltd	1	16	Mirvac Group	7	2,554	Spotless Group	2	1,053
Aust Agricult.	2	152	Evans & Tate	2	54	Mosaic Oil NL	1	42	St George Bank	10	8,916
Aust Stock Exch	6	1,162	FKP Limited	2	156	Murchison Un.	1	4	Stargames Ltd	3	100
Aust W'wide Exp	2	193	Fairfax (John)	12	2,271	Nat'l Aust Bank	11	50,842	Starpharma Pool	2	22
Aust Magnesium	1	79	Fantastic Hold.	3	133	Nat'l Telecoms	2	74	Sthn Cross Brd.	7	469
Aust Infra.	3	239	Flight Centre	3	2,013	Nat'l Foods	6	1,007	Sthn Star	1	57
Austal Limited	4	168	Foodland Assoc	8	1,701	Neverfall Spr.	5	197	Stockland	7	4,036
Austar United	4	125	Foster's Group	13	9,403	Newcrest Mining	9	1,704	Stockford Ltd	1	14
Austereo Group	9	626	Freedom Group	7	201	News Corporatio	7	25,363	Strathfield Grp	1	38
Australand Hold	4	724	Futuris Corp.	7	775	Normandy NFM	3	1,513	Suncorp-Metway	10	5,746
Austrim Nylex	1	44	G.U.D. Holdings	1	219	Norwood Abbey	1	53	Sydney Aquarium	2	88
Axon Instrument	2	91	GWA Internat'l	4	689	Novogen Ltd	2	208	Symex Holdings	2	79
BHP Billiton	11	37,476	Gandel Retail	7	1,817	Novus Petroleum	3	189	TAB Ltd	7	1,354
BRL Hardy Ltd	9	1,168	Gasnet Aust Trt	2	265	Nufarm Limited	3	492	Tabcorp Holding	6	3,886
Bank of W.Aust	9	2,238	General Prop Tr	8	5,454	OPSM Group Ltd	4	442	Tap Oil	5	222
Baycorp Advant.	6	417	Globe Int'l Ltd	2	203	Objective Corpo	1	25	Technology One	5	89
Bendigo Bank	7	978	Goodman Fielder	9	1,797	Oil Search Ltd	7	718	Telemedia Serv.	4	0
Beston Wine Ind	1	33	Graincorp	3	393	Onesteel Ltd	6	905	Telstra	13	29,278
Billabong Int'l	9	1,355	Grand Hotel	4	121	Optiscan Image	1	30	Tempo Services	7	185
Biota Holdings	2	35	Gribbles Group	3	249	Orbital Engine	1	60	Ten Network	11	819
Boral Limited	8	2,344	Gt Sthn Plant'n	1	128	Orica Ltd	8	2,925	Thakral Holding	4	375
Brambles Ind.	7	4,254	Gunns Ltd	4	673	Origin Energy	8	2,384	Ticor Ltd	5	362
Brazin Limited	4	227	Gympie Gold	1	113	Oroton Int'l	1	83	Timbercorp	2	118
Breakwater Is.	1	53	Hansen Tech.	1	29	PMP Limited	5	119	Toll Holdings	8	1,674
Brickworks Ltd	2	815	Harvey Norman	7	2,693	Pacificca Group	7	523	Transurban Grp	8	2,010
Bristile Ltd	4	377	Healthscope	5	184	Pacific Hydro	5	390	Transfield Ltd	5	356
Bunnings W/hse	4	327	Henry Walker E.	3	144	Pan Pharmaceut.	1	241	Uecomm Limited	2	68
Burns Philp	4	466	Hills Indust.	2	396	Panbio Ltd	1	43	United Energy	7	1,145
Burswood Ltd	7	270	Hills Motorway	9	895	Paperlin X Ltd	9	1,724	United Group	3	221
C'wth Prop Off.	5	758	Horizon Energy	1	30	Patrick Corp	8	2,342	Village Road.	5	321
C.S.R. Ltd	9	5,710	Hpal Limited	2	167	Peptech Limited	1	142	Villa World	1	76
CMI Limited	1	43	Hutchison Tel.	6	173	Perm Trustee Co	1	115	Vision Systems	2	177
CPI Group	4	37	ING Indust Trt	7	997	Perp Trust Aust	8	1,181	Volante Group	2	71
CSL Limited	7	3,111	ING Office Fund	6	946	Peter Lehman W.	3	130	Wattyl Ltd	4	233
Cabcharge Ltd	5	452	ION Limited	4	456	Polartechincs	1	63	Wesfarmers Ltd	9	10,577
Caltex Australia	2	621	Iluka Resources	9	1,048	Portman Limited	5	190	West Aust News	9	1,059
Campbell Bros	1	176	Infomedia Ltd	5	276	Powerlan Ltd	1	23	West'n Metals	1	24
Candle Aust.	2	29	Institute Drug	1	101	PowerTel Ltd	1	50	Westfield Trust	7	6,925
Capral Alum.	1	209	Insurance Aust.	9	3,332	Primary Health	1	294	Westfield Hold.	7	7,772
Carindale Prop	2	168	Int Research	3	45	Prime Life Corp	1	82	Westfield Amer.	6	6,611
Cellnet Group	1	46	Int'l Wine Inv.	1	108	Prime TV	6	186	Westpac Banking	14	24,607
Centennial Coal	1	279	Integrated Grp	1	41	Prime Retail	1	119	Woodside Petrol	10	8,173
Centro Prop.	5	1,578	Intellect Hold	1	66	Pro Maintenance	6	130	Woolworths Ltd	11	12,054
Challenger Int.	3	525	Investa Prop.	5	1,636	Pro Medicus Ltd	1	104	Yates Limited	1	33
Citect Corp Ltd	3	115	Investor Group	3	107	Publishing & Br	10	5,561	Zimbabwe Plat.	1	119

Company Review: *ERG Restructures*

Australian listed Automated Fare Collection (AFC) company **ERG** (which we sold in February 2000 for a 603% gain) is proposing a restructuring which may solve some of its financial problems. While the situation is still very speculative, the listed \$13.50 convertible notes (code ERGG) which currently trade around \$6.30 *may* be a suitable investment for higher risk investors.

Company Update

We reviewed ERG in detail last year (see *Market Analysis* issue 351, September 2001), so here is a brief update of recent changes:

ERG produced a huge trading loss of \$78,579,000 in the year to 30 June 2002, plus extraordinary losses of a further \$165,300,000. Historically ERG generated much of its "profits" from the sale of licence fees which it received in the form of shares in unlisted companies. As these are of uncertain value ERG now values these shares at nil - and wrote down their value by \$58.9 million. ERG also wrote off \$38.0 million of software development costs for these entities.

On-going operating costs have been reduced by around \$30 million annually as ERG has cut back on Research & Development. The company has a proven technology, so R&D now involves product improvement, not product development. Nevertheless, ERG still earns relatively low margins on AFC systems - and competitors are cutting prices to compete, albeit with inferior technology.

ERG has now developed two businesses: Supply and Installation of AFC systems, and Infrastructure (i.e. the operation and maintenance of these systems). The Infrastructure business provides recurring revenues which should build considerably over the next few years. The company operates the Melbourne and Rome AFC systems, but owns the equipment and therefore has significant funding costs from interest and depreciation. In future ERG will "endeavour to have our customer own and pay" for this infrastructure, so ERG will earn revenue from managing the systems but without the capital investment involved in owning the equipment. Large AFC contracts in San Francisco, Sydney and Seattle will be funded by the customer.

So ERG's Supply & Installation business remains competitive with low margins, while the Infrastructure business should eventually become a significant source of revenue and profits, but is currently depressed by interest costs and depreciation charges on the Melbourne and Rome systems.

ERG also faces a significant debt problem owing to its \$250 million of convertible notes. These were to convert into ordinary shares at \$4.50 (i.e. three shares per note) or be repaid in cash at \$13.50 on 1 October 2005. Unfortunately the decline in the share price makes conversion unattractive, while ERG does not have the \$250 million in cash (or the ability to borrow the money) to repay these notes. Faced with this looming financial crisis, the ordinary shares have lost virtually all of their value over the last two years . . .

Proposed Restructuring

ERG has therefore proposed a restructuring - subject to

approval by both the convertible note holders and the ordinary shareholders.

ERG proposes to "redeem" each note at \$13.50 but apply all of that money to buy ordinary shares at 15 cents per share. So each note will convert to 90 shares. This conversion ratio massively *dilutes* the ordinary shares - which were trading around 15-16 cents but have since fallen to around 10-11½ cents.

Following this conversion, ERG would seek to raise \$50 million in new equity from a 1 for 8 issue of convertible preference shares paying interest at 10%. With each preference share subscribed the company will also issue a five-year option to purchase a new ordinary share at 20 cents. At least \$25 million of this new capital raising will be underwritten.

Subsequent to this capital raising, ERG will consolidate 10 shares into 1 new ordinary share.

This restructuring - if accepted - will leave ERG debt-free and soundly financed to survive but still two to three years away from generating positive cash flows from operations and becoming profitable.

\$13.50 Convertible Notes

The ordinary share price appears to have stabilised around 10-11½ cents, closing last week at 10½ cents. Although this is 30% below the proposed 15 cents conversion price of the notes, they currently trade on-market at \$6.30 - which is a larger 53% discount to their face value! Given ERG's critical financial situation, there is probably no chance of the notes ever being repaid in cash at \$13.50. Purchasing the notes, however, on market at \$6.30 offers a discounted entry into the ordinary shares. Each note will convert to 90 ordinary shares (or about 93 ordinary shares, with accrued interest until conversion in February), so purchasing these notes at \$6.30 offers an entry into the ordinary shares at a cost of just 7 cents. ERG shares will be a speculative investment - and may weaken further - but investing through the notes is 33% cheaper than buying the shares directly.

The notes are also less risky than buying the ordinary shares. Should either the noteholders or shareholders not approve this restructuring then the company will likely fail. The shares would become worthless, while the noteholders would probably receive \$3-4 per note from the liquidation of the company.

Summary and Recommendation

ERG is an excellent example of how having the *best* technology can still lead to investment losses for investors. The market is competitive, profit margins are low, dealing with local governments often leads to expensive delays and systems are relatively expensive for ERG to finance. ERG also made the serious, *almost company breaking* mistake of raising \$250 million through the placement of *convertible notes* - rather than a straight issue of 70.0 million ordinary shares - in February 2000. These notes will now convert to 1,666.7 million shares. This inevitable restructuring and massive dilution has helped depress the ordinary share price and made it impossible to raise new equity on more favourable terms. (Continued on Page 12)

"Insider" Insights

(A summary of buying and selling by major shareholders)

Company	Shareholder	Buy/ Sell	Shares % of Coy Held		
			(Mill)	Before	After
15/11/2002					
Baycorp Advantage	AMP Henderson	Buy	+1.257	4.78%	5.33%
F & P Appliances	AXA Asia Pacific	Sell	-0.657	9.42%	8.41%
Michael Hill International	ACC	Buy	+0.084	4.93%	5.15%
Port of Tauranga	Infratil	Sell	-1.701	13.63%	12.36%
Tower Corporation	AXA Asia Pacific	Buy	+3.091	7.19%	8.95%
Tower Corporation	AMP Henderson	Buy	+9.815	0.0%	5.58%
Tower Corporation	CBA	Sell	-2.707	5.85%	4.31%
Tower Corporation	Perpetual Trustees	Sell	-2.318	6.28%	4.96%
22/11/2002					
Powerco Ltd	New Plymouth District	Buy	+5.187	38.74%	40.68%
Rubicon Ltd	Guinness Peat Group	Buy	+2.855	21.07%	22.09%
29/11/2002					
Michael Hill International	RM Hill	Sell	-1.000	29.75%	27.16%
Michael Hill International	Fisher Funds Mgmt	Buy	+0.400	4.80%	5.84%
Rubicon Ltd	Guinness Peat Group	Buy	+10.294	22.09%	25.78%
Sky City Entertainment	CBA	Sell	-3.130	16.91%	15.43%
06/12/2002					
Rubicon Ltd	Guinness Peat Group	Sell	-16.136	25.78%	20.00%
Tranz Rail Holdings	CBA	Sell	-1.327	12.50%	11.41%

Current Issues

SHARE SPLIT

	Ratio	Ex-Date
Cavalier Corporation	2:1	09-12

SHARE CONSOLIDATIONS

	Ratio	Ex-Date
Fletcher Forests (1)	1:5	02-12

(1) Fletcher Forests has restructured both its ordinary and preference shares. Five old shares have become one new share.

SHARE REPURCHASES

	Details
Dairy Brands (1)	off-market @ 64 cents
Auckland Int'l Airport	7 in 25 @\$1.80
Sky City Entertainment	2½-3¾%, on-market
Steel & Tube	9.99%, on-market

(1) Dairy Brands will offer to re-purchase shares at 64 cents, then become an investment company.

CASH ISSUES

	Ratio	Price	Ex-Date	Appln Date
Software of Exc (1)	1:5	140	25-11	20-12
Tranz Rail Holdings	5:7	75	25-11	13-12

(1) Convertible notes paying 9% interest.

E.R.G. Restructures *(Continued from Page 11)*

Nevertheless, this restructuring will leave ERG debt-free, removing the risk of company failure and enabling it another chance to build a profitable business. The convertible notes offer the lowest risk and cheapest entry into ERG, but the company is probably still very speculative.

While we are not formally recommending ERG, an investment in the convertible notes at around current prices may be suitable for higher risk investors with diversified portfolios and looking for a potential recovery situation.

Dividend \$

Company	Cents per Share	Ex-Date	Pay-able	Tax Credit
Capital Properties	1.90	09-12	16-12	0.35
Cavalier Corporation	9.00	02-12	06-12	Full
Col First State Property	2.33	09-12	20-12	0.1076
Contact Energy	15.40	16-12	20-12	Full
Dorchester Pacific	3.60	02-12	13-12	Full
F & P Appliances	27.00	25-11	29-11	Full
F & P Appliances (1)	7.00	25-11	29-11	Full
Hallenstein Glasson	9.50	09-12	16-12	Full
Kirkcaldie & Stains	12.00	02-12	09-12	Full
Kiwi Income Properties	1.477	02-12	13-12	0.288
Mainfreight	3.00	09-12	13-12	Full
National Property Trust	2.25	25-11	06-12	Nil
Nuhaka Farm Forestry (2)	1.15	16-12	20-12	-
Ryman Healthcare	3.00	09-12	13-12	Nil
Telecom NZ	5.00	02-12	13-12	Full
Vertex Group	6.10	23-12	16-01	Full
(1) Special Dividend. (2) Non-taxable return of capital.				
<u>Australian Shares</u>				
Campbell Brothers	13.0	29-11	20-12	
CSR	11.0	25-11	16-12	
Toll Holdings conv notes (1)		-	04-12	
(1) Two months interest to conversion, about 4.6 cents.				

Total Return Index for All Listed Shares

Nov 11	1818.98	Nov 18	1795.13
Nov 12	1808.92	Nov 19	1799.46
Nov 13	1812.87	Nov 20	1798.72
Nov 14	1806.52	Nov 21	1814.66
Nov 15	1803.21	Nov 22	1816.26
Nov 25	1811.85	Dec 2	1800.83
Nov 26	1809.21	Dec 3	1796.02
Nov 27	1804.04	Dec 4	1782.96
Nov 28	1805.95	Dec 5	1783.56
Nov 29	1801.66	Dec 6	1783.80

Book Catalogue Update

We are now stocking the paperback edition of **Eight Steps to Seven Figures** for NZ\$37 (A\$33) - which is a significant 40% saving on the hard cover edition!

It took a couple of years, but we have finally sold our last copy of the 6th edition of **Technical Analysis of Stock Trends** and will no longer be stocking this book. The 8th edition of this five decade old classic is now too expensive at a retail price of US\$99.95. We recommend **How Charts Can Help You in the Stock Market** as a cheaper alternative at NZ\$42 (A\$36).

Next Issue

The next issue of *Market Analysis* will be posted in five weeks time on Tuesday January 14, 2003 (and delivered in most areas on Wednesday 15).

Subscribers who have updated their account online with an e-mail address will also receive the Electronic version in their e-mail Tuesday morning.

MARKET ANALYSIS is published 12 times per year by Securities Research Company Limited, P.O. Box 34-162, Birkenhead, Auckland. (66 Stanaway Street. Telephone 64-9-4199 427 Facsimile 64-9-4199 428 Internet: www.stockmarket.co.nz or www.australia-stockmarket.com Email: james@stockmarket.co.nz). Subscription Rate NZ\$265 (including GST) per year.

Readers are advised that they should not assume that every recommendation made in the future will be profitable or equal the performance of recommendations made in the past. A summary of All prior recommendations is available to any current subscriber, free of charge, upon request. The information presented has been obtained from original and published sources believed to be reliable, but its accuracy cannot be guaranteed. The entire contents are copyright. Reproduction in whole or part is strictly forbidden.