

Market Analysis

Issue No. 399

www.stockmarket.co.nz

September 13, 2005

Inside Market Analysis

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Summary and Recommended Investment Strategy.

Whatever the outcome of the NZ General Election there will be a transfer of income from the government sector back to the private sector. This will improve economic activity and create a more favourable environment for stockmarket investment. Remain fully invested in Australian and New Zealand shares.

Investment Outlook.

The General Election has improved the outlook for the NZ economy and stockmarket - at least over the short to medium term.

Just months ago - when the government's re-election looked assured - there was no money for tax cuts or increased spending. This was despite a "healthy" government sector generating large surpluses at the expense of a more depressed private sector.

With the Election, however, came the promise of tax cuts from National - and Labour suddenly discovered similar amounts of cash which it now promises to distribute. While there are major differences in the ideology and economic efficiency of these competing promises - the net impact in both cases is a transfer of income away from the government sector and back to the private sector. This will result in a "healthier" private sector and boost consumer spending and general economic activity at a time when the economy was widely expected to be slowing.

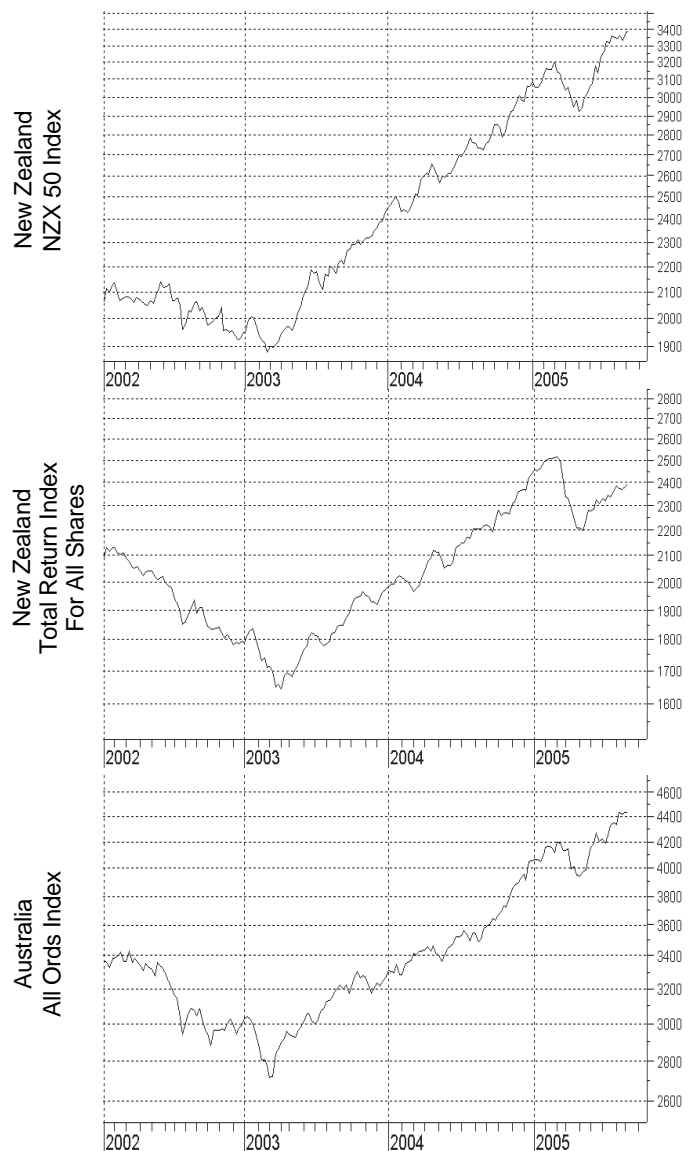
Improved economic activity will maintain a favourable business environment and result in higher revenues, higher profits, higher dividends and higher share prices than were likely in the future under the previous situation.

Longer term there is a risk of higher inflation and the prospect of higher interest rates which may have a negative impact on the economy and stockmarket. We will, of course, import inflation through higher oil prices - which cannot be offset by raising interest rates! Higher imported energy costs, however, will drain income out of the country, so act to dampen demand and slow economic activity. This diminishes the risk that the economy will become "over-heated" and lead to domestic inflation.

Our One-Year Forecast for the NZ stockmarket is only Neutral, while for Australia it is Bullish, but both stockmarkets offer good value and are in an uptrend, so investors should remain fully invested in shares.

Stockmarket Forecasts

	<u>One-Month</u>	<u>One-Year</u>
Australia:	63% (Bullish)	76% (Bullish)
New Zealand:	69% (Bullish)	52% (Neutral)



Recommended Investments

Cavalier Corporation lifted revenues 4.6% to \$207.8 million for the year to 30 June 2005, but trading profits dipped 7.1% to \$19,525,000 (29.8 cents per share). In addition, the company wrote off its \$5.8 million (after tax) investment in **Microbial Technologies**. A final 14.5 cents dividend (plus full imputation tax credits) will make a steady 27.0 cents (plus tax credits) for the year. The net operating surplus fell 50% to \$13.4 million, owing to an increase in inventories and debtors at balance date.

While the residential carpet market was slower in Australia - and more recently in NZ - the commercial carpet market remains buoyant. (Continued on Page 4)



Portfolio of Recommended Investments

CURRENT ADVICE	Company	Code	Initial Recommendation - Date -	Price	Performance Forecast	Issued Shares (mil.)	Volatility Ratio	Price/Sales Ratio	Price/Earnings Ratio	Gross Dividend Yield	Recent Share Price	Cash Dividends Rec'd	Total Return %
<u>NZ Shares</u>													
BUY	CDL Investments Ltd	CDI	12/01/99	25	D	200.5	1.7	3.38	8	7.0	34	11.3	+81%
HOLD+	Cavalier Corporation	CAV	05/12/95	156*	C	65.5	0.5	1.25	13	10.1	398	155.5	+255%
HOLD+	Colonial Motor Company	CMO	10/11/92	150	C	27.9	0.5	0.22	11	10.6	310	271.3	+288%
BUY	Lyttelton Port Company	LPC	12/12/00	150	C	102.3	0.7	3.07	17	8.2	200	47.0	+65%
BUY	Metlifecare Ltd	MET	10/08/04	236	B	86.5	0.7	2.94	18	1.5	370	7.7	+60%
BUY	Michael Hill Int'l Ltd	MHI	11/06/91	46*	B	38.7	0.4	1.07	18	4.6	752	159.0	+1880%
BUY	Nuplex Industries Ltd	NPX	11/02/97	350	B	76.7	0.6	0.36	11	9.1	434	113.0	+56%
HOLD+	Renaissance Corp	RNS	13/08/96	85*	C	38.2	0.9	0.40	21	8.8	125	25.9	+78%
HOLD+	Richina Pacific	RPL	03/11/95	94*	E	148.7	1.2	0.16	19	3.1	65	11.4	-19%
HOLD	South Port New Zealand	SPN	13/02/96	120	C	26.2	0.9	2.35	16	8.0	121	77.3	+65%
HOLD	Steel & Tube Holdings	STU	08/08/00	146	C	88.1	0.6	1.01	12	9.6	500	132.0	+333%
HOLD+	Taylors Group Ltd	TAY	09/11/99	102	B	24.3	0.7	0.83	15	8.7	223	50.0	+168%
<u>Australian Shares (in Aust cents)</u>													
HOLD	AJ Lucas Group	AJL	13/05/03	120	C	51.2	0.9	0.49	6	6.9	116	20.5	+13%
BUY	Atlas Pacific Ltd	ATP	14/05/96	73	D	87.8	1.9	3.39	NE	Nil	23	7.0	-60%
BUY	Austin Group Ltd	ATG	08/02/05	93	C	62.2	1.1	0.70	11	8.7	69	4.0	-22%
BUY	Campbell Brothers Ltd	CPB	12/10/99	418*	B	41.3	0.5	0.83	18	4.3	975	177.5	+176%
BUY	Candle Australia	CND	08/04/03	86	A	45.9	0.7	0.49	16	4.7	246	23.5	+213%
HOLD+	Cellnet Group Ltd	CLT	12/02/02	152	C	51.0	1.0	0.10	10	6.1	115	31.5	-4%
HOLD+	Centennial Coal Ltd	CEY	16/01/01	70*	A	268.5	0.5	2.09	27	2.6	505	6.0	+630%
HOLD	Circadian Technologies	CIR	10/02/04	188	D	40.1	1.1	N/A	NE	Nil	128	65.0	+3%
BUY	Citect Corporation Ltd	CTL	12/04/05	110	C	52.3	1.0	0.83	16	5.6	98	Nil	-11%
HOLD+	Commander Comm.	CDR	11/09/01	92	A	170.2	0.7	0.65	17	2.6	235	13.2	+170%
BUY	Computershare Ltd	CPU	12/08/03	189	A	594.9	0.7	3.59	40	1.6	674	21.5	+268%
HOLD	Int'l AllSports	IAS	11/02/03	180	D	66.4	1.7	0.03	NE	Nil	30	2.5	-82%
HOLD+	Iluka Resources Ltd	ILU	12/10/04	471	A	232.9	0.6	2.39	23	2.5	870	12.0	+87%
BUY	Keycorp Ltd	KYC	10/08/04	123*	A	81.7	1.1	1.56	21	2.0	153	Nil	+24%
BUY	LongReach Group Ltd	LRX	11/01/05	23½	C	174.5	2.5	0.63	NE	Nil	13	Nil	-45%
BUY	Melbourne IT	MLB	10/02/04	53	C	52.8	0.8	1.09	17	4.4	125	7.5	+150%
HOLD	M.Y.O.B. Ltd	MYO	15/07/03	84*	C	386.1	1.0	3.27	39	2.1	106	2.3	+29%
BUY	Ross Human Directions	RHD	14/08/01	92	B	81.7	1.2	0.16	12	5.6	71	19.0	-2%
BUY	Skilled Engineering	SKE	12/03/02	126	A	100.5	0.7	0.38	24	5.0	319	47.5	+191%
HOLD+	Sonnet Corporation	SNN	07/09/04	31½	C	82.0	1.8	0.74	6	18.8	24	3.0	-14%
HOLD+	Technology One Ltd	TNE	11/11/03	44	B	299.4	1.3	2.92	16	5.7	55	6.0	+37%
HOLD+	The Reject Shop Ltd	TRS	11/01/05	257	A	25.1	0.7	0.46	13	4.5	374	17.0	+52%
HOLD	Toll Holdings	TOL	08/09/98	60*	B	330.2	0.4	1.15	21	2.0	1347	90.5	+2296%
HOLD	UXC Limited	UXC	11/01/00	55*	B	161.4	1.0	0.65	13	5.7	97	26.3	+124%
BUY	Vision Systems Ltd	VSL	10/11/98	69*	A	179.4	0.9	1.42	38	3.1	135	32.5	+142%

The average Total Return (i.e. both Capital Gains/Losses plus Dividends received) of all current investments from initial recommendation is +207.1%. This is equal to an average annual rate of +44.0%, based upon the length of time each position has been held.

The average annual rate of gain of ALL recommendations (both the 37 current and 130 closed out) is +33.2%, compared with a market gain of +9.1% (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)

The directors appear to expect some slight decline in profitability for the current financial year.

Although profits may be relatively flat over the next year, Cavalier Corporation shares trade at a low valuation and offer an attractive 10.1% gross Dividend Yield. The shares dipped to a low of 330 cents in April and will probably continue to appreciate slowly in value over the next year. "Hold+" for income and some capital growth.

Colonial Motor Company reported a 2.1% drop in revenues to \$395.6 million for the year to June 2005. Trading profits were 5.6% higher at \$7,715,000 (27.7 cents per share). There was also a \$5.2 million gain on a property sale - up from a \$3.2 million gain in 2004. A 2.0 cents higher final dividend of 10.5 cents will lift the annual payout 10.0% to 22.0 cents (plus imputation tax credits). The net operating cash flow was 29% lower, but still high at \$11.1 million.

The company recently sold (and partially leased back) a property in Wellington which has realised \$11.6 million in cash. This money will be re-invested in properties for its car dealerships. It has recently redeveloped its Wellington dealership and has plans for its Dunedin dealership and new facilities for its truck operations.

Colonial Motor Company is another share that offers investors a very high Dividend income, currently yielding 10.6%, plus some potential for long term capital appreciation. "Hold+".

Colonial Motor Company

Lyttelton Port Company recorded a 7.6% increase in revenues to \$66.5 million for the year to June 2005 but profits slipped 1.6% to \$11,826,000 (11.6 cents per share). The final 7.25 cents dividend maintains a steady 11.0 cents annual dividend (plus full imputation tax credits). The business generated a strong operating cash surplus of \$15.0 million, down 14% on last year.

Capital expenditure to upgrade facilities was \$8.9 million, partially funded by a \$4.9 million increase in interest bearing debts to \$41.1 million. Shareholders Equity is \$137.5 million (134.5 cents per share), helped by an \$86.0 million revaluation of port assets. Debt levels are low in relation to total assets and relative to operating cash flows and profitability - so Lyttelton Port Company is a financially strong company that should be able to maintain dividend payments to shareholders.

Lyttelton Port Company shares offer investors a very low risk, high income (8.2%) - which should at least keep pace with inflation over the medium to long term.

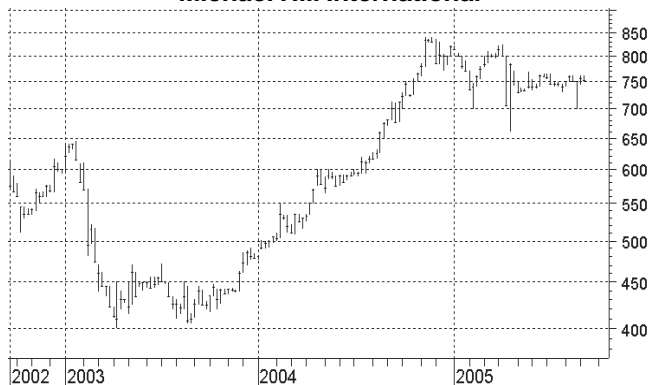
Metlifecare remains the focus of media speculation that "three separate offers" - from unnamed bidders - have been received for the 25% stake in the company that is up for sale.

Michael Hill International managed only a 4.4% increase in revenues to \$273.2 million for the year to June 2005, but profits rose 9.6% to \$16,510,000 (42.7 cents per share). A 1.0 cent higher final 14.0 cents dividend will lift the annual dividend 9.5% to 23.0 cents (plus full NZ imputation tax credits or full Australian franking credits). The net operating cash surplus was \$10.1 million - down 59% on an abnormally strong surplus of \$24.8 million in 2004.

NZ revenues were only 0.2% higher at \$86.5 million, while Australia lifted revenues 10.2% to A\$161.8 million (but only 5.4% higher when reported in NZ currency at \$175.9 million) while Canada was 59.5% higher at C\$7.8 million (or up 54% to NZ\$9.0 million).

The company opened one new store in NZ, 10 in Australia and three in Canada - and now has 47 stores in NZ, 102 in Australia and seven in Canada. The directors are "very pleased with progress" in Canada which lost C\$744,720 - a slight improvement on the C\$823,000 in 2004 - and there are plans to open up to six more Canadian stores this year.

At 752 cents, Michael Hill International shares trade on a Price/Sales ratio of 1.07, a Price/Earnings ratio of 18 and offer a Dividend Yield of 4.6%. That is a reasonable valuation given that the company offers steady growth potential from its continuous expansion of stores in Australia and Canada. "Buy" for long term capital appreciation and steady income growth.

Michael Hill International

Nuplex Industries lifted revenues 42.5% to \$937.3 million for the year to 30 June 2005 - with 90% of this increase coming from the six months contribution from the acquisition of **Coating Resins** since December 2004. Trading profits were 5.2% lower at \$29,215,000 while earnings per share were 23.2% lower at 38.1 cents owing to the issue of new shares to fund the acquisition.

The final dividend will be raised 1.5 cents to 14.5 cents, lifting the annual rate 2.0 cents to 24.5 cents per share (plus full tax credits for both NZ and Australian investors). As Nuplex Industries has expanded offshore, future dividends are likely to have only partial imputation tax credits for NZ investors, although full franking credits will be available for Australian investors.

The net surplus from operations rose 111% to a very strong \$60.8 million.

At 30 June, Nuplex Industries held cash in the bank

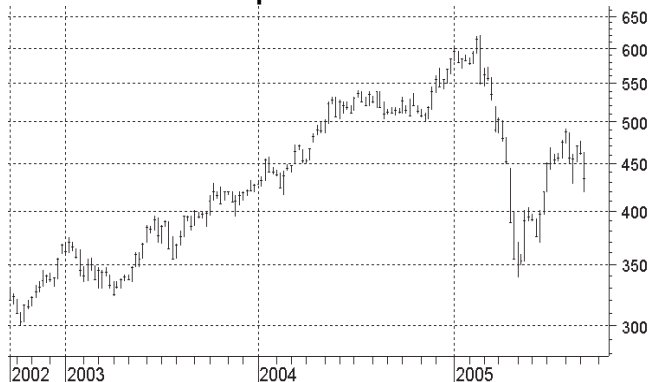
of \$58.8 million (76.6 cents per share). Interest bearing debt is high at \$345.1 million - after the recent acquisition - but manageable relative to Shareholders Equity of \$247.7 million (323 cents per share) and the company's reliable cash flows and profits.

Nuplex Industries expects "a better year" to June 2006 owing to a full year's contribution from the Coating Resins business but with the "full benefits" of the expansion showing up in the year to June 2007. At this stage the company is happy with broker consensus profit estimates of around \$35 million (about 45 cents per share) for 2006.

At 434 cents, Nuplex Industries shares trade on a Price/Sales ratio of 0.36, a Price/Earnings ratio of 11 and offer a Dividend Yield of 9.1%. That is a low valuation for a company where earnings per share are expected to grow around 15% per annum over the next few years! Nuplex Industries' reliable, strong cashflows will allow it to reduce debt levels, increase dividends *and* to grow steadily through acquisition and internally.

The shares may weaken towards 400 cents in the short term, but this will offer an important buying opportunity to build up holdings in Nuplex Industries shares. "Buy" for high income *and* above average capital appreciation.

Nuplex Industries



Richina Pacific has reported a 32.2% increase in revenues to US\$243.6 million for the six months to 30 June 2005. Profits were 84.1% higher at US\$4,381,000 (2.9 US cents per share), despite a massive loss by **Mainzeal Construction** in NZ. There was an operating cashflow *deficit* of US\$8.3 million, compared with a surplus of US\$2.1 million last year.

The *Land* division lost US\$2.2 million, mainly owing to delays in completing an Auckland apartment project. The *Industries* division (i.e. mainly Chinese Leather businesses) increased revenues 41% to US\$94.7 million and profits 121% to US\$4.9 million, despite some delays. The new *Financial* division - which is restructuring recently acquired Chinese assets - contributed profits of US\$2.8 million.

While Richina Pacific's recent expansion in China may involve above average risk it also holds the potential to yield high returns to investors. Recent profit results would suggest the company is making rapid progress at restructuring these businesses and land assets. Despite this, the share price has weakened and continued profit growth this year would put the shares on a very low Price/Earnings ratio. The shares are still *weak*, but we would expect the price to stabilise around 60-70 cents

and to then start to appreciate in value. "Hold+".

Richina Pacific is a Bermuda registered, Singapore based company, so falls under NZ Foreign Investment Fund regulations that currently impose an unrealised capital gains tax. However, holdings with a market value under \$50,000 are exempt from this capital gains tax.

Richina Pacific



SouthPort NZ experienced a 5.8% drop in revenues to \$13.5 million for the year to June 2005. Profits were also 5.1% lower at \$1,937,000 (7.4 cents per share) but the annual dividend will remain steady at 6.5 cents (plus full tax credits). The net operating surplus rose 6% to a strong \$4.4 million.

The company has cash in the bank of \$2.48 million (9.5 cents per share), interest bearing debt of only \$4.65 million (17.7 cents per share) and Shareholders Equity of \$24.1 million (91.7 cents per share).

The port's container handling infrastructure was under-utilised following cutbacks in shipping. International charter rates have fallen over the last quarter, so container volumes *may* improve in the future and log exports are expected to recommence this year. Cold storage facilities were fully utilised by high squid catches.

The company will spend \$1.3 million to construct a new pilot launch, but capital expenditure will be "modest in the medium term". So operating cash surpluses should allow the company to repay its low interest bearing debts over the next few years. The company should therefore be able to maintain current dividend levels - and even consider special dividends or a capital repayment at some stage.

Freight volumes should improve with the importation of plant and equipment for **Meridian Energy's** wind farm in Southland. Overall the company expects to "at least maintain its current level of earnings" during the new financial year.

The only major longer term risk is that the largest customer, **NZ Aluminium Smelters**, is "evaluating several options related to its long-term energy requirements". This customer accounts for about half of the *tonnage* passing through the port, although this is lower value *bulk* raw materials and metal.

Steel & Tube Holdings' revenues rose 12.9% to \$438.0 million for the year to 30 June. Profits were 26.7% higher at \$36,062,000 (41.0 cents per share) and a 5.0 cents higher final dividend of 17.0 cents will lift the annual dividend 18.5% to 32.0 cents (plus full imputation tax credits).
(Continued on Page 6)

Recommended Investments (Continued from Page 5)

The operating cash surplus fell 29% to a low \$20.7 million - mainly owing to a 39% increase in the value of inventory to \$77.0 million.

Steel & Tube Holdings' business and share price are probably *near* the top of their cycle. Some investors who are over-weighted in this company *may* wish to realise some partial profits (i.e. sell 25-30%) to improve diversification and finance other share purchases, although we are in no hurry to get out of this investment. The company predicts "another solid result" this year and at this stage in the cycle there is the potential for the company to distribute further high regular dividends and other surplus cash as special dividends. "Hold".

Steel & Tube Holdings

Taylors Group revenues rose 6.7% to \$65.6 million, while profits were 18.0% lower at \$3,506,000 (14.4 cents per share) for the year to June 2006. A steady final dividend of 6.0 cents makes an 18.2% higher 13.0 cents (plus full tax credits) for the year.

Although down 19%, this business generated a *very strong* operating cash surplus of \$12.8 million. Interest bearing debt is very low at just \$3.3 million.

Ultimately the company's strong cashflows will finance (1) high dividend distributions and (2) growth through acquisition. So Taylors Group shares offer investors both a high current income and long term growth. "Hold+".

Taylors Group**Australian Shares**

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

AJ Lucas Group has won a pipeline project estimated to be worth around US\$29 million (A\$38 million). Work will begin immediately and should be completed by July 2006. The project is to provide a 33.6km pipeline to bring water to the *Goro Nickel Project* in New Caledonia for a subsidiary of Canadian based **Inco**. Under the contract AJ Lucas Group will "share the risks and

benefits" based upon its performance in constructing the pipeline.

AJ Lucas Group shares are likely to stabilise around current levels - which probably offers very good value - but may not start to recover strongly until early to mid-2006. At this stage we rate the shares a "Hold".

Austin Group has lifted revenues 6.8% to \$61.0 million for the year to 30 June 2005 but profits slipped 4.7% to \$4,003,000 (6.4 cents per share). The final 3.0 cents dividend will maintain a steady 6.0 cents annual dividend, although a special 1.0 cent dividend was paid in March.

The net operating cash surplus improved strongly to \$5.3 million. The company remains debt-free and with cash of \$3.0 million (4.8 cents per share).

The directors state that the second half of the year was "disappointing" but expect the current six months to December 2005 to be similar to the same period in 2004 (i.e. \$2.9 million) and the full year result to show "moderate growth".

At 69 cents, Austin Group shares offer a very high Dividend Yield of 8.7%. The Price/Sales ratio is just 0.70 and the Price/Earnings ratio a low 11. That would offer reasonable value - as an *income* investment - if the company had no potential for growth. We, however, are looking for medium term revenue growth around 10% per annum and profit growth of 15-25% per annum - which *could* see the shares worth 200-400 cents within five years. "Buy" for high current income - and you might just be rewarded with a big capital gain!

Austin Group

Candle Australia's revenues for the year to June 2005 rose 29.3% to \$231.9 million, with profits up 57.1% to \$7,150,000 (15.8 cents per share). The final dividend will be 20.0% higher at 6.0 cents - lifting the annual dividend 27.8% to 11.5 cents - *plus* the company will pay a special 2.0 cents dividend.

The net operating surplus was \$8.6 million - up from a rather low \$3.5 million last year. Candle Australia has no interest bearing debt and cash of \$7.4 million (16.3 cents per share) so is well placed to make further significant acquisitions to grow its business and/or to make further cash distributions to shareholders as special dividends or as a share buy-back.

Candle Australia predicts further growth this year from "continued organic growth" of its existing business and "strategic acquisitions", while demand for its services is "stable or growing".

To date Candle Australia has been the most successful of our three *recruitment* company investments. The

increase in share price, however, has been matched by strong growth in profits. At 246 cents, the Price/Earnings ratio is just 16 and the Dividend Yield is 4.7%. That is a low valuation for a company expected to grow strongly over the next several years, so "Buy" and Hold for further capital appreciation. *Insiders* apparently also see good value in the shares as they have made no less than 7 buys on-market over the last year and no sells.

Cellnet Group experienced strong revenues, up 31.1% to \$586.3 million for the year to June 2005, but profits fell 33.1% to \$6,061,000 (12.2 cents per share). The first half profit was \$5,440,000 so the second half generated profits of only \$621,000 - although this was after a \$2,620,000 (pre-tax) write-down in the value of inventory.

The business generated a net operating *deficit* of \$7.1 million, although that is an improvement on the 2004 cash operating *deficit* of \$18.5 million. These deficits are the unfortunate result of rapid growth which has required significant additional investment in inventories (i.e. up \$8.5 million to \$66.2 million) and debtors (i.e. up \$20.4 million to \$82.9 million) which is partially offset by an increase in creditors (i.e. up \$21.7 million to \$78.6 million). These deficits - plus several acquisitions - have required Cellnet Group to take on higher interest bearing debt (i.e. up \$19.0 million to \$44.1 million).

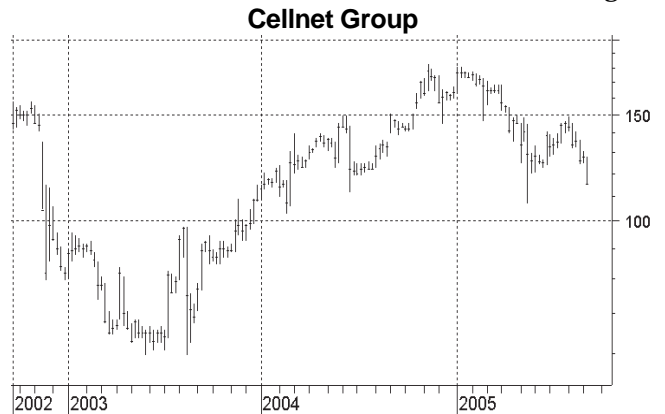
As a result, the company will not pay a final dividend. The annual dividend rate (i.e. the 7.0 cents interim dividend) will therefore be 39.1% lower than last year.

Cellnet Group is seeking to improve its financial performance with a "comprehensive reorganisation" which will see it focus on "high demand and high profitability" items and "make substantial reductions" in the range of items held in inventory. There will also be a "strong emphasis on working capital management, in particular inventory". The company has "new vendor partners" and the "stock rationalisation" will release warehouse capacity to service these new customers. This plan sounds very similar to the strategy adopted by **Renaissance Corporation** a few years back when it reduced its inventory range by half to focus on higher margin products. The directors believe these changes will "improve the medium to long term performance of the company" and make it more competitive by reducing costs and improving customer service.

Just as importantly this strategy also produces significant operating cash surpluses as inventory levels are reduced - allowing the company to make substantial reductions to its borrowings and interest costs.

Cellnet Group's share price has weakened over the last six months - and further in response to the dividend cut - but these shares now trade on a very low valuation. The company is efficient, but operates in a difficult, low margin business. *If* the company can find the right product mix, then there is potential to earn significantly higher profits, generate positive cashflows and reward shareholders with growing dividends and a much higher share price.

Given the current weakness we shall rate the shares a "Hold" at this time but look at upgrading them in about six months if the current reorganisation starts to yield results.



Centennial Coal lifted revenues 39.9% to \$648.2 million for the year to 30 June 2005 but trading profits slipped 3.4% to \$50,584,000 (18.8 cents per share) before the \$14.7 million (after tax) cost of closing and writing off the *Munmorah* mine. A steady unfranked 7.0 cents final dividend maintains an annual payout of 13.0 cents.

The operating cash surplus fell 6% to \$89.6 million.

Centennial Coal forecasts a "significant uplift in profitability" for the current financial year to June 2006 and has good growth potential over many years. The higher coal export prices and a 40% increase in group production to around 21 million tonnes will boost profitability this year. The planned \$235 million development of the *Anvil Hill* mine will add a further 9 million tonnes to the group's annual coal production from 2008 - although the company is looking to "accelerate development" of this open-cut mine. The company is also "exploring options to increase production" at its recently commissioned *Mandalong* mine. A review of **Austral Coal's** reserves has upgraded these 70% to 80.3 million tonnes - sufficient to support mining operations for over 20 years.

48% of current production is sold on long term fixed price contracts to power stations. So the increase in the market price of thermal coal will only slowly work through into Centennial Coal's revenues and profits as contract prices are reviewed over future years.

To help finance its expansion over the next few years Centennial Coal has raised around \$99 million from an institutional placement of 20 million shares (i.e. about 7.4% of its capital) at 495 cents per share. It will raise up to \$30 million from a Share Purchase Plan offering up to \$5000 worth of shares (i.e. up to 1010 shares) at 495 cents.

Investors wishing to increase their holding in Centennial Coal could take up their entitlement to these shares as the company is an attractive investment for growth over the next few years. Many subscribers to this newsletter, however, may already be over-weighted in Centennial Coal shares. In that case - and at current market prices - it may be appropriate to ignore this share purchase plan. The Centennial Coal price has eased back to 505 cents, so the SPP is offering shares at just a 2% discount to market - which is nothing to get excited about!

Centennial Coal is also seeking to raise US\$100 million (about A\$130 million) of long term (i.e. up to 15 years) debt financing from US (Continued on Page 8)

Recommended Investments (Continued from Page 7) investors. This is relatively low cost borrowing and will be used to repay higher priced bank debt.

Newcastle Coal Infrastructure Group - a joint venture owned by coal miners including Centennial Coal - which operates one of the two coal-loader facilities at the **Port of Newcastle** has been granted the right to develop and operate a new coal-loader at a total cost of around \$500 million. This could be in operation as early as 2009 and increase export coal volumes by at least 30 million tonnes annually. The development will cover a 136-hectare site and include new rail receival facilities, stockyards, shiploading facilities and deepening the Hunter River to allow ship access.

Circadian Technologies has agreed to contribute \$1.2 million over the next two years to its 50% owned **Cancer Therapeutics** to fund a new research project. This will investigate using a protein or peptide antigen vaccine to stimulate an immune response to the cancer cells "which may then be eliminated by the body's immune system".

Citect Corporation lifted revenues 13.9% to \$32.6 million for the six months to June 2005, but profits fell 82.6% to just \$304,000 (0.6 cents per share). Net operating cashflows rose 65% to \$2.7 million.

As previously predicted this decline in profits was the result of \$1.0 million of extra marketing and development expenses for its new *Manufacturing Execution Software*, a \$289,000 write-down of an internal software system and a \$312,000 prior period tax expense.

Citect Corporation has completed a major restructuring to lift revenues and profits. New products will be launched in September, November and December this year. New offices will be opened in New Zealand, Singapore and Japan - bringing the number of worldwide offices to 19 - and the company is evaluating expansion in India, Latin America and the Middle East. New offices are expected to be "earnings positive in 2006".

Citect Corporation shares offer a reasonable Dividend Yield of 5.6% but we are looking at these shares for the growth potential. The HIM/SCADA (i.e. Human Machine Interface and Supervisory Control and Data Acquisition) businesses are mature, with little growth potential, except in Asia/China and other developing markets. The IIM (i.e. Industrial Information Management) business, however, is predicted to grow globally at 25-30% per annum. This is also a business with economies of scale, so 10-20% revenue growth can result in 20-40% profit growth. Finally this business can generate high *free cash flows* - money not needed to maintain the business but which can be distributed to shareholders or used to finance new internal growth or to finance an acquisition.

Of course, Citect Corporation needs to go out into the market and win new business and increase its revenues. To help achieve that, it has invested to develop new products, is expanding its marketing and focusing upon its growth markets.

At 98 cents, Citect Corporation shares trade on a low Price/Sales ratio of 0.83, a moderate Price/Earnings ratio of 16 and a Dividend Yield of 5.6%. So any success at building revenues and profitability over the next few

years should see the share price re-rated strongly. "Buy".

Citect Corporation



Commander Communications experienced a 24.9% growth in revenues to \$615.1 million for the year to 30 June 2005. Profits rose 150.2% to \$23,640,000 (13.9 cents per share). A 100.0% higher 4.0 cents final dividend, lifts the annual dividend 200.0% to 6.0 cents.

The net operating cash surplus fell 38% to \$14.9 million.

While this headline result appears good it falls *behind* the company's earlier forecasts of revenues of \$630-650 million and a net profit of \$31 million. Furthermore, the 2004 annual result consisted of a first half *loss* of \$1.9 million and a second half profit of \$11.4 million, so the 150% profit increase is inflated by the losses in the first half of the 2004 year. In addition, the company is forecasting higher than expected capital expenditure of around \$30 million this year. Finally, the company expects slower growth over the next year with revenues forecast to rise 13-23% to \$695-755 million and earnings (before interest, tax and depreciation) up 2-11% at \$50-55 million. That would equal about a 3-22% rise in net profit after tax.

At 235 cents, Commander Communications shares trade on a Price/Sales ratio of 0.65, a Price/Earnings ratio of 17 and a Dividend Yield of 2.6%. There is potential for further growth over the longer term, but the next year could be one of consolidation. Therefore we are downgrading our recommendation slightly to a "Hold".

Commander Communications



Computershare has reported just an 18.1% increase in revenues to \$1,117.4 million for the year to June 2005. Trading profits were 29.2% higher at \$91,052,000 - with earnings per share up 21.7% a 15.7 cents. A 20.0% higher 6.0 cents final dividend lifts the annual payout 37.5% to 11.0 cents. Operating net cash flows rose 8%

Helped by the recent acquisition of **Equiserve**, Computershare is predicting a 35% increase in revenues to \$1,500 million, 27% growth in profits and at least a 20% growth in earnings per share for the current financial year. That may, however, be another conservative company forecast as brokers are predicting 35-95% earnings per share growth to June 2006 and another 20-45% to June 2007.

The company now has 25-30% of the US market for share registry services but has indicated it would be interested in acquiring one of its largest US competitors, **Mellor Investor Services** or **Bank of New York**.

At 674 cents, Computershare trades on a historical Price/Earnings ratio of 40. While that looks expensive the company is leveraged to any further recovery in financial market activity. 20% growth would lower the P/E to 33, while 35-95% growth would lower the P/E to just 21-30. While we certainly wouldn't risk any of our capital on the ability of brokers to accurately predict future earnings, we do feel the company estimate is low and that the business will continue to grow strongly as a result of recent acquisitions and increased market activity. There have been five *insider* buys and three sells on-market over the last year and the shares are in a cyclical uptrend, so we continue to rate them a "Buy" for further capital appreciation.

Computershare



International All Sports recorded a 13.3% increase in wagering turnover to \$587.5 million for the year to June 2005. Revenues (i.e. the company's gross win margin) rose 27.4% to \$27.9 million. Expenses, however, increased more rapidly, resulting in a net loss of \$6,446,776 (*minus* 9.7 cents per share), compared with a loss in the previous year of \$3.6 million.

The company continued to produce a small net operating cash surplus, up 22% to \$0.6 million. No dividend will be paid.

International All Sports has acquired a 76% interest in Norfolk Island based **Austote Pty** which is licenced by the **Norfolk Island Gaming Authority** to operate as a bookmaker for *Australian* race meetings and sports betting. International All Sports will subscribe \$250,000 now and a further \$250,000 in 12 months to acquire a 76% shareholding - with an option to acquire the balance of the business in three years at a valuation to be agreed at that time.

Legal action by **Racing NSW** against International All Sports has been withdrawn and the government agency will pay the company's legal costs. Racing NSW

was attempting to extract a high fee equal to 1% of corporate bookmaker's turnover in return for allowing them to publish race information and betting prices on the internet. International All Sports and other corporate bookmakers have indicated they would be willing to pay the same percentage of gross profits as paid by TABs.

Iluka Resources has reported revenues 17.5% higher at \$476.3 million for the six months to 30 June 2005, but profits increased 112.6% to \$79,300,000 (34.0 cents per share). The company will pay a steady interim dividend of 10.0 cents (but only 5.0 cents franked, down from 8.7 cents last year). Net operating cash flows were 15% lower at \$121.9 million.

The company forecasts a second half profit of \$39-49 million, making \$130-140 million (56-60 cents per share) for the year.

The \$270 million *Douglas* project was originally scheduled to be completed in October 2005 but is currently only 67% complete. **Roche Mining** is currently predicting a March 2006 completion - but that would require a "substantial increase in productivity" and Iluka Resources believes the project may be delayed until around mid-2006.

The *Nardell Colliery*, held by Iluka Resources' 93.3% owned **Ashton Coal Interests** subsidiary, will be sold to **Xstrata** for \$15.3 million. This money will be used to help finance expansion of the group's mineral sands businesses.

Iluka Resources expects a continuing "tight market" for Zircon, with demand growing at 3% per annum. Global production is currently around 1,200,000 tonnes, but about 170,000 tonnes short of potential demand. Extra supply next year will meet only part of this shortage, so prices are expected to "increase again in 2006".

Although Iluka Resources share price has risen strongly over the last eleven months since we initially recommended them, we believe this is an attractive business with good growth potential over many years. So we continue to rate the shares a "Hold+" for further capital appreciation.

Keycorp has received shareholder approval for the sale of its *Transaction Network Solutions* business for \$55 million and for the 41 cents per share capital repayment. The shares are trading ex-entitlement to this return of capital which should be paid some time this month.

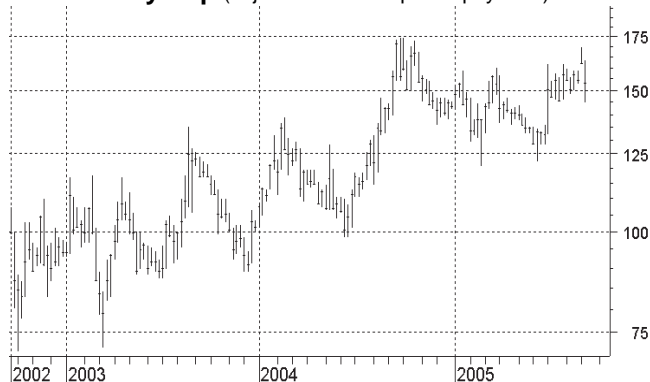
In our *Recommended Portfolio* we can treat this 41 cents as either a *cash dividend* or re-invest it to purchase additional shares on-market. Given that we have held this investment only a short time (i.e. two years) and that the current outlook is favourable it is probably most appropriate for investors to re-invest this cash to buy additional Keycorp shares on-market. Reinvesting the capital repayment cash will allow us to increase the number of shares held in Keycorp by approximately 25% but without any additional new investment. That is *equivalent* to reducing our initial cost price to about 123 cents and this is how we shall record this investment in the portfolio.

Keycorp will invest US\$2.4 million for an undisclosed interest in a "strategically (Continued on Page 10)

Recommended Investments (Continued from Page 9) important" new entity that will acquire from **MasterCard** the intellectual property of **MULTOS** and the rights to perform or licence management services to smart cards using this technology.

Keycorp has been awarded a contract by the **Saudi Arabia Monetary Agency** to develop and supply technology to migrate the Saudi Payment Network Debit Card Scheme to EMV-compliant payment cards. The system covers all ten Saudi Arabian retail banks, six million cards, 3,700 ATMs and 30,000 EFTPOS terminals supporting over US\$51,000 million in annual card payments.

Keycorp (adjusted for the capital repayment)



LongReach Group has raised \$2.0 million from the placement of 16.7 million convertible notes at 12 cents and will raise a further \$3.4 million from a 1 for 6 cash issue to shareholders (i.e. a further 28.3 million convertible notes). The shares will trade ex-entitlement to the note issue from 19 September, entitlement forms will be mailed on 20 September and payment is required by 7 October. This is a non-renounceable issue (i.e. "rights" to the notes will not be traded on the stockmarket).

The notes will pay 10% interest and can be converted to ordinary shares at any time until 31 October 2008. On conversion, two notes will become two ordinary shares plus - if converted early - one option to buy a further share at 12 cents prior to 30 April 2007. For example, if you currently own 12,000 LongReach Group shares you will be offered 2,000 notes at 12 cents each (which will eventually become 2,000 ordinary shares), plus (if you convert the notes *before* April 2007) the right to buy another 1,000 shares at 12 cents each.

Obviously, if the LongReach Group share price rises then the notes should be converted early (i.e. at least before April 2007) so as to receive the options to buy the additional shares at 12 cents.

LongReach will use the money to strengthen its balance sheet, reduce debt and provide working capital to finance higher expected future sales.

The convertible notes are attractive owing to their 10% interest and the options, so investors should take up their entitlements to this cash issue. The convertible notes will be more valuable than the ordinary shares, so if they trade on-market at just a small premium (i.e. less than 2-3 cents) to the ordinary share price then it *may* be worthwhile switching one's existing investment from the ordinary shares to the notes. That is, sell the shares and re-invest in the notes - to benefit from the interest

income *and* the potential value of the options at conversion. The notes will trade under the code of LRXG.

Ericsson has recently won a £10,000 million contract to provide equipment for **BT Global Services' 21st Century** network which will update that company's existing network to a next generation network with estimated annual cost savings of £1,000 million. LongReach Group will provide some product to Ericsson which will interface between the existing and next generation network. Even if LongReach Group provides a very small percentage of this capital expenditure, the potential revenue to this small company is enormous.

Cable & Wireless is looking at a similar £100 million upgrade and other telecommunications network companies around the world are also potential customers for this upgrade over the next few years.

LongReach Group will release new switching and wireless products during 2005/2006, with up to \$3 million of Research & Development funded by "orders locked in" for custom switches to be developed for customers. LongReach Group, however, will retain all intellectual property rights to these developments.

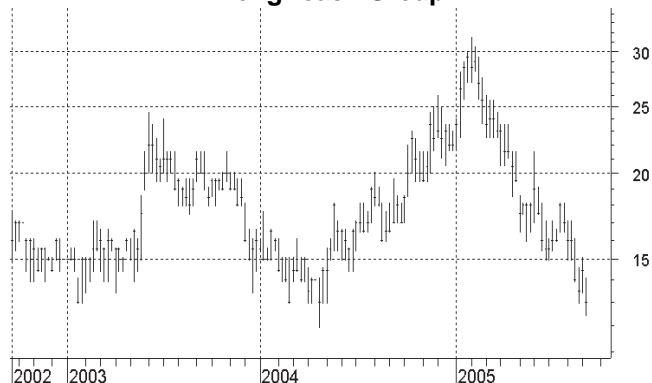
The company reports a "strong forward sales pipeline" with the outlook "very positive for profitable revenues" this financial year.

LongReach Group's share price has fallen very sharply over the last six months! Your Editor vaguely remembers mentioning (more than a few times) that shares, especially smaller company emerging growth shares, can be volatile at times! While this type of investment will always involve high risks it also holds the potential for high returns and LongReach Group does appear to be winning business and developing technology that will lead to growing revenues and profits over future years.

The advantage of holding a widely diversified portfolio - investing perhaps only 2-3% of your capital in any one holding - is that we can invest in high risk/high return investments like LongReach without the decline having a significant impact on the overall value of our portfolio. Furthermore if the shares still look attractive then we can rebuild that holding at current prices, taking advantage of the lower price *without* committing too much of our investment capital.

We recommend investors subscribe for their entitlement of convertible notes in the current cash issue - and also seek to buy more notes or shares on-market over the next few months to build up investments in this company. "Buy".

LongReach Group



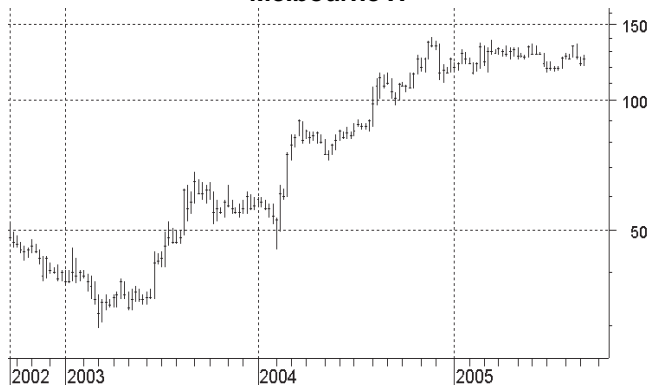
Melbourne IT has recorded further steady growth for the half year to 30 June 2005. Revenues rose 20.4% to \$35.1 million, profits increased 19.5% to \$2,181,000 (4.1 cents per share) and the interim dividend will be lifted 50.0% to 3.0 cents. The net operating cash surplus fell 29% to a still very healthy \$3.5 million.

The company has no interest bearing debt, but cash in the bank of \$22.7 million (42.7 cents per share).

For the second half of the year Melbourne IT expects "continued improvement in revenue and profit". With strong cashflows and no significant capital expenditure this business will be able to further increase dividends and has the ability to finance suitable acquisitions.

At 125 cents, Melbourne IT shares trade on an average valuation (i.e. P/S of 1.09, P/E of 17, Yield of 4.4% - all of which will improve with the current year's growth), but offers above average long term growth potential and produces strong cashflows from a business with recurring revenues. We are upgrading these shares from "Hold+" to "Buy".

Melbourne IT



M.Y.O.B. reported a 77.2% increase in revenues for the half year to 30 June. Profits rose 90.1% to \$10,561,000. The net cash operating surplus was 45% higher at \$15.4 million. This increase, however, is mainly the result of its merger with **Solution 6**.

Adjusted for the merger, revenues rose 8.5%. Earnings per share rose 24.2% to 2.7 cents.

Revenues for the full year to December 2005 are predicted to be around \$165 million with earnings (before interest, tax and depreciation) of about \$59-60 million. That should produce a net profit of around \$20 million (5½ cents per share). The company is predicting "double digit growth" in profits "for some years to come" but at this stage we shall stay with our recommendation to "Hold".

Ross Human Directions recorded a 117.1% increase in revenues to \$358.1 million in the year to June 2005 - mainly as a result of the acquisition of **Spherion**. Profits rose 27.2% to \$5,031,000 but earnings per share dropped 4.4% to 6.5 cents owing to the increase in issued capital to help finance its expansion. A steady 2.0 cents final dividend will lift the annual dividend 14.3% to 4.0 cents. The business generated an operating cash deficit of \$1.5 million, compared with a surplus of \$4.0 million in 2004, owing to additional investment in working capital.

While Ross Human Directions has yet to extract all of the expected synergies from its acquisition of Spherion, we still believe the company has the potential to grow

strongly through internal expansion and acquisition.

At 71 cents, the shares trade on a very low Price/Sales ratio of 0.16, a low Price/Earnings ratio of 12 and offer a high 5.6% Dividend Yield. The Relative Strength rating is still *negative* at -8.4%, ranked 74, but this is improving rapidly. There was one *insider* buy over the last year, with a director buying their first 10,000 shares on-market at 74 cents just two weeks ago.

We continue to rate these shares a "Buy".

Ross Human Directions



Skilled Engineering lifted trading revenues 13.2% to \$883.6 million for the year to 30 June 2005. Trading profits fell 18.3% to \$13,283,000 (13.2 cents per share) although there were gains of \$11.0 million (after tax) from the sale of businesses. A steady final 10.0 cents dividend maintains the annual dividend at 16.0 cents.

Skilled Engineering is predicting trading revenues to grow 15% in the current financial year, with earnings (before interest, tax and depreciation) rising 15-20% to around \$40-42 million. That should equal about a 25-35% increase in tax paid profits to \$16.5-18.0 million (16.4-17.9 cents per share). "Buy".

Skilled Group



Technology One experienced an 8.3% increase in revenues to \$55.8 million for the year to 30 June 2005. Profits were a similar 8.5% higher at \$10,280,000 (3.4 cents per share). The final dividend will be 6.3% higher at 1.7 cents, lifting the annual dividend 8.8% to 3.1 cents. The cash surplus from operations was 10% lower at \$11.1 million.

The company has just \$550,000 in interest bearing debt, but cash (and other financial assets) of \$25.6 million (8.6 cents per share).

The investment in Research & Development - all written off as an expense - was 7% higher at \$10.2 million.

Technology One has released its new generation product, *Finance One (CI)*, (Continued on Page 12)

Recommended Investments (Continued from Page 11) which is now in use at 22 sites and being installed at a further 33 sites. The remainder of the company's software will be upgraded to the new *Connected Intelligence* versions over 2005 and 2006. A new Work and Project Management program, *Work One*, has been released and the company is investigating new programs for *Customer Relationship Management*, *Contract Management*, *Strategic Planning* and *Fleet Management* for release over coming years.

With its new *Connected Intelligence* programs almost completed, Technology One has finalised plans to enter the United Kingdom market in early 2006 and for expansion over the following four years. The United Kingdom market is *four times* larger than the Australian market so offers the "potential to provide significant growth" as well as a step towards expanding in "other large markets" over the medium term.

Software is a business with significant *economies of scale*. Technology One will need to spend on marketing to win new business, but many other expenses (i.e. the 18% of current revenues spent on Research & Development) are fixed, so expanding revenues will boost profit margins.

Technology One expects profits from its *existing* business to rise 13-18% to \$11.6-12.1 million over the current year, but start-up losses of \$800,000 in the UK to June 2006 will hold the group to a 5-10% profit increase. The UK operation is expected to record further start-up losses to June 2007 but become profitable in the June 2008 year. "Hold+".

The Reject Shop continues to prosper. For the year to 26 June 2005 revenues rose 11.4% to \$203.4 million and profits were up 26.5% to \$7,061,000 (28.2 cents per share). A final dividend of 7.0 cents makes a full year dividend payout of 17.0 cents. Net operating cashflows fell 23% but were still high at \$11.0 million.

During the year the company opened 11 new stores, six in NSW, four in Victoria and one in Queensland. Seven stores were expanded and refurbished, while nine stores (including six *Everything Here \$2* stores) were closed. That resulted in 105 stores at year end.

Since then the company has opened three further stores, plans to open another 11 this year and will close its remaining eight *\$2* stores.

The Reject Shop has "enhanced" its five year strategic plan and is aiming for continued profitable growth. The strong balance sheet and free cash flows will allow continued store expansion and/or acquisitions. A new Distribution Centre is being built at Tullamarine, Victoria, which should be operational in late 2006 with "upgraded" and more "cost effective facilities to handle growing volumes".

The Reject Shop ultimately sees the potential to expand to "over 300" stores in Australia. The performance of this company contrasts with the troubled performance of its competitors, **The Warehouse Group** and **Miller's Retail**. The Warehouse may close down or sell its Australian operations, while Miller's Retail has plans to close 80 of its 340 stores in the discount variety retailing sector.

Under current accounting standards The Reject Shop predicts profits to grow 11-14% to \$7.8-8.1 million for the year to June 2006. Under the new standards the profit for the 2005 year would have been slightly lower at \$6.5 million and expected to grow 15-18% to \$7.5-7.7 million this financial year.

At 374 cents, the shares trade on a Price/Sales ratio of 0.46, a low Price/Earnings ratio of 13 and a Dividend Yield of 4.5%. That is a cheaper valuation than The Warehouse Group. Growth potential should also be significantly greater as The Reject Shop has not saturated its home market and still has the potential to expand into new Australian states.

"Hold+" for further growth.



Toll Holdings has reported a 17.2% increase in revenues to \$3,883.5 million for the year to 30 June 2005. Profits rose 28.4% to \$216,554,000 (65.6 cents per share) and a 29.2% higher final dividend of 15.5 cents will lift the annual dividend rate 29.3% to 26.5 cents. Net operating cashflows were 52% higher at \$318.1 million.

The company expects yet "another outstanding year" to June 2006, with trading in July and August "strong" and "ahead of budget".

Toll Holdings is also making a hostile takeover offer for **Patrick Corporation** which will approximately double the size of the group. Toll Holdings is offering 0.4 Toll Holdings shares, 0.3 **Virgin Blue Holdings** shares and 75 cents in cash for each Patrick Corporation share - valuing this takeover at \$4,600 million.

Patrick Corporation currently owns 62% of Virgin Blue Holdings and Toll Holdings plans to reduce this to 10-27%. 20% of Virgin Blue will be distributed to Patrick Corporation shareholders under the proposed takeover, 15% will be sold in a public offer (underwritten by **Virgin Group** at 140 cents per share) and up to 15% will be sold via a call option allowing Virgin Group to buy shares at 140 cents. Toll Holdings is forecasting synergies "in excess of \$50 million per annum" from this merger and predicts a combined group profit in excess of \$510 million (more than 84 cents per share). Toll Holdings had already acquired a 4.3% stake in Patrick Corporation ahead of its takeover offer.

Patrick Corporation is not in favour of this takeover.

Toll Holdings has also agreed to sell \$64 million worth of properties and 19.28 hectares of development land to **Macquarie Goodman**, leasing back the property at an 8.5% yield. The two companies are negotiating for

September 13, 2005.

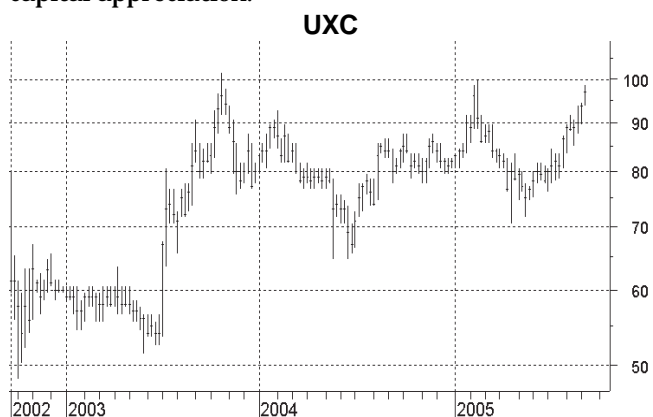
the development and lease of \$60 million of new facilities on the vacant land.

UXC has reported a 28.3% increase in revenues to \$242.6 million for the year to June 2005. Profits rose 29.9% to \$11,709,000 - while earnings per share were 17.7% higher at 7.3 cents. The final dividend of 3.25 cents is 8.3% higher than last year, lifting the annual dividend 10.0% to 5.5 cents.

The cash surplus from operations almost doubled to a high \$20.7 million.

Under the new accounting standards UXC's reported profits would be more than 30% higher as goodwill is not written off as an expense. Using those standards the period to June 2005 would have resulted in a reported profit of \$15.5 million (9.6 cents per share).

UXC offers good value (i.e. a P/S of 0.65, P/E of 13 and Yield of 5.7%) and the potential for good growth, so we are happy to "Hold" these shares for both income and capital appreciation.



Vision Systems' report for the year to 30 June 2005 shows revenues up 19.9% to \$169.9 million but the company is still failing to achieve reasonable levels of profitability. Profits were 44.3% lower at \$6,290,000 (3.5 cents per share), after writing off \$1.95 million costs integrating the **Millbank** business and \$3.49 million of legal costs relating to its *Bond* machines (of which half had been capitalised in 2004 but has now been written off).

A final 2.2 cents dividend maintains a 4.2 cents annual dividend rate. The net operating cash surplus was a high \$13.2 million - although down 39% on the very high \$21.8 million surplus last year.

Expenditure on Research & Development fell 27% to \$16.7 million, although the amount amortised as an expense increased 18% to \$15.1 million. So the company has passed its peak investment in R & D to develop new products (which improves operating cash flows) but is expensing R & D capitalised over recent years (which depresses reported profits). Expenditure on marketing to grow the business, however, increased 15% to around \$33 million which depresses both cashflows and profitability - at least in the short term.

Vision BioSystems recorded very strong revenue growth, up 72% to \$46.9 million. Gross profits were 63% higher at \$24.3 million, but marketing expenses were 96% higher (at \$9.6 million) and R & D amortisation was also higher, so earnings (before legal costs) were just 17% higher at \$5.4 million. This division's investment

in marketing to sell new medical instruments and recurring reagent revenues "positions the company for strong sales and earnings growth in the 2006 financial year and beyond". Instrument sales rose 150% to \$20 million while reagent revenues were 39% higher at \$27 million.

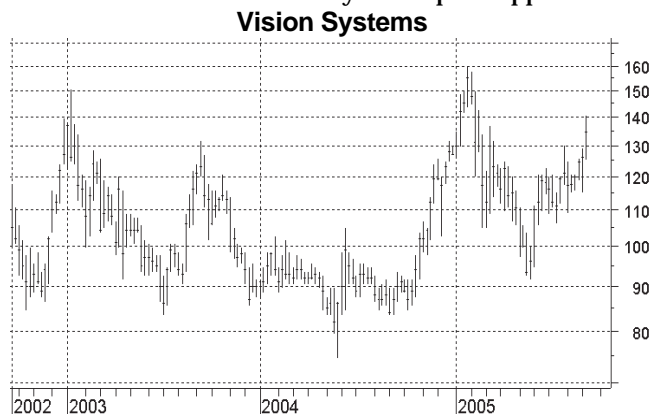
Invetech - the Research & Development business of Vision Systems - lifted revenues 19% to \$32.2 million, with earnings recovering to \$2.8 million (from just \$400,000 last year). Revenues from external customers rose 50% to \$32.2 million - offsetting the decline in R & D for other company divisions - and a "solid forward pipeline" will see this revenue growth continue at least during the current half year.

The *Fire & Security* businesses recorded a 3% increase in revenues to \$88.8 million, with earnings up 6% to \$15.3 million *before* integration costs or down 8% to \$13.3 million *after* these costs.

Vision Systems is seeking advice on "strategic options" which may include separating *Vision Fire & Security* from the rest of Vision Systems so that "the market is able to better recognize" the value of the group's core businesses. Investigating these options should be "completed within the first half of 2006" and may result in the "distribution of funds to shareholders". The most likely options would include (1) a trade sale to an international competitor or (2) a full or partial float on the stockmarket. A partial float *could* involve spinning off some Vision Fire & System shares to existing shareholders, while other options would raise cash for Vision Systems - some of which *could* be distributed as a special dividend or an on-market buy-back or an off-market pro-rata share buy-back.

We have owned Vision Systems for almost eight years. At times the shares have been a little volatile but they have never quite realised the potential that we believe is possible. Overall this investment has produced low double digit returns for us. That is a below average return for our portfolio but still much better than a bank deposit or an investment in most managed funds. Separating the *Fire & Security* division will probably help to boost shareholder value over the next 6-12 months, but ultimately the big gains will accrue if the *BioSystems* revenues grow strongly enough to swamp the \$15-30 million spent annually on items like R & D and marketing. At 40-80% growth rates that may only take another year before profits start to expand rapidly.

The shares are still a "Buy" for capital appreciation.



"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	170	CocaCola Amatil	9	5,959	Invocare Ltd	4	384	Record Realty	1	118
ABB Grain Ltd	4	963	Cochlear Ltd	7	2,231	Iress Mkt Tech	5	479	Redflex Holding	1	278
ABC Learning	6	1,575	Codan Ltd	4	251	JB Hi-Fi Ltd	4	330	Reece Australia	1	1,270
AMP Ltd	8	13,840	Coles Myer	12	12,261	James Hardie	6	4,098	Repco Corp Ltd	2	552
ANZ Bank	10	41,387	Collection Hse	1	155	Jubilee Mines	2	943	Resolute Mining	2	211
APN News Media	9	2,470	Colorado Group	3	428	Just Group Ltd	6	467	Ridley Corp.	4	367
ARB Corporation	2	198	Com'wealth Bank	9	47,578	K&S Corporation	3	209	Rinker Group	7	14,354
ARC Energy	1	361	Commander Comm.	5	400	Kagara Zinc Ltd	2	229	Rio Tinto Ltd	13	70,201
AWB Limited	7	1,744	Computershare	5	4,010	Keycorp Ltd	1	125	Roc Oil Company	3	441
AXA Asia Pac	7	8,328	Cons Minerals	3	726	Kimberley Diam.	2	223	Rural Press Ltd	6	1,367
AcruX Ltd	1	91	Cons Rutile	1	235	Kingsgate Cons.	3	272	S8 Limited	1	139
Adcorp Aust.	2	47	Corp Express	6	1,172	Lafayette Min.	1	77	SAI Global Ltd	3	293
Adelaide Bank	9	1,227	Count Financial	1	346	Leighton Hold	6	4,028	SDI Limited	4	109
Adelaide Bright	5	1,192	Coventry Group	1	207	Lend Lease Corp	7	5,381	SFE Corporation	7	1,572
Adsteam Marine	2	483	Crane Group	3	594	Lihir Gold	9	1,888	SP Telecom	2	452
Adtrans Group	1	87	Credit Corp	1	138	Lipa Pharm.	1	148	STW Comm Group	7	561
Ainsworth Game	2	79	Croesus Mining	2	123	M.Y.O.B. Ltd	1	409	Sally Malay Min	2	111
Alesco Corp Ltd	4	555	DB Reef Trust	4	3,743	Macarthur Coal	7	1,080	Salmat Ltd	4	525
Alinta Limited	7	2,744	DCA Group Ltd	4	1,683	Macquarie C'Wde	4	2,270	Santos Ltd	9	6,410
Altium Limited	1	24	David Jones	7	998	Macquarie Prof.	5	851	Seek Ltd	5	789
Alumina Ltd	10	6,967	Deutsche Office	1	1	Macquarie Air.	7	4,793	Select harvest	3	483
Ancor Ltd	8	5,814	Deutsche Div Tr	1	1,306	Macquarie Infra	5	8,817	Servcorp Ltd	1	301
Ansell Ltd	3	1,737	Deutsche Ind Tr	1	663	Macquaries C&I	2	2,427	Seven Network	6	1,829
Aquarius Plat.	1	764	Dexion Ltd	1	0	Macquarie Leis.	2	424	Sigma Company	7	1,648
Aristocrat Leis	6	5,942	Div. Utility	3	1,139	Macquarie Good.	4	5,985	Sims Group Ltd	6	1,640
Arrow Pharm.	2	765	Domino's Pizza	2	174	Macquarie Off.	5	2,268	Sino Gold Ltd	3	249
Arrow Energy	1	91	Downer EDI Ltd	3	1,730	Macquarie C. Tel	1	19	Skilled Group	5	320
Atlas Grp Hold.	1	120	ETRADE Aust.	1	263	Macquarie DDR	5	835	Smorgon Steel	4	1,354
Aust W'wide Exp	5	695	Ellex Medical	1	15	Macquarie Bank	7	14,384	Sonic Health	6	4,231
Aust Agricult.	3	430	Emperor Mines	1	39	Maxi TRANS	4	149	Soul Pattinson	1	2,277
Aust Stock Exch	6	2,684	Energy Develop.	4	644	Mayne Group Ltd	4	3,359	Spotless Group	3	1,063
Aust Education	2	108	Envestra	6	931	McGuigan Simeon	5	497	St George Bank	10	14,140
Aust Gas Light	7	6,506	Equigold NL	2	193	McPherson's Ltd	4	192	Stargames Ltd	2	129
Aust Pharm. Ind	5	798	Evans & Tate	1	24	Metabolic Phar.	1	163	Stihl Cross Brd.	7	918
Aust Infra.	5	874	Excel Coal Ltd	7	1,479	Metcash Trading	4	2,417	Stockland	5	7,926
Aust Pipeline	4	1,010	FKP Limited	3	718	Millers Retail	5	219	Straits Res.	1	339
Austal Limited	2	385	Fairfax (John)	8	4,234	Minara Resource	3	818	Suncorp-Metway	7	10,862
Austar United	4	1,503	Fantastic Hold.	1	317	Mincor Resource	1	136	Sunland Group	1	365
Austereo Group	7	678	Felix Resources	2	550	Mirvac Group	5	3,483	SuperCheap Auto	2	330
Australand Prop	3	1,619	Fleetwood Corp	2	321	Mortgage Choice	2	167	Sydney Aquarium	3	122
B & B Infrastr.	3	1,712	Flight Centre	5	1,431	Multiplex Group	6	2,730	Sydney Gas Ltd	2	116
B Digital Ltd	1	188	Foodland Assoc	7	3,128	Nat'l Aust Bank	12	48,601	Symex Holdings	1	144
B&B Japan Prop.	2	444	Foster's Group	7	11,356	New Hope Corp.	1	949	Tabcorp Holding	4	8,634
BHP Billiton	11	72,428	Funtastic Ltd	5	270	Newcrest Mining	9	5,901	Talent2 Intl	1	139
Babcock & Brown	3	4,118	Futurus Corp.	6	1,406	News Corp.	4	73,213	Tap Oil	7	410
Ballarart Gold	3	122	G.R.D. NL	1	510	Nick Scall Ltd	1	123	Tassal Group	1	106
Bank of Q'land	9	1,132	G.U.D. Holdings	5	461	Noni B Limited	2	102	Technology One	3	163
Baxter Group	1	193	GPT Group	6	8,006	Nufarm Limited	5	1,828	Telstra	9	54,933
Baycorp Advant.	5	819	GWA Internat'l	4	968	Nylex Ltd	3	158	Ten Network	9	1,461
Bendigo Mining	1	95	Gale Pacific	1	80	OAMPS	1	472	Thakral Holding	2	503
Bendigo Bank	7	1,547	Galileo Shop Am	5	481	Oakton Limited	3	178	The Reject Shop	1	94
Billabong Intl	4	2,755	Gallery Gold	1	142	Oceana Gold Ltd	2	189	Ticor Ltd	2	455
Bluescope Steel	8	6,791	Gandel R. (CFS)	5	3,698	Oil Search Ltd	10	3,845	Timbercorp	1	513
Boom Logistics	3	415	Gasnet Aust Grp	3	389	Onesteel Ltd	7	1,906	Tishman Speyer	3	577
Boral Limited	6	4,601	Geodynamics Ltd	1	131	Orica Ltd	8	5,458	Toll Holdings	6	4,447
Brambles Ind.	9	14,863	Globe Intl Ltd	2	135	Origin Energy	6	5,536	Total Com Infra	1	147
Brazin Limited	3	218	Gloucester Coal	1	297	Oroton Group	2	98	TransPacific In	2	940
Brickworks Ltd	2	1,502	Graincorp	3	470	Oxiana Ltd	11	1,492	Transonic Trav.	1	105
Bridgestone	1	117	Grand Hotel	2	199	PMP Limited	3	377	Transfield Serv	3	1,321
Bunnings W/hse	3	609	Gro Pep Limited	1	62	Pacifica Group	3	415	Transurban Grp	3	5,841
Burns Philp	4	2,052	Gt Sthn Plant'n	2	869	Pacific Brands	3	1,403	Treasury Corp	1	283
C'wth Prop Off.	5	1,916	Gunns Ltd	5	1,068	Pan Australian	1	133	Trinity Cons	1	101
C.S.R. Ltd	7	2,458	Hardman Res.	5	1,454	Panbio Ltd	1	12	Trust Co of Aus	1	309
CBH Resources	1	140	Harvey Norman	6	2,919	Paperlin X Ltd	7	1,401	UNITAB Ltd	6	1,648
CH4 Gas Ltd	2	147	Hast Div Util	1	388	Patrick Corp	8	4,182	UXC Limited	1	157
CMI Limited	1	54	Healthscope	4	1,118	Peet & Company	1	364	United Group	3	1,117
CPI Group	2	33	Henderson Group	4	4,432	Peptech Limited	1	221	Unwired Group	1	145
CSL Limited	7	6,542	Highland Pac.	1	248	Perilya Mines	1	149	Valad Property	2	743
Cabcharge Ltd	5	662	Hills Indust.	3	745	Perp Trust Aust	4	2,583	Vertracor Ltd	1	240
Caltex Australia	6	4,876	Housewares Int.	4	199	Perseverance	3	173	Villa World	1	168
Campbell Bros	1	402	Hpal Limited	2	196	Phosphagenics	1	132	Village Road.	1	790
Candle Aust.	2	113	Hutchison Tel.	6	214	Photon Group	2	214	Virgin Blue	6	1,667
Capral Alum.	1	178	IBA Health Ltd	1	79	Portman Limited	9	731	Vision Systems	1	241
Cardno Ltd	1	167	IBT Education	1	582	PowerTel Ltd	1	152	Vision Group	1	303
Carindale Prop	1	234	ING Indust Trt	5	1,748	Primary Health	2	1,249	Volante Group	1	187
Cellnet Group	2	59	ING Office Fund	5	1,364	Prime TV	6	422	W'bool Cheese	1	150
Centennial Coal	8	1,356	IOOF Holdings	4	472	Pro Maintenance	7	229	Waterco Ltd	1	83
Centro Property	5	4,679	liNet	1	366	Pro Medicus Ltd	1	119	Watpac Ltd	1	98
Chal Financial	4	2,083	Iluka Resources	10	2,026	Promentum Ltd	1	96	Wattyl Ltd	4	229
Chal Wine Trust	1	127	Incitec Pivot	3	909	Promina Group	7	5,182	Wesfarmers Ltd	7	14,679
Chemeq Ltd	1	122	Independ. Group	1	112	Publishing & Br	7	11,081	West Aust News	7	1,808
Chiquita Brands	1	127	Indophil Res.	1	82	Q.B.E. Insur.	10	12,857	Westfield Group	8	28,933
Citect Corp Ltd	1	51	Infomedia Ltd	1	172	Qantas Airways	9	6,129	Westpac Banking	10	36,497
City Pacific	1	570	Insurance Aust.	8	8,432	Queens'd Cotton	1	107	Willmott Forest	1	101
Clough Limited	1	228	Integrated Grp	2	123	Ramsay Health	6	1,627	Woodside Petrol	14	21,200
Coal & Allied	2	4,001	Investa Prop.	5	3,165	Reckon Limited	1	114	Woolworths Ltd	10	17,316
Coates Hire	5	2,038	Investor Group	5	368	Record Invest.	3	1,186	Worley Group	3	2,025
									Zinifex Ltd	4	1,945

Dividends

Company	Cents per Share	Ex-Date	Pay-able	Tax Credit
ABS Canterbury	7.50	23-09	30-09	Full
Air New Zealand	2.50	16-09	29-09	Full
Allied Farmers	5.00	23-09	30-09	Full
Allied Farmers special	5.00	23-09	30-09	Full
Auckland International Airport	4.45	14-10	21-10	Full
Brierley Investments	S\$0.03½	-	-	-
Briscoes Group	3.00	19-09	26-09	Full
Broadway Industries	2.00	21-10	28-10	Nil
Cavalier Corporation	14.50	30-09	07-10	Full
Colonial Motor Company	10.50	14-10	26-10	Full
Contact Energy	10.00	31-08	14-09	Full
Ebos Group	12.50	30-09	07-10	Full
Fletcher Building	17.00	23-09	13-10	Full
Freightways	8.50	16-09	30-09	Full
Hellaby Holdings	20.00	30-09	07-10	Full
Hirequip NZ	2.50	16-09	23-09	Full
Just Water International	1.79	30-09	07-10	Full
Lyttelton Port Company	7.25	07-10	14-10	Full
Mr Chips	2.50	23-09	30-09	Full
Michael Hill International	14.00	07-10	17-10	Full
Mike Pero Mortgages	3.00	16-09	27-09	Full
National Property Trust	2.10	19-08	02-09	0.693
Northland Port	4.50	16-09	23-09	Full
Nuplex Industries	14.50	30-09	14-10	Full
NZ Experience	2.00	16-09	30-09	Full
NZ Refining Company	100.00	23-09	30-09	Full
NZ Wine Company	5.00	-	23-09	Full
Oyster Bay	10.00	28-10	04-11	Nil
POD Ltd	3.00	16-09	30-09	Full
Port of Tauranga	13.00	23-09	07-10	Full
Provenco Group	3.00	-	17-10	Full
Pyne Gould Corporation	12.00	16-09	21-09	Full
Pyne Gould Guinness	5.00	02-09	09-09	Full
Pyne Gould Guinness special	2.00	02-09	09-09	Full
Renaissance Corporation	4.00	30-09	07-10	Full
Salvus Strategic	2.00	07-10	21-10	Full
Skellmax Industries	4.00	07-10	14-10	Full
Sky City	12.00	23-09	07-10	Full
South Port NZ	4.25	30-09	07-11	Full
Southern Travel	3.90	11-11	21-11	Full
Steel & Tube Holdings	17.00	02-09	09-09	Full
Taylors Group	6.00	01-09	15-09	Full

Company	Cents per Share	Ex-Date	Pay-able	Tax Credit
TeamTalk	9.00	21-10	28-10	Full
Tourism Holdings	6.00	14-10	21-10	Full
Turners Auctions	8.00	16-09	30-09	Full
Warehouse Group	4.00	11-11	21-11	Full
Waste Management NZ	15.00	26-08	02-09	Full
Wool Services	1.00	04-11	17-11	Full
Wrightson	10.50	-	15-09	Full
<u>Australian Shares</u>				
AXA	6.25	05-09	03-10	
Austin Group	3.00	11-10	04-11	
Candle Australia	8.00	05-09	16-09	
Centennial Coal	7.00	19-09	07-10	
Citect Corporation	2.50	12-09	03-10	
Commander Communications	4.00	10-10	31-10	
Computershare	6.00	05-09	23-09	
Iluka Resources	10.00	12-09	30-09	
Keycorp	41.00	29-08	-09	
Melbourne IT	3.00	04-10	28-10	
Promina	10.50	10-10	31-10	
Ross Human Directions	2.00	19-09	14-10	
Skilled Group	10.00	20-09	18-10	
Technology One	1.70	05-09	23-09	
The Reject Shop	7.00	29-08	23-09	
Toll Holdings	15.50	05-09	30-09	
UXC	3.25	31-10	21-11	
Vision Systems	2.20	07-09	27-09	

Current Issues

SHARE SPLIT

	Ratio	Ex-Date
NZ Refining Company	10:1	07-10

SHARE REPURCHASES

	Details
Abano Healthcare (1)	1:6 @220
(1) Completed in August.	
Auckland Int'l Airport (2)	on-market
(1) Auckland International Airport will buy-back up to 2% of its capital on-market over the next year.	

CASH ISSUES

	Ratio	Price	Ex-Date	Appln Date
Heritage Gold (1)	1:5	5	23-09	-
(1) Plus 1 option.				

Next Issue

The next issue of *Market Analysis* will be posted in four weeks time on Tuesday October 11, 2005 (and delivered in most areas on Wednesday 12).

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

Total Return Index for All Listed Shares

Aug 8	2383.71		
Aug 9	2376.68		
Aug 10	2376.54		
Aug 11	2375.15		
Aug 12	2374.17		
Aug 15	2372.75	Aug 22	2361.92
Aug 16	2368.97	Aug 23	2362.02
Aug 17	2367.61	Aug 24	2376.98
Aug 18	2365.26	Aug 25	2381.50
Aug 19	2358.14	Aug 26	2370.05
Aug 29	2368.62	Sep 5	2381.84
Aug 30	2371.84	Sep 6	2381.98
Aug 31	2374.33	Sep 7	2389.90
Sep 1	2378.13	Sep 8	2393.55
Sep 2	2383.65	Sep 9	2392.64

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.

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