Twenty Five Years of Independent Information and Unbiased Advice on the Australian and NZ Stockmarkets

Market Analysis

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Inside Market Analysis

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Summary and Recommended Investment Strategy.

Remain close to fully invested in the recommended shares but with around a 10% cash reserve which will finance new share investments later this year.

Investment Outlook.

Interest rates are just one factor impacting upon the stockmarket and the economy, but NZ short term interest rates do appear to have peaked and have weakened slightly over recent weeks . . .

Interest rates, however, are likely to remain high by world standards and this will tend to support the "over-valued" NZ dollar over the next year or two.

The economy will likely weaken over the months ahead, but share prices have *already fallen*, *anticipating* this expected economic slowdown.

We see good value in most of our existing shareholdings, so are happy to remain close to fully invested in the recommended shares. We also see good value developing in many other situations, so recommend holding a small cash reserve of about 10% of portfolios which we will re-invest in new opportunities in mid to late 2006.

We continue to find better value and growth potential in Australian shares - perhaps as there are more than ten times as many potential investments - but also better *investor protection*.

The NZ stockmarket, however, offers some high yielding and cyclical investment opportunities. While we are mainly interested in capital growth, some lower risk, higher income investments help to provide a more balanced and better diversified portfolio.

Stockmarket Forecasts

	One-Month	One-Year
Australia:	**63%** (Bullish)	**65%** (Bullish)
New Zealand:	**60%** (Bullish)	**52%** (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
A2 Corporation	D	10	N/A	NE	Nil
ABS Canterbury	B	422	1.27	14	5.0
AMP Limited	A	900	1.41	16	3.3
AMP Onyx Mgmt	B	99	5.18	13	7.4
AXA Asia Pac.	A	582	1.89	17	2.1
Abano Health.	D	173	0.70	NE	Nil
Affco Holdings	E	35	0.18	8	2.9
Air New Zealand	A	127	0.35	7	5.9
Akd Int Airport	C	197	8.52	23	6.2
Allied Farmers	C	218	0.46	12	7.2
Allied Work.	D	118	N/A	NE	Nil
Apple Fields	C	1.8	N/A	NE	Nil
Blis Technology	E	13	N/A	NE	Nil
Blue Chip Fin.	C	85	2.07	9	Nil
Botry-Zen Ltd	E	5.0	N/A	NE	Nil
Brierley Invest	C	125	2.64	13	3.2
Briscoe Group	B	134	0.89	15	7.8
Broadway Ind	D	86	0.40	18	5.8
CACI Group Ltd	C	24	0.31	55	Nil
CDL Hotel NZ	C	60	1.26	9	3.5
CDL Investments	C	41	4.08	10	5.8
Cabletalk Group	D	54	0.42	8	8.3
Cadmus Tech Ltd	E	23	2.74	NE	Nil
Calan Hlthcare	B	127	N/A	19	6.7
CanWest Media.	D	160	1.45	28	5.9
Cap Properties	B	150	5.96	20	6.0
Carter Holt	C	273	1.00	8	1.5
Cavalier Corp	C	293	0.92	10	13.8
Cert Organics	E	6.0	4.71	NE	Nil
Charlie's Group	E	14	1.55	NE	Nil
Col Motor Co	B	294	0.21	11	11.2
Comvita	B	218	1.02	22	1.4
Connexion	C	42	2.47	62	Nil
Contact Energy	B	665	3.00	27	5.6
Cube Capital	D	4.5	0.13	NE	Nil
Cynotech Hold.	E	16	0.88	NE	Nil
Dominion Fin.	B	122	2.73	9	8.4
Dorchester Pac	B	235	0.60	8	6.5
Eastern Hi-Fi	D	72	0.52	10	Nil
Ebos Group Ltd	B	467	0.46	14	6.9
Evergreen	E	25	1.19	NE	Nil
F & P Appliance	B	354	0.90	14	7.6
F & P Health.	B	373	7.89	31	4.3
Feltex Ltd	C	50	0.25	6	17.9
Finzsoft Sol'ns	E	69	0.81	33	Nil
Fletcher Build.	B	763	0.76	11	6.3
Forty Two Below	E	55	5.68	NE	Nil
Freightways Ltd	A	328	1.76	19	7.3
GDC Communicat.	E	1.5	0.02	NE	Nil
Genesis Res.	E	24	1.41	NE	Nil
Guinness Peat	C	229	0.19	9	2.3
Gullivers Trv.	C	134	0.32	11	10.9
Hallenstein G.	A	500	1.59	15	9.0
Hellaby Hold.	C	448	0.56	11	13.0

	Performance Forecast	Price	Price/Sales Ratio	P/E Ratio	Gross Yield
Heritage Gold *	N/R	5.8	N/A	NE	Nil
Hirequip NZ Ltd	C	82	0.95	10	6.8
Horizon Energy	B	420	3.91	14	7.1
ING Property	B	119	8.26	15	9.0
Infratil NZ	B	384	4.32	17	4.1
Jasons Media	E	40	N/A	NE	Nil
Just Water Int.	D	86	2.82	18	5.6
KidiCorp	C	18	1.30	NE	Nil
Kingfish Ltd	B	95	2.48	3	3.1
Kirkcaldie & St	A	265	0.61	22	4.5
Kiwi Property	B	128	9.99	17	6.8
Life Pharmacy	D	90	N/A	NE	2.0
Lion Nathan Ltd	C	822	2.25	18	4.2
Livestock Imp.	C	136	0.42	8	14.6
Loan & Building	A	432	1.28	14	5.2
Lombard Group	E	3.2	N/A	NE	Nil
Lyttelton Port	C	177	2.72	15	9.3
MDSnews	E	0.3	N/A	NE	Nil
MG Property Trt	B	125	N/A	24	9.0
Mainfreight Grp	A	363	0.41	26	2.7
Media Tech.	E	6.0	0.25	NE	Nil
Methven Limited	C	128	1.20	10	8.9
Metro. LifeCare	B	390	3.10	19	1.4
Michael Hill	B	700	0.99	16	4.9
Mid-Cap Index	D	235	N/A	NE	Nil
Mike Pero Mort.	B	105	1.99	16	8.5
Mooring Systems	E	310	N/A	NE	Nil
Mowbray Collect	E	130	3.56	NE	3.4
Mr Chips Hold	D	71	0.49	12	8.4
NZ Exchange Ltd	C	677	4.74	23	Nil
NZ Experience	D	28	1.25	13	10.7
NZ Finance Hold	C	115	6.83	31	Nil
NZ Invest Trust	B	824	N/A	NE	1.0
NZ Oil and Gas *	N/R	97	N/A	NE	Nil
NZ Refining Co	A	600	5.12	15	7.5
NZ Windfarms	C	130	N/A	NE	Nil
NZ Wine Company	C	200	1.92	19	3.7
NZ Wool Service	E	44	0.26	31	3.4
NZSX 10 Fund	D	123	N/A	NE	Nil
NZSX 50 Port.	C	156	N/A	NE	Nil
NZX Aust MidCap	C	525	N/A	NE	Nil
Nat Property Tr	C	76	5.16	15	12.0
New Image Group	D	5.5	1.55	NE	Nil
Northland Port	B	270	N/A	14	5.5
Nuplex Indust	B	474	0.39	12	8.3
Opio Forestry	D	86	N/A	NE	Nil
Oyster Bay	B	350	4.39	60	2.9
Ozzy (Tortis)	C	288	N/A	NE	Nil
PGG Wrightsons	B	190	0.69	13	7.1
POD Ltd	D	60	0.23	6	7.5
Pac Edge Bio.	E	20	N/A	NE	Nil
Pacific Retail	D	192	0.12	NE	Nil
Plus SMS Hold.	C	66	N/A	NE	Nil
Port Tauranga	C	446	4.10	18	6.7

	Performance Forecast	Price	Price/Sales Ratio	P/E Ratio	Gross Yield
Postie Plus Grp	D	63	0.22	15	7.1
Property F Ind.	B	114	9.69	18	6.9
Provenco Group	C	85	0.74	10	5.3
Pumpkin Patch	A	335	1.99	23	3.6
Pyne Gould Corp	C	400	0.85	10	6.7
Renaissance	A	151	0.48	25	7.3
Restaurant Brds	C	133	0.40	12	11.2
Richina Pacific	D	51	0.13	15	3.9
Rubicon Limited	E	90	0.55	NE	Nil
Ryman Health.	B	526	4.34	22	2.2
Salvus Strat.	D	68	8.13	15	4.4
Sanford Limited	C	396	1.01	12	8.3
Satara Co-op	C	100	0.47	23	9.0
Savoy Equities	D	2.0	N/A	NE	Nil
Scott Tech. Ltd	D	186	1.15	NE	3.2
Sealegs Corp	E	17	3.24	NE	Nil
Seeka Kiwifruit	B	329	0.51	10	9.1
Skellmax Indust	C	128	1.08	10	8.2
Sky City Ltd	C	460	2.81	18	7.8
Sky Network TV	D	640	5.09	24	Nil
Smiths City	C	60	0.14	4	8.3
Software of Exc	D	98	1.06	NE	Nil
Sol. Dynamics	D	42	0.31	NE	Nil
South Port NZ	C	122	2.37	17	8.0
Speirs Group	C	104	0.19	9	11.5
Steel & Tube	C	404	0.81	10	11.8
Sthn Travel	C	46	0.15	5	20.8
Summit Gold Ltd*	N/R	87	N/A	NE	Nil
Tag Pacific Ltd	C	27	0.30	6	2.0
Taylors Grp Ltd	B	165	0.61	11	11.8
TeamTalk Ltd	C	209	2.09	14	12.9
Telecom Corp	C	575	1.95	12	10.0
Tenon Ltd	D	330	0.55	8	Nil
Toll NZ Ltd	C	310	0.96	16	Nil
Tourism Hold.	C	160	0.88	15	10.3
Tower Limited	C	213	0.67	8	Nil
Training Sol.	E	0.1	0.71	NE	Nil
Trans-Tasman	D	45	3.39	10	Nil
Trust Power Ltd	A	615	3.16	26	4.7
Turners & Grow.	D	200	0.26	15	Nil
Turners Auction	A	215	0.74	8	13.9
Utilico Int'l	D	45	2.89	NE	Nil
VTL Group Ltd	B	75	0.79	11	4.4
Vector Ltd	D	267	2.30	49	Nil
WN Drive Tech.	D	37	N/A	NE	Nil
Wakefield Hlth	A	595	1.75	24	3.3
Warehouse Group	B	380	0.52	30	5.7
Waste Mgmt NZ	B	633	2.94	25	6.3
Widespread Port*	N/R	1.8	N/A	NE	Nil
Windflow Tech.	D	230	N/A	NE	Nil
Wool Equities	C	60	0.65	NE	Nil
World Index Fd	C	132	N/A	NE	Nil
Zintel Comm.	D	72	1.02	11	7.2
Ave of 161 Cos	**C**	204	0.54	18	4.3

	Performance Forecast	Price	Price/Sales Ratio	P/E Ratio	Gross Yield
ABC Learning	A	733	6.27	35	1.5
AMP Ltd	B	836	1.43	17	3.2
ANZ Bank	A	2491	4.88	32	4.1
APN News Media	B	471	1.77	18	4.7
AWB Limited	B	452	0.30	10	6.4
AXA Asia Pac	A	534	1.88	18	2.2
Adelaide Bright	B	208	1.62	14	3.6
Adelaide Bank	A	1290	4.29	15	4.1
Alinta Limited	B	1079	2.64	19	3.9
Alumina Ltd	A	785	N/A	33	2.5
Amcor Ltd	B	686	0.54	14	5.0
Ansell Ltd	B	1078	1.56	NE	1.3
Aquarius Plat.	A	1474	5.42	58	0.5
Argo Investment	B	668	N/A	30	3.1
Aristocrat Leis	B	1137	4.77	31	0.7
Aust Foundation	A	453	N/A	26	3.5
Aust Stock Exch	A	3461	N/A	33	2.7
Aust Gas Light	A	1795	1.67	10	3.5
Aust Pipeline	B	416	3.07	17	5.4
Austar United	C	105	3.18	NE	Nil
Australand Prop	B	198	1.39	12	8.4
B & B Infrastr.	C	164	3.70	NE	6.6
BHP Billiton	A	2553	2.17	11	1.5
Babcock & Brown	B	1700	6.98	80	Nil
Bank of Q'land	A	1520	1.80	17	3.2
Bendigo Bank	A	1266	1.88	19	3.2
Billabong Int'l	B	1501	3.64	25	2.5
Bluescope Steel	B	745	0.66	5	5.6
Boral Limited	A	874	1.16	13	3.9
Brambles Ind.	A	998	2.16	55	1.0
Brickworks Ltd	A	1345	3.15	9	2.3
Burns Philp	C	109	0.88	28	2.1
C'wth Prop Off.	C	130	7.66	15	7.4
C.S.R. Ltd	A	419	1.61	13	2.9
CSL Limited	A	4400	2.55	28	1.1
Caltex Austrlia	B	1853	0.37	9	2.1
Centennial Coal	B	424	1.76	23	3.1
Centro Property	B	620	N/A	21	5.4
Chal Financial	B	394	2.33	19	1.3
Coal & Allied	A	5480	3.21	16	4.2
Coates Hire	B	534	2.07	18	2.8
CocaCola Amatil	C	759	1.50	19	3.7
Cochlear Ltd	B	4579	7.13	46	1.7
Coles Myer	A	1012	0.35	20	3.3
Com'wealth Bank	A	4388	3.26	22	4.2
Computershare	B	683	3.64	40	1.6
Corp Express	B	571	1.08	19	2.6
DB Rreef Trust	B	138	3.63	17	7.6

	Performance Forecast	Price	Price/Sales Ratio	P/E Ratio	Gross Yield
DCA Group Ltd	B	361	2.24	93	1.9
Deutsche Div Tr	C	131	6.10	14	7.1
Div. Utility	B	249	1.36	18	8.8
Downer EDI Ltd	A	767	0.59	22	2.3
Energy Resource	B	1342	7.99	50	1.3
Excel Coal Ltd	B	763	4.21	16	3.1
Fairfax (John)	B	416	2.04	15	4.4
Fortescue Metal	C	592	N/A	NE	Nil
Foster's Group	C	550	2.77	12	3.6
Futuris Corp.	C	211	0.44	15	4.3
GPT Group	B	404	N/A	19	5.4
Gandel R. (CFS)	B	193	N/A	19	5.4
Gt Sthn Plant'n	B	368	3.42	9	3.8
Guinness Peat	B	210	0.69	33	1.2
Hardman Res.	D	193	N/A	NE	Nil
Harvey Norman	B	323	2.66	20	2.0
Henderson Group	B	184	0.59	54	Nil
ING Indust Trt	B	222	N/A	16	6.6
ING Office Fund	A	138	7.58	13	7.4
Iluka Resources	B	732	2.01	19	3.0
Insurance Aust.	B	553	1.13	NE	4.8
Investa Prop.	B	199	3.05	13	8.3
James Hardie	B	880	2.56	24	0.9
Leighton Hold	A	1910	0.82	25	2.6
Lend Lease Corp	B	1399	0.58	26	4.1
Lihir Gold	B	230	9.91	7	Nil
Lionore Mining	C	653	2.45	13	Nil
Macquarie Off.	A	130	N/A	17	8.3
Macquarie Infra	B	336	1.65	8	23.1
Macquaries C&I	C	548	3.50	NE	5.3
Macquarie C'Wde	A	197	N/A	19	7.5
Macquarie Good.	A	481	N/A	NE	3.6
Macquarie Bank	B	6150	3.67	17	2.6
Macquarie Air.	B	313	2.71	5	3.8
Milton Corp.	B	1942	N/A	26	3.1
Mirvac Group	B	400	2.39	15	8.5
Multiplex Group	B	321	0.65	32	9.3
Nat'l Aust Bank	A	3450	1.57	13	4.8
Newcrest Mining	A	2609	8.63	63	0.2
News Corp.	B	2210	2.29	26	0.7
Nufarm Limited	B	1071	1.02	17	2.4
Oil Search Ltd	A	373	7.36	21	1.1
Onesteel Ltd	C	372	0.53	16	3.6
Orica Ltd	B	2160	1.12	25	3.3
Origin Energy	B	725	1.17	22	2.1
Oxiana Ltd	C	194	N/A	NE	Nil
Pacific Brands	B	226	0.74	19	6.6
Paladin Res.	C	320	N/A	NE	Nil

	Performance Forecast	Price	Price/Sales Ratio	P/E Ratio	Gross Yield
Paperlin X Ltd	B	316	0.19	8	8.1
Patrick Corp	B	657	1.90	27	1.2
Perpetual Ltd	B	7094	6.58	24	3.7
Portman Limited	A	659	5.92	35	1.2
Primary Health	B	1125	6.56	48	2.2
Promina Group	A	523	1.81	12	4.2
Publishing & Br	A	1620	3.10	23	3.2
Q.B.E. Insur.	A	1883	1.35	17	2.9
Qantas Airways	A	415	0.62	10	4.8
Ramsay Health	A	922	1.09	52	2.2
Record Invest.	A	850	N/A	29	3.6
Reece Australia	B	1565	1.54	21	2.4
Rinker Group	A	1680	2.71	27	1.3
Rio Tinto Ltd	A	7475	5.40	27	1.4
Rural Press Ltd	A	1145	2.38	12	3.7
SFE Corporation	B	1295	8.46	33	2.6
Santos Ltd	A	1284	4.29	20	2.6
Seek Ltd	B	365	N/A	53	0.3
Seven Network	C	801	1.40	19	2.9
Sims Group Ltd	B	1545	0.55	7	9.1
Smorgon Steel	B	160	0.47	16	5.3
Sonic Health	C	1483	2.95	53	1.6
Soul Pattinson	B	955	1.78	5	2.6
Spotless Group	B	491	0.38	19	4.9
St George Bank	A	2977	2.69	17	4.6
Stockland	A	642	4.81	21	7.4
Suncorp-Metway	B	2169	1.72	14	4.0
Symbion Health	B	342	0.56	27	3.2
Tabcorp Holding	B	1530	1.94	22	5.3
Tattersall's	D	288	9.94	NE	Nil
Telstra	C	403	2.25	11	6.9
Ten Network	C	293	1.22	12	7.3
Toll Holdings	B	1085	0.92	17	2.4
TransPacific In	A	548	2.27	48	Nil
Transurban Grp	C	700	N/A	NE	5.0
Transfield Serv	A	792	0.84	31	2.5
UNiTAB Ltd	B	1226	2.93	26	3.8
United Group	B	1188	1.10	33	2.5
Virgin Blue	B	170	1.05	16	9.8
Wesfarmers Ltd	B	3730	1.72	23	4.8
West Aust News	B	783	4.39	18	5.5
Westfield Group	B	1757	7.88	18	5.9
Westpac Banking	A	2335	2.57	16	3.7
Woodside Petrol	A	4385	9.73	27	1.3
Woolworths Ltd	B	1700	0.58	23	3.0
Worley Group	A	1405	2.30	50	1.4
Zinifex Ltd	A	774	1.99	16	0.5
Ave of 1648 Cos	**C**	210	0.17	31	1.7

Recommended Investments

Michael Hill International reports "difficult trading conditions, especially in Australia, during the key Christmas trading period". As result, profits for the six months to December 2005 are expected to be around $10.5-11.5 million (27-30 cents per share), compared with $12.2 million for the same period in 2004.

Same store sales fell 2.3% in Australia for the half year, but rose 1.6% in NZ and increased 9.9% in Canada. Despite a weak half year, this is still a sound business with potential for long term expansion in Canada.

At 700 cents, Michael Hill International shares currently trade on a Price/Sales ratio of 0.99, a Price/Earnings ratio of 16 and offer a current Dividend Yield of 4.9%. That looks to be an attractive valuation for a company with a strong track record for long term growth, so we continue to rate the shares a "Buy".

Michael Hill International

(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 %
	NZ Shares												
HOLD+	CDL Investments Ltd	CDI	12/01/99	25	C	200.5	1.3	4.08	10	5.8	41	11.3	+109%
HOLD+	Cavalier Corporation	CAV	05/12/95	156*	C	65.5	0.5	0.92	10	13.8	293	173.0	+199%
HOLD+	Colonial Motor Company	CMO	10/11/92	150	B	27.9	0.5	0.21	11	11.2	294	281.8	+284%
BUY	Lyttelton Port Company	LPC	12/12/00	150	C	102.3	0.7	2.72	15	9.3	177	54.3	+54%
BUY	Michael Hill Int'l Ltd	MHI	11/06/91	46*	B	38.7	0.4	0.99	16	4.9	700	173.0	+1798%
BUY	Nuplex Industries Ltd	NPX	11/02/97	350	B	76.7	0.5	0.39	12	8.3	474	127.5	+72%
HOLD+	Renaissance Corp	RNS	13/08/96	85*	A	38.2	0.7	0.48	25	7.3	151	29.9	+113%
HOLD+	Richina Pacific	RPL	03/11/95	94*	D	148.7	1.2	0.13	15	3.9	51	11.4	-34%
HOLD	South Port New Zealand	SPN	13/02/96	120	C	26.2	0.8	2.37	17	8.0	122	81.5	+70%
HOLD	Steel & Tube Holdings	STU	08/08/00	146	C	88.1	0.5	0.81	10	11.8	404	132.0	+267%
HOLD+	Taylors Group Ltd	TAY	09/11/99	102	B	24.3	0.7	0.61	11	11.8	165	50.0	+111%
	Australian Shares (in Aust cents)												
HOLD	AJ Lucas Group	AJL	13/05/03	120	C	51.6	1.0	0.55	NE	4.4	80	20.5	-16%
BUY	Atlas Pacific Ltd	ATP	14/05/96	73	D	87.8	1.4	4.60	NE	Nil	31	8.0	-47%
HOLD	Austin Group Ltd	ATG	08/02/05	93	C	62.2	1.1	0.54	8	11.3	53	4.0	-39%
HOLD+	Campbell Brothers Ltd	CPB	12/10/99	406*	B	49.5	0.4	1.15	25	3.2	1300	192.6	+268%
BUY	Candle Australia	CND	08/04/03	86	A	45.9	0.7	0.55	18	4.1	278	23.5	+251%
HOLD+	Cellnet Group Ltd	CLT	12/02/02	152	B	51.0	0.9	0.09	9	6.4	109	31.5	-8%
HOLD+	Centennial Coal Ltd	CEY	16/01/01	70*	B	268.5	0.5	1.76	23	3.1	424	13.0	+524%
HOLD	Circadian Technologies	CIR	10/02/04	188	D	40.1	0.9	N/A	NE	Nil	110	65.0	-7%
HOLD	Commander Comm.	CDR	11/09/01	92	B	170.2	0.9	0.51	13	3.3	185	17.2	+119%
BUY	Computershare Ltd	CPU	12/08/03	189	B	594.9	0.6	3.64	40	1.6	683	21.5	+273%
BUY	Int'l AllSports	IAS	11/02/03	180	C	66.4	1.2	0.06	NE	Nil	55	4.0	-67%
BUY	Iluka Resources Ltd	ILU	12/10/04	471	B	232.9	0.6	2.01	19	3.0	732	22.0	+60%
BUY	Keycorp Ltd	KYC	10/08/04	123*	C	81.6	1.0	0.91	20	Nil	157	Nil	+28%
HOLD+	LongReach Group Ltd	LRX	11/01/05	23½	C	174.5	3.0	0.36	58	Nil	8	Nil	-69%
BUY	Melbourne IT	MLB	10/02/04	53	B	52.8	0.7	1.18	19	4.1	135	10.5	+175%
HOLD	M.Y.O.B. Ltd	MYO	15/07/03	84*	C	386.1	0.9	3.05	37	2.3	99	2.3	+21%
HOLD	Ross Human Directions	RHD	14/08/01	92	B	81.7	1.2	0.12	8	7.8	51	21.0	-22%
HOLD	Skilled Engineering	SKE	12/03/02	126	A	100.5	0.5	0.49	31	4.0	405	57.5	+267%
HOLD	Sonnet Corporation	SNN	07/09/04	31½	C	137.3	2.8	0.31	5	18.1	8	3.0	-65%
HOLD+	Technology One Ltd	TNE	11/11/03	44	B	299.4	1.2	3.11	17	5.3	58	6.0	+45%
HOLD+	The Reject Shop Ltd	TRS	11/01/05	257	A	25.1	0.7	0.55	16	3.8	445	17.0	+80%
HOLD	Toll Holdings	TOL	08/09/98	60*	B	330.2	0.5	0.92	17	2.4	1085	90.5	+1859%
HOLD	UXC Limited	UXC	11/01/00	55*	B	161.4	0.8	0.66	14	5.5	100	29.5	+135%
BUY	Vision Systems Ltd	VSL	10/11/98	69*	A	179.4	0.8	2.20	59	2.0	208	32.5	+249%

The average Total Return (i.e. both Capital Gains/Losses plus Dividends received) of all current investments from initial recommendation is +201.3%. This is equal to an average annual rate of +37.7%, based upon the length of time each position has been held.

The average annual rate of gain of ALL recommendations (both the 35 current and 132 closed out) is +31.5%, compared with a mark et gain of +8.5% (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)

Nuplex Industries shares dipped sharply in value a year ago - but have since started to recover.

The shares remain an attractive "Buy": The valuation is low with a Price/Sales ratio of 0.39, a Price/Earnings ratio of 12 and a Dividend Yield of 8.3%, the shares are in a long term uptrend (i.e. the Relative Strength rating is +1.6%, ranked 27) and *insiders* have made two on-market buys over the last year.

Nuplex Industries

Renaissance Corporation shares were trading at a low of 20 cents in 2003 - but over the last three years the company has distributed 19.5 cents in dividends and the share price has recovered to 151 cents. That is an 8½-fold recovery.

Three years ago the company had just reported a 40% drop in revenues, a trading loss and cancelled its final dividend. It is difficult for investors to love an unprofitable, declining business - which is why Renaissance Corporation's share price was pushed to such an extreme of under-valuation in 2003. That also explains why investors who react *emotionally* to their share investments end up selling at the bottom of a decline and buying at the peak!

Renaissance Corporation

South Port NZ has reported a 4.4% increase in revenues to $6.8 million for the six months to 31 December 2005, but profits fell 12.9% to $950,000 (3.6 cents per share) owing to dredging costs and higher expenditure on repairs and maintenance. The interim dividend, however, is being raised 22.2% to 2.75 cents (plus full imputation tax credits). The net operating cash surplus was 26% lower at $1.1 million.

The directors are predicting that the full year result to June 2006 will exceed the $1.9 million (7.4 cents per share) earned last year.

Cargo volumes were lower than expected as **Meridian Energy** has deferred its wind farm project. South Port has also been unsuccessful to date in finding a coastal container shipping operator but "remains enthusiastic" about the potential for this service. **L & M Mining** and **Solid Energy** intend to investigate extensive lignite energy resources close to Bluff, so "South Port would be well positioned to provide distribution" if this coal resource is developed.

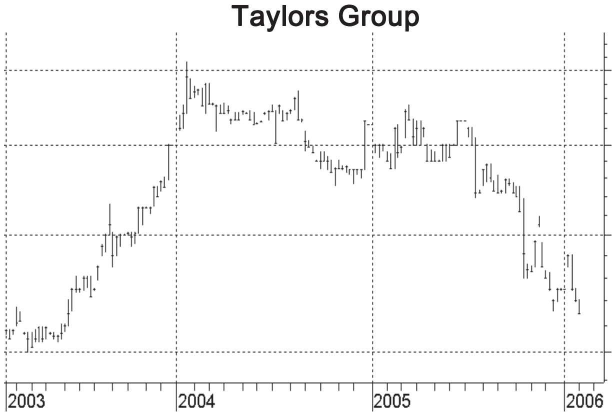
Interest bearing debts are low at just $3.0 million, compared with Shareholders Equity of $24.3 million. South Port has a relatively low risk business, with a strong balance sheet and strong cashflows, so this company is capable of paying reliable, high dividends *and* has the potential to make capital repayments and/or finance any expansion or acquisition opportunities.

South Port NZ

Taylors Group is predicting a 30% drop in profits to around $1.5 million for the six months to December 2005, with the full year to June 2006 expected to be "slightly below" the 2005 annual result of $3.5 million (14.4 cents per share). The weak first half reflects a poor ski season and soft tourist market, one-off costs re-tendering for the Auckland health boards' laundry contract plus higher labour, energy and transport costs.

Taylors Group shares are still very *weak* - with a Relative Strength rating of -12.5%, ranked 88 - but also look *under-valued* on a Price/Earnings ratio of 11 and a Dividend Yield of 11.8%. The company also has a strong balance sheet and high net operating cashflows, so although it is in a *competitive* business there are many attractive financial aspects to the company. We shall continue to rate the shares as "Hold+" (owing to its low valuation) but would like to see some improvement in the share price trend before further upgrading our recommendation.

Taylors Group



Australian Shares

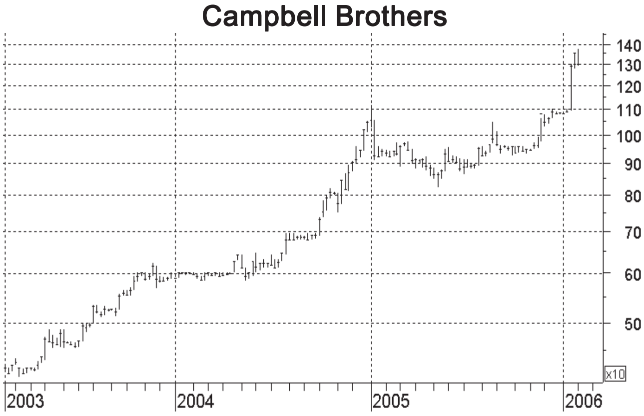
(This section is in Australian currency, unless stated.)

Campbell Brothers has announced two acquisitions: **Enviro-Test Laboratory Group**, Canada's second largest environmental testing group with 11 laboratories and 450 staff, has been purchased for $57 million. The business has a "strong position in the booming oil and gas sector" and is involved in organic and inorganic environmental testing for pesticides and herbicides, industrial hygiene, agricultural soils and livestock feed. Enviro-Test Laboratory Group will be merged with Campbell Brothers existing Canadian laboratories to provide a nationwide service and "expertise in new areas of analytical testing" will be transferred throughout Campbell Brothers' global laboratory network.

The group has also spent $18 million to acquire Czech Republic based **Ecochem**. This company employs 250 staff throughout Europe providing a broad range of analytical services in the food and environmental markets. Ecochem was an attractive acquisition owing to "strong management and technical skills" and a low cost structure in the Czech Republic from which it can service customers in both "mature western Europe and the emerging markets in eastern Europe and Russia".

Campbell Brothers predicts that profits for its financial year to March 2006 will be around 35% ahead of last year. The shares have risen *very strongly* over the last month so although we see this as a quality, long term investment we are downgrading the shares to "Hold+".

Campbell Brothers



Candle Australia has agreed to purchase **Lloyd Morrison**, a senior executive and management recruitment business employing 60 staff with operations in Melbourne, Sydney, Adelaide and Brisbane. The total cost of this acquisition - expected to be around $6 million (i.e. about $4 million in cash and $2 million in shares) - will be based upon performance over the next two years.

Centennial Coal has signed a five-year contract with **Taiwan Power Company** to provide 500,000 tonnes of premium thermal coal per annum for power generation.

Centennial Coal reports that coking coal contract prices have eased from around US$125/tonne in 2005 to around US$115/tonne for 2006. The company, however, will enjoy an increase as the *Tahmoor* mine received an average of less than US$90/tonne last year owing to undelivered coal from 2004 carried forward at lower prices. The price of export thermal coal weakened in late 2005, but has since recovered to around US$38-46/tonne.

Centennial Coal sells most of its production locally on fixed price, long term contracts, but has also hedged future sales through the new coal derivative market. The company has sold forward a total of 1,380,000 tonnes for delivery over the next three years at a price around US$47/tonne.

These forward sales and hedging reduce the company's exposure to fluctuations in the price of coal and make Centennial Coal a low risk investment in the coal sector.

Centennial Coal

Commander Communications has signed wholesale interconnection agreements with two competing *Digital Subscriber Line Access Module* network suppliers which allows its virtual network architecture to support Internet Protocol connectivity.

The company has also extended and expanded its wholesale agreement with **Telstra Corporation** covering mobile terminating access rates, fixed voice services, mobile wholesale services and data services.

International All Sports' December quarter cashflow report further confirms the upturn in the company's business. Receipts from customers rose 50% to $222.4 million to produce a quarterly cash surplus of $6.0 million (compared with a small *deficit* of $142,000 in the December 2004 quarter). The company also received $2.7 million from the sale of a property. Overall the company's cash on hand has risen 20.7% over the last year to $32.1 million (48.3 cents per share). This is a strong recovery situation. "Buy".

International All Sports

Iluka Resources reports annual revenues to December 2005 up 12.4% to $921 million.

Iluka Resources is to purchase the mining unit plant at its *Douglas Project* for $13 million rather than continue with the existing lease. The plant has been in operation for a year and stockpiled 550,000 tonnes of heavy mineral ore awaiting completion of the wet concentrator plant which was commissioned in December 2005. The company is now waiting for **Roche Mining** to complete the minerals separation plant.

Meanwhile, Roche Mining is claiming an extra $105.3 million in costs on these *(Continued on Page 6)*

Recommended Investments

(Continued from Page 5)

delayed projects which is rejected by Iluka Resources. Despite the dispute, Roche Mining will need to complete this project which is expected to be in June 2006 - nine months behind schedule. The contract is largely for a fixed sum, based upon a detailed feasibility study conducted by Roche, but will no doubt go to arbitration.

Iluka Resources' share price has weakened over the last six months but the company has a major market share in its industry, good growth potential and the shares trade on a reasonable valuation, so still rate a "Buy" for long term capital growth.

Iluka Resources

Keycorp has won a contract to be the exclusive supplier of *MULTOS* technology to the **Unihub** consortium that will provide Hong Kong's new *ePassports*.

Melbourne IT has indicated that the company may eventually move its head office and stock exchange listing offshore. Although the company earns 70% of its revenues outside of Australia the move would mainly be to improve the company's share valuation. At present the company is limited to funding acquisitions with cash, as its shares trade on a lower Price/Earnings ratio than most US based competitors.

Ross Human Directions has announced a "growth strategy" for "significant geographic expansion" over the next three years. Initially the company will "roll-out all existing brands to all established locations". Secondly the company will expand its presence in the UK, where it currently has operations in London and Dublin, and expand its Asian business, particularly in China. The company is also planning "a number of regional hubs" in Australia where it will establish new offices.

It is difficult to assess the size or potential impact of this planned expansion of Ross Human Directions. The business, however, is not capital intensive, so this type of internal expansion requires little capital investment. If successful, however, the increased revenues and profits would create new Shareholder wealth.

Ross Human Direction shares are *weak* at present (i.e. the Relative Strength rating is -11.3%, ranked 84) and we would look for an improvement in that share price trend before upgrading our current "Hold" recommendation. The shares, however, look under-valued (i.e. on a P/S of just 0.12, P/E of 8 and Yield of 7.8%). "Hold".

Ross Human Directions

Sonnet Corporation's December quarter cashflow report shows revenues of only $8.8 million and an operating cash *deficit* of $1.0 million owing to the need to invest $6.0 million in working capital. Cash on hand at the end of December was $4.6 million.

The IT division performed poorly as previously disclosed, but the company has lowered that division's cost base and "continues to expect improved IT project revenue" in the June quarter.

Toll Holdings proposed takeover of **Patrick Corporation** has *effectively* been defeated after (1) the **Australian Competition and Consumer Commission** failed to agree to the acquisition and (2) Toll Holdings share price fell making its bid unattractive. Toll Holdings officially plans to continue with its bid - but if it looked to be successful the ACCC will take legal action to seek to block the takeover in court. The ACCC, however, is taking no action at this stage, refusing to waste legal expenses on a takeover it believes cannot succeed.

Most likely this takeover offer will be continued for some months and quietly forgotten as Toll Holdings moves on with other things.

Our advice in December to consider partial profit-taking in Toll Holdings proved timely as the shares have since fallen 23%. At 1085 cents, however, the shares are now trading on a Price/Earnings ratio of just 17 - which looks to be relatively good value for a company that is growing very rapidly. "Hold".

Vision Systems has agreed to sell its *Fire & Security* business to **Pacific Equity Partners** for $253 million in cash - or about $1.40 per share. Several other parties, possibly including **Honeywell**, **Tyco**, **GE** and **Siemens** are believed to have bid for this business.

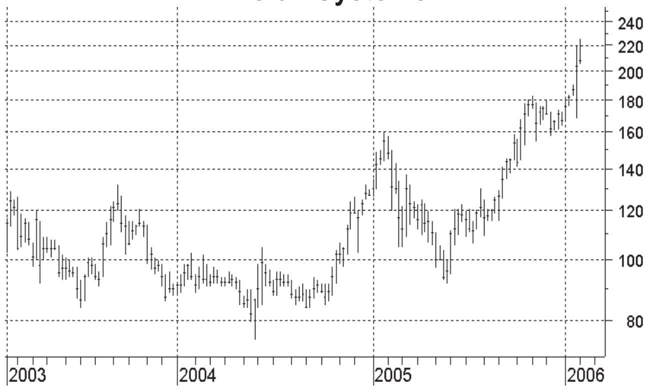
Settlement is expected before the end of February and by mid-March Vision Systems will announce how much of this cash will be returned to shareholders and how it will make that distribution.

After repaying interest bearing debts of around $43 million, Vision Systems will have cash of $210 million. Research & Development (for the whole group) was only $16.7 million last year and should be less in the future. The company invested heavily in marketing to promote the *BioSystems* business, spending $33.3 million last year which was all funded from operating revenues. Vision Systems will wish to use some of its cash to increase this expenditure and seek faster growth for the business, but even *doubling* of its already high marketing would require only $30-35 million per year - and should quickly boost high equipment revenues and recurring high margin reagent sales. $100 million would probably be more than sufficient to finance increased marketing expenditure *and* the higher working capital requirement to meet the high volume of business generated. The company would also be debt free, with strong recurring cashflows, so easily able to borrow funds if required at some stage in the future.

That leaves Vision Systems with around another $110 million in surplus cash which probably cannot be used in its business unless it plans to make a major acquisition. Distributing the $110 million to its shareholders (and convertible note holders) would require a capital repayment of around 50 cents per share.

Although Vision Systems shares have better than *doubled* over the last 18 months, we still believe the shares offer good value and could appreciate further in the future. Investors will receive a cash repayment in the immediate future and then we shall own a cash-rich company with a rapidly growing medical supply business. This business could create further significant shareholder wealth over the medium to long term, or itself become the subject of a takeover offer. Therefore we are happy to continue rating Vision Systems shares a "Buy".

Vision Systems



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	Share Price	STRENGTH RATING Cur-rent	4-Wk Chg.	Rank 0-99	Insider Buy-Sell	Brokers Following	Price to NTA	Return on Equity	Vola-til-ity	Price Earn. Ratio	Divi-dend Yield	Price Sales Ratio	Market Cap'n
UNDER-VALUED SHARES: Lowest Price/Sales, Yld > 0, Rel Strength > 0													
Guinness Peat	229	+3.2	+1.8	23	0-0	-	0.4	4	0.6	9	2.3	0.19	2,209
Tag Pacific Ltd	27	+5.3	+8.6	15	2-0	-	1.1	18	1.6	6	2.0	0.30	18
Nuplex Indust	474	+1.6	+4.2	27	2-0	4	1.5	12	0.5	12	8.3	0.39	363
Mainfreight Grp	363	+10.3	+0.6	5	5-7	5	4.0	15	0.5	26	2.7	0.41	348
Ebos Group Ltd	467	+0.6	+1.6	33	0-1	2	2.6	18	0.4	14	6.9	0.46	129
Renaissance	151	+13.1	+4.7	2	0-0	-	5.9	23	0.7	25	7.3	0.48	58
PGG Wrightsons	190	+5.7	-4.4	14	5-3	-	1.7	13	0.6	13	7.1	0.69	380
Fletcher Build.	763	+1.1	-2.0	29	4-5	4	2.5	23	0.3	11	6.3	0.76	3,541
VTL Group Ltd	75	+2.3	+10.5	25	0-1	-	1.2	11	1.2	11	4.4	0.79	23
F & P Appliance	354	+0.7	+2.3	32	2-3	6	1.7	12	0.5	14	7.6	0.90	934
BEST PERFORMING SHARES: Strongest Shares, P/E < 20, P/S < 1.0													
PGG Wrightsons	190	+5.7	-4.4	14	5-3	-	1.7	13	0.5	13	7.1	0.69	380
Tag Pacific Ltd	27	+5.3	+8.6	15	2-0	-	1.1	18	1.2	6	2.0	0.30	18
Carter Holt	273	+4.7	-0.2	17	1-3	3	0.9	11	0.5	8	1.5	1.00	3,572
Guinness Peat	229	+3.2	+1.8	23	0-0	-	0.4	4	0.5	9	2.3	0.19	2,209
VTL Group Ltd	75	+2.3	+10.5	25	0-1	-	1.2	11	0.9	11	4.4	0.79	23
Nuplex Indust	474	+1.6	+4.2	27	2-0	4	1.5	12	0.4	12	8.3	0.39	363
Fletcher Build.	763	+1.1	-2.0	29	4-5	4	2.5	23	0.3	11	6.3	0.76	3,541
F & P Appliance	354	+0.7	+2.3	32	2-3	6	1.7	12	0.4	14	7.6	0.90	934
Ebos Group Ltd	467	+0.6	+1.6	33	0-1	2	2.6	18	0.3	14	6.9	0.46	129
INCOME SHARES: Highest Yields, Capitalisation > NZ$100 million													
Cavalier Corp	293	-14.7	+1.6	93	9-0	3	3.1	31	0.3	10	13.8	0.92	192
Hellaby Hold.	448	-11.6	+0.4	87	1-0	3	2.2	21	0.3	11	13.0	0.56	220
Restaurant Brds	133	-5.0	+2.5	63	0-0	4	2.5	21	0.5	12	11.2	0.40	129
Gullivers Trv.	134	-5.8	-0.8	68	0-0	-	0.8	7	0.5	11	10.9	0.32	134
Tourism Hold.	160	-9.4	+0.2	82	4-2	4	0.9	6	0.5	15	10.3	0.88	157
Telecom Corp	575	-2.0	+0.2	50	3-25	6	4.6	38	0.3	12	10.0	1.95	11,256
Lyttelton Port	177	-2.1	-0.4	52	0-0	3	1.3	9	0.4	15	9.3	2.72	181
MG Property Trt	125	+1.4	+0.3	28	3-0	5	1.2	5	0.4	24	9.0	N/A	427
ING Property	119	+0.6	+1.0	33	0-0	4	1.1	7	0.4	15	9.0	8.26	286
Hallenstein G.	500	+4.6	-1.1	18	1-0	2	5.1	33	0.2	15	9.0	1.59	295
INSIDER BUYING: Most Insider Buying, Relative Strength > 0													
MG Property Trt	125	+1.4	+0.3	28	3-0	5	1.2	5	0.3	24	9.0	N/A	427
Wakefield Hlth	595	+6.7	-5.3	8	3-0	-	2.5	10	0.2	24	3.3	1.75	76
Tag Pacific Ltd	27	+5.3	+8.6	15	2-0	-	1.1	18	0.9	6	2.0	0.30	18
Nuplex Indust	474	+1.6	+4.2	27	2-0	4	1.5	12	0.3	12	8.3	0.39	363
Ryman Health.	526	+14.3	-1.1	1	2-0	3	2.8	13	0.3	22	2.2	4.34	526
PGG Wrightsons	190	+5.7	-4.4	14	5-3	-	1.7	13	0.4	13	7.1	0.69	380
Summit Gold Ltd	87	+11.7	+4.4	3	1-0	-	13.4	-	0.6	NE	Nil	N/A	163
Calan Hlthcare	127	+6.1	+0.7	11	1-0	5	1.0	6	0.4	19	6.7	N/A	172
Hallenstein G.	500	+4.6	-1.1	18	1-0	2	5.1	33	0.2	15	9.0	1.59	295
AMP Limited	900	+5.8	+2.9	14	1-0	-	3.7	22	0.3	16	3.3	1.41	16,741
OVER-VALUED SHARES: Highest Price/Sales Ratios, Relative Strength < 0													
Akd Int Airport	197	-4.2	+1.8	61	0-4	6	5.3	23	0.3	23	6.2	8.52	2,409
Salvus Strat.	68	-7.4	-3.0	76	0-0	-	0.7	4	0.6	15	4.4	8.13	14
Forty Two Below	55	-8.6	-1.9	79	0-3	-	5.7	-	0.6	NE	Nil	5.68	71
Nat Property Tr	76	-1.6	-1.6	45	1-2	3	0.7	5	0.4	15	12.0	5.16	92
NZ Exchange Ltd	677	-5.3	+1.2	66	0-0	1	2.9	12	0.3	23	Nil	4.74	86
Cert Organics	6	-2.3	+5.0	54	0-0	-	1.1	-	1.7	NE	Nil	4.71	6
Port Tauranga	446	-3.4	+2.3	58	4-1	5	1.4	8	0.2	18	6.7	4.10	597
Horizon Energy	420	-0.4	-0.3	36	0-0	2	2.2	16	0.3	14	7.1	3.91	105
Mowbray Collect	130	-3.1	-5.1	56	0-2	-	2.6	-	0.3	NE	3.4	3.56	13
Sealegs Corp	17	-14.2	-0.6	92	2-2	-	6.5	-	1.5	NE	Nil	3.24	11
Contact Energy	665	-5.1	+0.3	64	0-0	4	1.3	5	0.2	27	5.6	3.00	3,835
Waste Mgmt NZ	633	-0.6	+1.6	40	2-9	5	3.3	14	0.3	25	6.3	2.94	629
Just Water Int.	86	-1.6	-1.3	45	2-1	-	4.0	22	0.5	18	5.6	2.82	57
Sky City Ltd	460	-0.6	+1.3	39	0-5	7	10.1	55	0.3	18	7.8	2.81	1,921
Cadmus Tech Ltd	23	-1.8	-2.1	47	0-2	-	4.5	3	0.9	153	Nil	2.74	54
Dominion Fin.	122	-1.5	-1.9	44	0-0	-	2.6	29	0.5	9	8.4	2.73	68
Lyttelton Port	177	-2.1	-0.4	52	0-0	3	1.3	9	0.4	15	9.3	2.72	181
Kingfish Ltd	95	-1.4	+0.5	43	0-0	-	0.7	22	0.5	3	3.1	2.48	56
South Port NZ	122	-0.1	+0.2	35	0-0	-	1.3	8	0.4	17	8.0	2.37	32
WORST PERFORMING SHARES: Weakest Shares, P/S Ratio > 0.25, Yield < Twice Average													
Charlie's Group	14	-58.3	+0.0	98	0-0	-	19.6	-	0.9	NE	Nil	1.55	44
A2 Corporation	10	-27.6	+6.6	97	0-0	-	-	-	1.1	NE	Nil	N/A	7
Media Tech.	6	-18.0	-5.6	95	0-0	-	1.2	-	1.9	NE	Nil	0.25	5
New Image Group	6	-17.3	-0.6	94	0-0	-	1.2	-	1.8	NE	Nil	1.55	10
Life Pharmacy	90	-16.0	+3.0	93	1-2	-	18.0	-	0.5	NE	2.0	N/A	484
Sealegs Corp	17	-14.2	-0.6	92	2-2	-	6.5	-	1.4	NE	Nil	3.24	11
Mr Chips Hold	71	-13.3	+0.7	92	1-0	-	1.4	11	0.5	12	8.4	0.49	17
Scott Tech. Ltd	186	-13.1	+0.9	90	4-0	1	3.2	2	0.3	148	3.2	1.15	46
Botry-Zen Ltd	5	-12.9	-6.9	88	2-1	-	8.2	-	1.4	NE	Nil	N/A	17
Genesis Res.	24	-11.6	-1.6	86	2-0	-	0.5	-	0.9	NE	Nil	1.41	6
Software of Exc	98	-11.3	+0.8	85	2-0	1	4.9	5	0.6	109	Nil	1.06	22
Zintel Comm.	72	-10.5	+0.5	85	3-2	-	5.4	51	0.5	11	7.2	1.02	36
Mooring Systems	310	-10.4	-2.2	84	0-4	-	7.3	-	0.2	NE	Nil	N/A	39
Hirequip NZ Ltd	82	-10.4	-0.2	84	0-0	4	1.1	11	0.4	10	6.8	0.95	96
Evergreen	25	-9.9	-3.1	83	2-0	2	0.5	-	0.7	NE	Nil	1.19	39
Allied Work.	118	-9.4	-2.3	82	0-1	-	-	-	0.6	NE	Nil	N/A	31
Forty Two Below	55	-8.6	-1.9	79	0-3	-	5.7	-	0.6	NE	Nil	5.68	71
Turners & Grow.	200	-8.5	+4.5	79	0-2	-	0.7	5	0.4	15	Nil	0.26	144
Pyne Gould Corp	400	-8.0	-1.8	78	1-0	-	2.2	22	0.3	10	6.7	0.85	392
Tenon Ltd	330	-7.9	-0.3	77	0-0	4	1.2	16	0.4	8	Nil	0.55	230
INSIDER SELLING: Most Insider Selling, Relative Strength < 0													
Telecom Corp	575	-2.0	+0.2	50	3-25	6	4.6	38	0.2	12	10.0	1.95	11,256
Waste Mgmt NZ	633	-0.6	+1.6	40	2-9	5	3.3	14	0.2	25	6.3	2.94	629
Sky City Ltd	460	-0.6	+1.3	39	0-5	7	10.1	55	0.2	18	7.8	2.81	1,921
Akd Int Airport	197	-4.2	+1.8	61	0-4	6	5.3	23	0.3	23	6.2	8.52	2,409
Mooring Systems	310	-10.4	-2.2	84	0-4	-	7.3	-	0.2	NE	Nil	N/A	39
TeamTalk Ltd	209	-6.5	-0.8	71	0-4	1	2.0	14	0.4	14	12.9	2.09	42
Forty Two Below	55	-8.6	-1.9	79	0-3	-	5.7	-	0.5	NE	Nil	5.68	71
Cadmus Tech Ltd	23	-1.8	-2.1	47	0-2	-	4.5	3	0.8	153	Nil	2.74	54
Turners & Grow.	200	-8.5	+4.5	79	0-2	-	0.7	5	0.4	15	Nil	0.26	144
NZ Experience	28	-2.0	-2.1	50	0-2	-	2.2	17	0.7	13	10.7	1.25	10

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.

OVER-VALUED SHARES: Highest Price/Sales Ratios, Relative Strength < 0

Company	Share Price	STRENGTH RATING Cur-rent	4-Wk Chg.	Rank 0-99	Insider Buy-Sell	Brokers Following	Price to NTA	Return on Equity	Vola-til-ity	Price Earn. Ratio	Divi-dend Yield	Price Sales Ratio	Market Cap'n
Tattersall's	288	-2.7	-0.8	64	1-1	-	-	-	0.5	155	Nil	9.94	2,016
IMF (Aust) Ltd	45	-18.9	-1.4	94	1-3	-	11.3	-	0.7	NE	Nil	9.93	41
East'n Star Gas	16	-10.1	+2.9	82	0-0	-	-	-	1.1	NE	Nil	9.87	39
Piquant Blue	31	-4.2	-3.2	69	0-0	-	31.0	-	0.9	NE	Nil	9.78	20
Nuenco NL	4	-6.3	-3.4	74	1-1	-	-	-	2.0	NE	Nil	9.73	18
Bluestone Tin	25	-29.8	+8.6	98	3-0	-	-	-	1.1	NE	Nil	9.43	97
Intec Ltd	5	-4.9	-3.2	71	0-0	-	2.4	-	2.2	NE	Nil	9.04	20
Haoma Mining NL	5	-16.4	+0.2	92	0-0	-	0.8	-	1.7	NE	Nil	9.00	8
Unwired Group	47	-7.2	-0.6	76	2-0	2	2.4	-	0.9	NE	Nil	8.92	118
Catuity	1100	-14.5	-2.9	89	0-0	-	6.2	-	1.1	NE	Nil	8.83	9
Sun Resources	18	-1.8	-0.3	61	3-1	-	-	-	1.2	NE	Nil	8.71	20
DenX Ltd	9	-10.3	-0.6	83	5-0	-	0.1	-	1.2	NE	Nil	8.67	14
Dwyka Diamonds	62	-8.4	-1.8	79	0-0	-	-	-	0.7	NE	Nil	8.61	50
QED Occtech Ltd	5	-2.7	+7.3	64	0-0	-	5.0	-	1.8	NE	Nil	8.47	10
Sun Capital Grp	5	-3.6	+0.7	67	2-0	-	5.0	-	1.8	NE	Nil	8.47	7
Innamincka Pet.	43	-14.7	-0.1	90	0-0	-	-	-	0.8	NE	Nil	8.27	5
D'Aguilar Gold	10	-12.6	-6.5	87	1-0	-	-	-	1.4	NE	Nil	8.26	7
Energy Resource	1342	-5.7	+0.4	73	0-0	-	7.9	16	0.5	50	1.3	7.99	1,917
Cygenics Ltd	34	-9.0	-1.4	80	3-0	-	1.9	-	0.9	NE	Nil	7.96	17
Cleland (P) Ent	37	-4.5	-1.7	70	0-0	-	0.7	0	0.7	206	Nil	7.76	6
QRSciences Hold	8	-10.2	+0.1	82	2-0	-	4.0	-	1.2	NE	Nil	7.75	17
CMC Power Syst.	2	-0.4	+0.1	55	0-0	-	-	-	2.9	NE	Nil	7.73	5
API Fund	206	-0.6	-0.1	56	0-0	-	-	-	0.5	33	7.8	7.60	12
Victoria Petrol	3	-0.8	+2.1	57	0-0	-	-	-	2.3	NE	Nil	7.50	56
Mariner Retire.	24	-7.1	+2.5	76	0-0	-	4.8	-	1.0	NE	Nil	7.50	31
Tasmanian Perp	605	-1.8	+0.2	61	1-0	-	7.7	33	0.4	23	3.6	7.47	138
Optima Corp Ltd	8	-12.3	-0.1	86	2-0	-	3.8	-	1.7	NE	Nil	6.94	6
Mosaic Oil NL	17	-8.4	-2.0	79	0-0	-	-	-	0.9	100	Nil	6.56	76
Premier Bionics	21	-4.5	-5.8	70	1-0	-	3.5	-	0.9	NE	Nil	6.44	10
IBT Education	192	-1.5	+0.9	60	0-0	1	-	-	0.4	23	4.4	6.27	665
Analytica Ltd	3	-11.3	-2.2	84	5-0	-	3.4	-	2.1	NE	Nil	6.18	6
Electro Optic	281	-7.7	-0.7	77	0-0	-	-	-	0.5	NE	Nil	6.13	97
Thundelarra Exp	19	-12.4	+1.4	86	4-0	-	-	-	1.1	NE	Nil	6.05	14
Asset Loans Ltd	40	-4.6	+0.9	70	0-0	-	-	-	1.1	26	2.5	5.92	19
Namakwa Diamond	7	-19.6	-0.1	94	1-0	-	-	-	1.4	NE	Nil	5.84	8
Excalibur Min.	1	-10.4	-3.9	83	0-0	-	-	-	3.6	NE	Nil	5.65	5
Redflex Holding	302	-1.0	-1.3	57	1-2	3	5.2	12	0.4	44	Nil	5.59	259
Eiffel Tech.	3	-11.9	+0.3	85	0-0	-	2.5	-	2.6	NE	Nil	5.56	6
Connxion Ltd	16	-9.1	-1.5	80	0-0	-	-	-	1.1	123	Nil	5.56	15
Virax Holdings	14	-26.7	-1.6	97	0-0	-	3.5	-	1.5	NE	Nil	5.44	11
Medical Dev Int	51	-13.0	-3.0	87	6-0	-	17.0	10	0.9	176	Nil	5.38	29
Harrington Grp	10	-6.7	-15.9	75	1-0	-	-	-	1.8	NE	Nil	5.32	13
Baxter Group	455	-3.5	-2.2	67	1-2	1	3.8	16	0.4	24	3.8	5.24	177
Desane Group	98	-3.7	+0.0	68	0-2	-	1.1	6	0.5	18	2.0	5.19	26
Carpathian Res.	7	-9.9	-4.0	82	6-0	-	-	-	1.3	NE	Nil	5.18	8
Pan Pacific Pet	11	-6.7	+0.9	75	1-0	-	-	-	1.4	NE	Nil	5.15	41
Proteome Syst	27	-11.1	+1.9	84	0-0	-	4.5	-	1.5	NE	Nil	5.01	27
Quantum Energy	8	-8.4	+12.2	79	1-0	-	8.4	-	1.4	NE	Nil	4.88	75
Argus Solutions	6	-19.4	+1.8	94	0-0	-	1.1	-	1.9	NE	Nil	4.79	10
Community Life	22	-16.5	+3.8	92	8-0	-	0.4	0	1.1	92	Nil	4.78	10

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

Company	Share Price	STRENGTH RATING Cur-rent	4-Wk Chg.	Rank 0-99	Insider Buy-Sell	Brokers Following	Price to NTA	Return on Equity	Vola-til-ity	Price Earn. Ratio	Divi-dend Yield	Price Sales Ratio	Market Cap'n
Ent Media & Tel	1	-47.0	+2.3	99	0-5	-	-	-	3.0	NE	Nil	0.93	8
World Audio Ltd	3	-43.4	+1.5	99	0-0	-	-	-	1.9	NE	Nil	N/A	6
Bonaparte Diam.	10	-35.9	+1.4	99	0-0	-	-	-	1.3	NE	Nil	N/A	5
Bluestone Tin	25	-29.8	+8.6	98	3-0	-	-	-	1.0	NE	Nil	9.43	97
Polartechnics	8	-28.8	-1.6	98	1-0	-	1.4	-	1.6	NE	Nil	0.93	6
Virax Holdings	14	-26.7	-1.6	97	0-0	-	3.5	-	1.4	NE	Nil	5.44	11
Orchid Capital	5	-26.0	+3.4	97	10-0	-	1.2	-	1.7	NE	Nil	0.58	8
Konekt Limited	31	-25.8	-2.7	97	1-0	-	-	-	0.7	NE	Nil	0.42	12
Compumedics Ltd	11	-25.1	-3.0	97	1-0	-	1.8	-	1.1	NE	Nil	0.39	15
Open Telecom.	21	-24.8	-2.1	97	0-0	-	-	-	0.8	NE	Nil	0.37	7
Minerals Corp.	3	-24.8	+1.4	97	3-0	-	0.2	-	1.9	NE	Nil	1.11	15
Sydney Gas Ltd	34	-24.2	-2.1	97	3-0	1	-	-	0.7	NE	Nil	N/A	82
Longreach Group	8	-23.9	-0.1	97	0-0	-	1.5	3	1.3	58	Nil	0.36	13
Chemeq Ltd	72	-23.3	-3.4	96	0-1	1	2.6	-	0.7	NE	Nil	N/A	73
Colltech Aust	8	-21.6	-0.6	96	0-0	-	2.6	-	1.4	NE	Nil	N/A	7
Reefton Mining	3	-21.2	+3.9	96	0-1	-	-	-	2.2	NE	Nil	N/A	8
Multiemedia Ltd	1	-20.9	+0.5	96	0-0	-	-	-	3.8	NE	Nil	1.33	27
Palm Springs	3	-20.8	+0.5	95	0-0	-	1.5	-	2.0	NE	Nil	0.39	9
Eurogold Ltd	9	-20.7	-3.3	95	4-0	-	-	-	1.1	NE	Nil	N/A	22
E.R.G.	15	-20.7	+3.0	95	2-0	-	0.7	-	1.1	NE	Nil	0.36	128
Resources Min.	6	-20.5	-0.3	95	3-0	-	-	-	1.7	NE	Nil	N/A	17
S Gilbert Wines	9	-20.4	-0.7	95	1-0	-	0.4	-	1.1	NE	Nil	1.22	5
Two Way TV Aust	49	-20.3	-2.9	95	0-2	-	2.2	-	0.6	NE	Nil	N/A	44
IT & e Limited	9	-20.0	+1.6	95	3-0	-	-	-	1.8	NE	Nil	1.45	15
Gippsland Off.	9	-20.0	+3.4	95	0-1	-	-	-	1.6	NE	Nil	N/A	5
LV Living Ltd	5	-19.8	-4.1	95	0-0	-	4.8	-	2.5	NE	Nil	N/A	6
Ambri Limited	6	-19.7	-1.3	94	0-0	-	1.0	-	1.5	NE	Nil	N/A	11
Great Gold Mine	5	-19.6	+0.8	94	0-0	-	-	-	1.8	NE	Nil	N/A	11
Namakwa Diamond	7	-19.6	-0.1	94	1-0	-	-	-	1.3	NE	Nil	5.84	8
Metabolic Phar.	46	-19.5	-1.4	94	4-0	1	6.5	-	0.6	NE	Nil	N/A	116
Argus Solutions	6	-19.4	+1.8	94	0-0	-	1.1	-	1.8	NE	Nil	4.79	10
Sunshine Heart	19	-19.1	-2.5	94	1-0	-	1.3	-	0.9	NE	Nil	N/A	12
Uscom Limited	86	-18.9	-0.2	94	1-0	-	2.9	-	0.4	NE	Nil	N/A	14
Hitech Energy	2	-18.9	+2.2	94	0-0	-	1.8	-	2.7	NE	Nil	N/A	8
IMF (Aust) Ltd	45	-18.9	-1.4	94	1-3	-	11.3	-	0.6	NE	Nil	9.93	41
Blaze Intern'l	4	-18.6	-0.4	93	1-0	-	-	-	1.9	NE	Nil	N/A	7
Tawana Resource	50	-18.6	-2.1	93	7-0	-	-	-	0.5	NE	Nil	N/A	29
Unlife Medical	35	-18.5	-3.5	93	0-0	-	2.3	-	1.2	NE	Nil	N/A	35
Adv. Ocular	29	-18.3	-3.1	93	2-0	-	7.1	-	0.7	NE	Nil	N/A	40
Somnomed Ltd	19	-18.2	+1.8	93	2-0	-	3.2	-	0.9	NE	Nil	N/A	12
Resonance Hlth	10	-17.8	-0.2	93	0-0	-	9.9	-	1.2	NE	Nil	N/A	18
Impact Capital	60	-17.6	-2.7	93	0-0	-	-	-	0.6	NE	Nil	N/A	6
Diamond Rose	3	-17.3	+0.8	93	0-0	-	-	-	1.9	NE	Nil	N/A	13
ZBB Energy Corp	23	-17.2	-2.0	93	0-0	-	-	-	1.0	NE	Nil	N/A	19
MXL Limited	8	-17.0	+0.2	92	4-0	-	8.0	-	1.4	NE	Nil	N/A	45
Tooth & Company	6	-16.9	-2.4	92	0-0	-	-	-	1.9	2	Nil	1.35	14
Millepede Int'l	7	-16.8	+0.9	92	0-0	-	7.0	-	1.9	NE	Nil	N/A	6
Community Life	22	-16.5	+3.8	92	8-0	-	0.4	0	1.0	92	Nil	4.78	10
Avantogen Ltd	14	-16.5	+2.0	92	0-0	-	7.0	-	1.0	NE	Nil	N/A	31
Haoma Mining NL	5	-16.4	+0.2	92	0-0	-	0.8	-	1.5	NE	Nil	9.00	8

INSIDER SELLING: Most Insider Selling, Relative Strength < 0

Company	Share Price	STRENGTH RATING Cur-rent	4-Wk Chg.	Rank 0-99	Insider Buy-Sell	Brokers Following	Price to NTA	Return on Equity	Vola-til-ity	Price Earn. Ratio	Divi-dend Yield	Price Sales Ratio	Market Cap'n
Village Road.	236	-1.9	-1.8	61	0-6	1	1.1	7	0.5	16	Nil	0.42	654
De Grey Mining	20	-13.1	+1.1	87	0-5	-	-	-	1.1	NE	Nil	N/A	20
Ent Media & Tel	1	-47.0	+2.3	99	0-5	-	-	-	2.8	NE	Nil	0.93	8
Ten Network	293	-7.2	-0.9	76	0-4	6	-	-	0.3	12	7.3	1.22	1,168
Lionore Mining	653	-5.8	+2.6	73	2-6	-	-	-	0.2	13	Nil	2.45	1,274
Universal Res.	11	-13.1	+0.9	88	0-3	-	-	-	1.4	NE	Nil	N/A	24
CO2 Group Ltd	26	-2.2	+3.9	62	0-3	-	3.6	-	0.7	NE	Nil	N/A	50
Greater Pacific	2	-7.3	-0.5	76	2-5	-	-	-	2.6	NE	Nil	N/A	9
Atlas Grp Hold.	114	-4.6	-1.6	70	3-6	-	1.7	20	0.5	8	7.9	0.27	110
Cluff Resource	1	-15.5	+1.0	91	0-2	-	-	-	3.0	NE	Nil	N/A	10
Jervois Mining	2	-9.9	-1.0	82	0-2	-	1.6	-	2.6	NE	Nil	N/A	15
Ramelius Res.	14	-2.7	+1.2	64	0-2	-	-	-	0.8	NE	Nil	N/A	8
Iatia Limited	7	-6.6	-0.4	75	0-2	-	6.5	-	1.2	NE	Nil	N/A	10
Childs Family	49	-5.1	+1.5	72	0-2	-	-	-	0.7	102	Nil	4.71	29
Desane Group	98	-3.7	+0.0	68	0-2	-	1.1	6	0.5	18	2.0	5.19	26
Macarthur Coal	530	-10.2	-0.9	82	0-2	7	3.7	25	0.3	15	3.4	2.47	916
Webcentral Grp	139	-1.5	-2.6	60	0-2	-	8.2	76	0.6	11	1.8	0.92	54
Amcom Telecom.	16	-4.9	-2.9	71	0-2	-	1.0	3	1.0	39	1.6	2.42	59
Neptune Marine	73	-15.1	+3.2	90	0-2	-	9.1	-	0.6	NE	Nil	N/A	23
Commander Comm.	185	-8.8	-2.5	80	0-2	6	11.5	87	0.5	13	3.3	0.51	314
Two Way TV Aust	49	-20.3	-2.9	95	0-2	-	2.2	-	0.6	NE	Nil	N/A	44
Cellnet Group	109	-10.7	+2.1	83	1-3	1	1.4	15	0.5	9	6.4	0.09	56
Cons Minerals	277	-11.2	-0.1	84	1-3	2	2.9	34	0.5	9	6.5	2.12	604
Funtastic Ltd	161	-7.2	-0.8	76	1-3	3	4.1	35	0.3	12	5.3	0.64	200
Repco Corp Ltd	219	-11.3	-2.0	84	1-3	4	11.5	-	0.4	11	6.4	0.48	414

Citect Corporation

Schneider Electric has increased its offer for Citect to 190 cents (i.e. a 5 cents dividend plus 185 cents) and a new Scheme of Arrangement meeting will be held on 16 February to seek shareholder approval. <u>Investors should "Hold" pending another possible last minute over-bid by Thoma Cressey Equity Partners</u>.

Otherwise if the scheme is approved (i.e. by 75% of the votes at the meeting) it becomes compulsory on *all* 100% of the issued capital of Citect Corporation and the dividend and capital payment will be made soon afterwards.

Company Analysis: McPhersons

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

Australian listed McPhersons (code MCP).

We recommended the sale of McPhersons shares at 452 cents in August 2004 - realising a 300% gain over four years - but the shares have since lost almost two-thirds of their value. Too much debt taken on to fund acquisitions, a glitch in the existing business and the current weak retail market have resulted in institutional investors selling McPhersons shares and depressing the price. These problems leave us cautious about the shares' performance in the immediate future, but McPhersons generates strong cashflows and the shares are now looking under-valued. *When* the share price stabilises and *when* the business starts to recover - perhaps in 6-18 months - *then* McPhersons shares may again become attractive for investment.

Company History

McPhersons was incorporated as a private company in 1913 and converted to a public company in 1944. Over the years the company has been involved in many businesses - mainly involving consumer products, printing, fasteners, metals and pumps.

Current Business

High-cost developed countries cannot expect to be competitive in manufacturing, so companies need to focus upon developing skills in product design, distribution and marketing, while outsourcing manufacturing to low cost countries like China. McPhersons has successfully made this change over the last decade.

The company's original Houseware business was expanded with the acquisition of **CPS Housewares** for $21 million and NZ based **Paramount Trading Company** for NZ$3 million in 1999 and **Crown Glassware** for $17 million in 2000. The acquisition of **Cork Asia Pacific** for $101 million in June 2003 was an important expansion creating Shareholder wealth - and also resulted in the company being "discovered" by institutional investors who bought shares and pushed up the price.

In October 2004 - soon after we had recommended selling McPhersons shares - the company spent another $86 million on acquisitions. **Multix**, which sells plastic bags, wraps and foil, was purchased for $70 million (i.e. $60 million in cash and the issue of 2,222,222 shares at 450 cents) and **Accantia Health & Beauty** was acquired for $16 million. These businesses were purchased at a reasonable valuation and could be merged with McPhersons' existing importing and distributing businesses so initially the share price rose to a high of 605 cents. These acquisitions, however, *further* increased McPhersons' already high debt levels - so made the business more vulnerable to an economic downturn. This high risk exposure also resulted in the shares falling *out of favour* with investors and declining sharply in value.

McPhersons also operates a printing business in Australia. This was expanded in May 2001 with the acquisition of **Australian Print Group** for $20 million. In November 2004 it sold its telephone directory printing subsidiary - a declining business where margins were shrinking. This realised $16 million in cash and a $6 million after tax profit. The remainder of this division which is involved in book printing and greetings cards has received a "major re-equipment", with capital expenditure of $16 million over the last two years. This should improve efficiency and profit margins, however, now only produces around 15-20% of group profits.

In December 2005 the company sold its small UK subsidiary **Richardson Sheffield** and related property assets for around $8 million, a $1 million loss on book value. This business was profitable, generating earnings of around $1 million before interest and tax, but too small and therefore "distracting management" from the company's major businesses.

Recent Results

In the year to June 2004 - aided by the acquisition of Cork Asia Pacific - revenues rose 31.2% to $333.2 million with profits up 41.9% to $16,811,000. Earnings per share rose just 3.1% to 29.8 cents, owing to new capital issued to partially finance the acquisition. The net operating cash flow, however, was up strongly - 128% higher at $37.9 million - and this allowed the dividend rate to be raised 26.7% to 19.0 cents.

The year to June 2005 saw revenues 4.8% higher at $349.1 million with trading profits 7.3% lower at $15,587,000 (26.1 cents per share). In addition there was an extraordinary gain of $3,871,000 from the sale of a business, less the write-down of other assets. Operating cashflows fell 46% to $20.4 million. The annual dividend was increased 15.8% to 22.0 cents.

While the new businesses performed "slightly ahead of expectations" this was offset by the loss of earnings from the sale of the directory business, closure of its garment hanger supply business and loss of royalty income in the UK (from the marketing of beauty and hair care products by a third party which was placed in receivership in 2004). The interest expense increased 36% to $10.8 million, with interest bearing debts up 64% to $142.8 million at June 2005. Goodwill amortisation also increased 67% to $7.2 million.

When making the October 2004 acquisitions McPhersons had predicted that debt levels would fall below Shareholders Equity by June 2005, but were still almost $15 million above that level. In retrospect, with profitability down, debts higher than expected and a weakening retail market, McPhersons was not really in a position to increase its dividend by 15.8% last year.

Nevertheless, with operating cashflows of $20-40 million annually, plus cash from the sale of non-core businesses, McPhersons should *(Continued on Page 10)*

McPhersons *(Continued from Page 9)*

be able to significantly reduce its debt levels over a few years.

International Financial Reporting Standards

Under the new accounting reporting standards, *trading* profits would have been about 13% higher at $22.9 million - mainly owing to lower goodwill amortisation. Shareholders Equity would also be around 7% lower at $118.8 million owing to higher provisions for deferred tax liabilities.

Investment Criteria

At 168 cents, McPhersons shares trade on a very low Price/Sales ratio of 0.27, a very low Price/Earning ratio of 6½ and offer a very high Dividend Yield of 13.1%. The shares are clearly under-valued at the current price, but the market is concerned about the company's high debt level, falling profitability owing to the weak retail market. It may also be prudent to cut the dividend in the short term to focus on debt reduction.

The issued capital consists of 60,491,536 shares, giving a market capitalisation of $102 million and making this a smaller to medium sized Australian listed company.

Most of the directors have a significant investment in McPhersons. The Chairman, RC King, holds 1,258,000 shares or 2.1% of the company, while the Managing Director owns 306,500 shares. One of the Non-Executive directors has no shares, the second has 14,082 shares and the third is the representative of **Thorney Investment Group** which owns 11,728,202 shares or 19.4% of McPhersons. Large shareholdings by the directors and management aligns their interest with the public minority shareholders and these companies are likely to be better investments than companies where the directors have invested little or none of their own money.

There have been two *insider* buys on-market over the last year and one sell transaction. The Chairman bought 50,000 shares at 422 cents in March 2005 and another 195,000 shares at 296 cents in May, but recently sold 57,000 shares at 280 cents in November 2005. Clearly any new insider buying in the future would be an important indicator that the share price was past its lows and/or that the business was starting to improve.

Although institutional buying helped push up the share price during 2002 and 2003, institutions appear to have only relatively modest holdings at the present time. The shares are also relatively *neglected* by brokers, with just four firms following the company closely enough to publish profit forecasts. As *future* institutional buying and selling can push share prices to extremes of valuation, n*eglected* shares tend to offer higher future returns than shares which are already widely followed and widely held.

Technically McPhersons shares are *extremely* weak and falling rapidly in value. The Relative Strength rating is -24.2%, ranked 97 (on a scale of 0-99). There is a *possibility* that such a very weak share could bounce off its lows - but there is also the risk that it will continue to fall or under-perform the market by simply fluctuating but going nowhere over the next 6-18 months.

Usually investors buy into a potential recovery situation too early and the shares may continue to decline in value for months or even years. Waiting for a *positive* strength rating - and/or a ranking in the range 0-49 - can improve our chances of more accurately *timing* the purchase of shares in a recovery situation and increasing the overall rate of return on our investments.

Our Sale of McPhersons Shares in August 2004

When we recommended the sale of McPhersons shares in August 2004 at 425 cents we were not predicting the subsequent decline. Our decision, however, was based upon sound investment criteria as the *potential* for further gains had diminished while the *potential* risks were increasing.

We wrote "the market has discovered the company and re-rated the shares from under-valued to fairly valued" so we saw only a slower rate of growth and the potential to "invest this money more profitably elsewhere".

We *incorrectly* thought that "the potential for another major acquisition is limited in the short to medium term as McPhersons seeks to reduce its debt levels" - but were *correct* in our concerns about debt levels. McPhersons *did* soon make a further $86 million of attractive acquisitions - but the company and its share price have suffered owing to the extra debt taken on to fund those acquisitions!

We also expressed our increased "worry about risk", that the company could suffer from "slower growth" (e.g. recent and current trading conditions), "a possible glitch" (e.g. closure of the hanger business and loss of UK royalty income) or that "the shares may simply fall out of favour with institutional investors" who do appear to have been selling and driving the share price down during 2005.

Unfortunately, everything that *could* go wrong *has* gone wrong at the same time for McPhersons - which now needs to focus upon using its strong cashflows to reduce debts and strengthen its balance sheet.

Summary and Recommendation

We believe it is too early to consider McPhersons shares for investment as there are still risks relating to its high debt levels, difficult trading conditions and a cut in the dividend rate. So although the shares are under-valued, they may fall further in the short term and remain depressed for some period of time.

The best time to buy into a potential recovery situation is in the early stages of the actual *recovery*. Investors should therefore continue to watch McPhersons for signs of a *long term* recovery in the share price trend *and* an improvement in the performance and profitability of its business. This is a share which *could* become an attractive investment in around 6-18 months and then increase several fold in value over the next few years.

McPhersons

Australian Warrant / Option Analysis

Company	Share Price	Exercise Price	Yr/Mth to Expiry	Option Price	Black-Scholes Valuation	Option Over/ Under-Valued	Share Vola-tility	Option Lever-age	Options to Buy 1 Share	Break-Even Rate
A.G.D. Mining	26	25	1-9	6.0	9.0	-34	0.58	2.05	1.00	+11
AIM Resources	8	10	3-4	4.4	2.8	+57	0.48	1.98	1.00	+18
AXG Mining	8	20	4-6	1.8	3.7	-52	0.82	1.43	1.00	+26
Accent Resources	17	20	3-7	4.0	3.3	+21	0.24	3.19	1.00	+10
Acclaim Exploration	4	5	2-4	1.5	1.0	+51	0.57	2.12	1.00	+29
Adultshop.com	5	10	0-4	0.1	0.0	+999	0.52	9.99	1.00	+999
Adv Ocular Systems	29	110	2-4	1.8	2.3	-21	0.63	2.70	1.00	+80
Advanced Healthcare	4	12	1-10	0.5	0.4	+42	0.73	2.56	1.00	+100
Alcaston Mining	10	15	1-7	1.6	7.1	-78	1.99	1.16	1.00	+42
Alexander Resources	17	20	1-5	4.9	4.3	+13	0.65	2.27	1.00	+34
Allco Max Securities	105	100	0-7	6.5	8.3	-22	0.08	9.99	1.00	+3
Allied Gold	46	20	1-4	25.0	27.8	-10	0.49	1.61	1.00	-2
Amcil Ltd	59	50	1-0	9.0	12.1	-26	0.17	4.47	1.00	+0
Anitsense Therapeutic	4	20	0-11	1.2	0.1	+999	0.84	3.82	1.00	+517
Ansearch Ltd	9	10	0-4	2.0	2.6	-24	1.49	2.08	1.00	+154
Arafura Resources	39	20	2-4	24.0	25.0	-4	0.71	1.40	1.00	+5
Argonaut Resources	16	30	1-4	3.5	1.5	+128	0.57	3.21	1.00	+74
Ashburton Minerals	7	32	1-1	0.8	0.1	+999	0.71	4.25	1.00	+346
Astro Diamond Mines	3	5	6-9	3.0	1.9	+55	0.83	1.21	1.00	+17
Astro Mining	3	5	6-9	1.4	1.9	-28	0.83	1.21	1.00	+13
Astro Mining NL	3	75	3-10	2.5	0.2	+999	0.83	2.11	1.00	+138
Atlantic Gold	14	10	0-4	4.6	4.9	-6	0.80	2.42	1.00	+13
Atlas Gold	40	20	1-12	23.0	26.2	-12	0.83	1.37	1.00	+4
Audax Resources	14	20	2-10	3.8	4.5	-15	0.62	1.87	1.00	+22
Aurora Minerals	38	20	0-5	20.0	18.5	+8	0.44	2.04	1.00	+13
Aurox Resources	63	20	1-8	48.0	47.5	+1	0.93	1.26	1.00	+5
Ausquest Ltd	47	20	0-9	27.0	30.2	-11	1.09	1.43	1.00	+0
Aust Food & Fibre	37	32	0-4	6.3	5.1	+24	0.00	7.16	1.00	+16
Aust Mining Invest.	28	20	2-4	9.0	14.8	-39	0.69	1.55	1.00	+2
Aust Mining Invest.	28	10	0-5	0.2	17.8	-99	0.69	1.54	1.00	-91
Aust Oil Company	11	20	3-10	3.9	1.6	+138	0.36	2.81	1.00	+22
Aust United Gold	3	2	0-4	0.8	1.3	-40	1.08	1.97	1.00	-26
Australasia Gold	31	20	2-4	12.5	16.2	-23	0.55	1.66	1.00	+2
Australis Mining Corp.	12	20	0-10	2.7	0.2	+999	0.39	6.50	1.00	+115
Auth Investments	11	25	4-1	4.9	8.6	-43	1.48	1.10	1.00	+29
Auth Investments	11	25	0-10	3.0	3.2	-5	1.48	1.75	1.00	+224
Autron Corporation	10	18	1-3	3.4	1.5	+128	0.70	2.65	1.00	+83
Avantogen Ltd	14	25	1-10	5.5	5.0	+11	0.95	1.71	1.00	+53
Aztec Resources	20	17	0-5	4.5	4.6	-2	0.55	3.30	1.00	+19
Bannerman Res	31	20	1-3	11.0	16.4	-33	0.85	1.60	1.00	+0
Barra Resources	14	20	0-6	1.8	2.3	-21	1.04	2.65	1.00	+161
Bass Metals	23	25	1-5	8.0	3.9	+104	0.39	3.27	1.00	+31
Bass Strait Oil Co	8	30	1-4	0.5	2.9	-83	1.44	1.58	1.00	+163
Batavia Mining	5	5	0-4	1.2	1.4	-16	1.08	2.54	1.00	+61
Batavia Mining	5	20	0-7	0.5	0.2	+144	1.08	3.34	1.00	+884
Beach Petroleum	120	60	0-4	64.5	61.1	+5	0.46	1.96	1.00	+12
Benitec Ltd	17	32	2-1	4.5	5.1	-12	0.81	1.85	1.00	+44
Berkeley Resources	49	20	0-9	28.5	31.4	-9	0.95	1.47	1.00	-1
Biomd Ltd	8	20	1-6	1.0	1.7	-40	0.98	1.97	1.00	+99
Biometrics Ltd	5	20	1-10	1.1	1.2	-11	1.08	1.79	1.00	+119
Bionomics Ltd	19	50	1-5	2.0	1.3	+53	0.64	3.17	1.00	+104
Bionomics Ltd	19	22	2-11	9.3	8.0	+16	0.64	1.69	1.00	+19
Biopharmica Ltd	25	20	1-4	9.0	18.6	-52	1.80	1.19	1.00	+12
Biosignal Ltd	20	20	0-10	5.0	4.2	+20	0.57	2.89	1.00	+35
Biosignal Ltd	20	50	0-4	1.0	0.0	+999	0.57	9.99	1.00	+999
Biotech Capital	42	55	0-8	1.4	1.4	+3	0.34	7.17	1.00	+60
Blaze International	4	10	1-4	0.7	0.2	+360	0.57	3.81	1.00	+117
Bluestone Tin	25	20	2-10	14.0	15.7	-11	0.88	1.34	1.00	+11
Bone Medical	30	40	1-2	5.0	9.5	-48	0.93	1.92	1.00	+42
Boulder Steel	15	20	2-9	3.7	5.3	-30	0.65	1.79	1.00	+20
Bounty Industries	34	20	0-10	13.5	16.1	-16	0.62	1.91	1.00	-2
Bow Energy	14	20	2-1	6.8	3.6	+90	0.60	2.19	1.00	+37
Buka Gold	18	65	2-4	3.2	0.8	+318	0.52	3.37	1.00	+77
C @ Ltd	20	20	2-1	7.5	4.6	+62	0.32	2.97	1.00	+17
CBD Energy	4	2	0-11	0.1	2.6	-96	1.15	1.42	1.00	-53
CBD Energy	4	100	0-11	10.0	0.0	+999	1.15	3.78	1.00	+999
CO2 Group	26	12	5-8	17.0	18.9	-10	0.57	1.25	1.00	+2
CP1 Ltd	265	150	0-1	175.0	115.7	+51	0.46	2.29	1.00	+999
Cape Lambert Iron	33	30	2-8	14.0	16.0	-13	0.67	1.60	1.00	+11
Cardia Technologies	2	10	1-10	0.4	0.2	+90	0.77	2.56	1.00	+123
Carnarvon Petroleum	6	6	0-10	3.2	1.5	+118	0.76	2.38	1.00	+81
Carrick Gold	67	20	0-10	47.0	48.0	-2	0.63	1.39	1.00	+0
Chameleon Mining	4	20	1-10	0.6	0.0	+999	0.00	9.99	1.00	+163
Chemgenex Pharm.	59	125	4-1	20.0	10.3	+94	0.43	2.44	1.00	+25
Cheviot Bridge	14	40	1-10	0.4	2.0	-80	0.75	2.34	1.00	+78
Chrome Corporation	2	5	1-7	0.5	0.2	+223	0.71	2.76	1.00	+110
Citrofresh International	16	25	2-3	4.6	7.3	-37	0.98	1.51	1.00	+32
City Pacific	360	30	0-4	340.0	330.6	+3	0.29	1.09	1.00	+9
City Pacific	360	100	0-6	270.0	262.8	+3	0.29	1.37	1.00	+6
Commoditel Ltd	1	3	0-10	0.1	0.1	+27	1.05	2.67	1.00	+341
Conquest Mining	8	20	0-10	1.0	1.5	-34	1.18	2.17	1.00	+209
Contact Resources	41	20	2-4	15.0	23.6	-37	0.31	1.70	1.00	-7
Continental Goldfields	7	20	1-7	1.2	0.9	+36	0.81	2.40	1.00	+107
Cool or Cosy	24	20	2-3	7.5	10.9	-31	0.60	1.74	1.00	+6
Cougar Metals NL	27	25	0-10	6.2	8.4	-26	0.78	2.18	1.00	+22
Crusader Holdings	17	20	0-10	2.0	2.8	-28	0.57	3.17	1.00	+36
D'Aguilar Gold	10	20	0-1	0.8	0.0	+999	1.01	9.99	1.00	+999
De Grey Mining	20	45	0-4	1.6	0.0	+999	0.58	9.76	1.00	+999
Dia-B Tech Ltd	10	20	4-10	2.9	6.7	-57	1.03	1.21	1.00	+19
Diamonex Ltd	23	20	0-4	3.0	4.4	-32	0.49	3.94	1.00	+0
Diatreme Resources	30	25	1-8	14.5	12.6	+15	0.65	1.83	1.00	+18
Digital & Voice Media	8	3	1-4	6.0	5.8	+3	1.03	1.26	1.00	+7
Dyesol Ltd	23	20	2-9	7.0	12.6	-44	0.79	1.45	1.00	+7
Eagle Bay Resources	8	12	0-1	0.2	0.0	+888	0.66	9.99	1.00	+999
Eagle Bay Resources	8	15	3-4	4.1	2.9	+44	0.66	1.76	1.00	+28
Eastern Corporation	6	6	0-4	2.3	0.9	+149	0.55	4.20	1.00	+140
Eastland Medical Sys	13	20	0-9	7.0	1.8	+289	0.78	2.92	1.00	+165
Elemental Minerals	23	20	2-11	5.2	9.3	-44	0.44	1.94	1.00	+3
Ellendale Resources	6	12	0-4	2.1	0.4	+377	1.15	3.39	1.00	+999
Energy Metals	124	30	2-4	90.0	99.3	-9	0.68	1.22	1.00	-1
Enterprise Energy	7	20	1-10	3.5	0.8	+362	0.71	2.52	1.00	+100
Eqitx Limited	19	20	1-4	2.5	6.7	-63	0.77	1.94	1.00	+14
Equigold NL	134	140	1-3	20.5	23.0	-11	0.36	3.52	1.00	+16
Evans & Tate	22	150	1-8	0.1	0.7	-86	0.79	2.99	1.00	+216
Exco Resources NL	26	20	0-6	7.1	8.2	-13	0.65	2.56	1.00	+9
Ezenet Ltd	12	15	1-4	1.0	4.0	-75	0.85	1.92	1.00	+24
Financial Resources	24	20	2-3	7.2	8.2	-12	0.35	2.36	1.00	+6
Flinders Diamonds	1	5	0-4	0.1	0.0	+999	0.53	9.99	1.00	+999
Flinders Resources	1	10	2-7	0.2	0.0	+999	0.53	3.77	1.00	+116
Fox Resources	33	75	1-4	3.7	2.2	+68	0.59	3.40	1.00	+92
Future Corporation	1	3	0-3	0.1	0.0	+999	1.00	8.01	1.00	+999
Gateway Mining NL	16	30	1-0	3.0	2.2	+36	0.79	2.69	1.00	+106
Gippsland	13	9	1-10	4.7	6.8	-31	0.82	1.52	1.00	+5
Gippsland Offshore	9	20	0-9	1.3	0.7	+93	0.82	3.27	1.00	+211
Gleneagle Gold	30	20	1-4	12.0	15.2	-21	0.77	1.66	1.00	+5
Global Mining Invest	125	100	0-9	24.5	29.6	-17	0.19	4.03	1.00	-1
Golden Cross Explor.	6	5	0-7	2.7	1.4	+95	0.61	2.86	1.00	+73
Golden Deeps	10	15	1-0	2.0	2.1	-5	0.83	2.35	1.00	+70
Golden State Petrol	39	65	0-10	6.5	5.1	+26	0.77	2.88	1.00	+107
Golden State Res.	6	10	1-4	2.0	1.1	+83	0.66	2.59	1.00	+62
Golden West Rsources`	51	20	1-10	32.0	36.6	-13	0.90	1.29	1.00	+1
Goldlink IncomePlus	98	100	0-4	9.0	3.8	+138	0.17	9.99	1.00	+38
Gondwana Resources	0	1	1-10	0.1	0.2	-39	1.49	1.33	1.00	+76
Gravity Diamonds	37	50	1-9	7.0	8.9	-21	0.61	2.28	1.00	+29
Graynic Metals	33	20	1-8	18.0	18.3	-2	0.73	1.56	1.00	+9
Great Gold Mines	5	125	4-7	0.2	0.1	+262	0.58	3.00	1.00	+104
Great Gold Mines	5	10	7-0	1.7	2.3	-26	0.58	1.48	1.00	+14
Great Gold Mines	5	20	6-2	3.2	1.3	+142	0.58	1.76	1.00	+29
Great Western Explor.	14	20	3-3	4.7	7.9	-40	0.98	1.33	1.00	+20
Greater Pacific Gold	2	3	2-3	0.2	0.3	-38	0.66	2.17	1.00	+40
Green Rock Energy	18	20	0-10	2.0	3.1	-35	0.54	3.20	1.00	+27
Hannans Reward NL	13	20	0-1	0.5	0.0	+999	0.63	9.99	1.00	+999
Harrington Group	10	25	0-10	1.5	1.8	-15	1.16	2.20	1.00	+222
Helix Resources	14	14	1-1	4.5	3.8	+19	0.60	2.45	1.00	+29
Hill End Gold	8	15	1-3	1.0	0.8	+22	0.61	3.10	1.00	+74
Hillcrest Litigation	16	25	1-1	3.5	4.0	-12	0.91	2.12	1.00	+70
Hillgrove Resources	18	20	0-10	3.1	2.0	+52	0.42	4.16	1.00	+40
Hindmarsh Resources	65	25	3-1	40.0	44.7	-10	0.42	1.41	1.00	+0
Hodges Resources	20	20	1-7	6.0	3.6	+66	0.28	3.69	1.00	+18
Horizon Global	13	25	2-10	2.0	6.4	-69	0.99	1.43	1.00	+29
Hunter Hall Global	103	100	1-2	7.1	10.4	-32	0.10	8.26	1.00	+3
IC2 Global	1	2	3-4	0.1	0.2	-49	0.98	1.50	1.00	+54
IM Medical	2	4	2-10	0.9	0.8	+18	0.93	1.53	1.00	+42
ING Private Equity	81	100	1-8	4.5	0.0	+999	0.04	9.99	1.00	+17
Iatia Ltd	7	25	0-1	0.2	0.0	+999	0.48	9.99	1.00	+999
Image Resources	44	25	0-6	18.0	19.8	-9	0.40	2.20	1.00	-4
Imugene Ltd	18	50	0-11	4.5	0.6	+604	0.70	3.82	1.00	+235
Indigo Pacific Capital	76	150	1-1	4.1	3.0	+37	0.50	4.45	1.00	+92
JV Global	11	20	2-8	3.0	1.7	+72	0.47	2.64	1.00	+32
Jaguar Minerals	15	20	2-7	3.5	5.9	-40	0.71	1.72	1.00	+19
Jupiter Energy	6	20	0-8	0.4	0.1	+300	0.80	4.35	1.00	+527
Jupiter Mines	9	20	0-11	1.0	0.5	+88	0.73	3.39	1.00	+168

Company	Share Price	Exercise Price	Yr/Mth to Expiry	Option Price	Black-Scholes Valuation	Option Over/ Under-Valued	Share Vola-tility	Option Lever-age	Options to Buy 1 Share	Break-Even Rate
Kalgoorlie-Boulder Res	12	20	2-5	2.5	1.8	+38	0.45	2.81	1.00	+30
Karoon Gas Australia	186	20	0-4	166.0	166.4	-0	0.66	1.12	1.00	+0
Kmiberley Diamond	149	35	0-2	112.5	113.8	-1	0.36	1.30	1.00	-4
Knights Insolvency	3	50	1-0	0.3	0.0	+999	0.74	6.67	1.00	+999
LV Living	5	5	1-10	1.2	3.1	-61	1.34	1.28	1.00	+15
LeFroy Resources	27	25	0-1	1.5	3.3	-54	0.80	5.29	1.00	+0
Liberty Gold NL	18	20	1-3	4.0	3.9	+2	0.56	2.61	1.00	+29
Linq Resources	83	100	0-11	3.0	2.7	+9	0.22	8.67	1.00	+27
M2M Corporation	1	20	3-12	0.1	0.2	-57	1.32	1.36	1.00	+143
MGM Wireless	6	20	4-9	1.5	2.0	-24	0.72	1.61	1.00	+32
Macmin Silver	24	25	2-8	11.5	9.2	+24	0.55	1.86	1.00	+17
Magnesium Int'l	147	180	1-0	19.0	13.3	+43	0.37	4.59	1.00	+35
Malachite Resources	12	20	2-6	4.5	3.4	+32	0.69	1.91	1.00	+35
Malachiti Resources	12	20	0-0	0.2	3.4	-94	0.69	1.91	1.00	+999
Marengo Mining	27	20	2-0	11.0	15.8	-30	0.91	1.42	1.00	+7
Marion Energy	67	25	1-1	45.0	43.9	+3	0.59	1.49	1.00	+4
Mawson West	7	20	1-3	1.3	0.1	+999	0.46	5.51	1.00	+136
Maximus Resources	15	20	2-4	4.9	1.5	+237	0.28	4.08	1.00	+26
Medusa Mining Ltd	67	20	0-11	47.0	48.0	-2	0.39	1.40	1.00	+0
Metallic Minerals	22	25	0-10	4.0	4.8	-16	0.69	2.65	1.00	+39
Metex Resources	8	10	0-7	1.4	1.5	-4	0.75	2.97	1.00	+69
Metroland Australia	13	26	3-3	4.0	2.7	+46	0.52	2.23	1.00	+29
Michelago Ltd	5	15	0-10	0.8	0.0	+999	0.60	5.37	1.00	+309
Midas Resources	11	25	0-9	1.1	1.4	-22	1.02	2.58	1.00	+216
Mindax Ltd	15	20	0-3	1.5	1.0	+53	0.85	4.53	1.00	+383
Mindax Ltd	15	20	0-3	3.2	1.0	+227	0.85	4.53	1.00	+555
Mineral Securities	112	115	1-11	15.5	31.8	-51	0.47	2.37	1.00	+8
Minerals Commodities	25	30	1-4	6.1	6.1	-1	0.63	2.38	1.00	+32
Minerals Corporation	3	9	1-7	0.8	0.3	+138	0.76	2.54	1.00	+111
Mintails Ltd	24	15	0-4	9.2	10.5	-12	1.16	1.90	1.00	+9
Moby Oil & Gas	8	20	0-1	0.2	0.0	+999	0.93	9.99	1.00	+999
Moby Oil & Gas	8	30	2-4	2.0	2.1	-3	0.93	1.79	1.00	+80
Molopo Australia	6	10	1-4	1.3	0.6	+135	0.53	3.37	1.00	+65
Monarch Resources	33	20	0-5	15.5	14.3	+8	0.75	2.09	1.00	+19
Monteray Group	1	1	2-10	0.3	0.3	-8	0.83	1.53	1.00	+24
Monto Minerals	4	5	0-7	1.0	0.3	+195	0.54	4.33	1.00	+109
Moto Goldmines	113	28	0-3	83.0	85.4	-3	0.45	1.32	1.00	-7
Murchison Holdings	175	100	2-10	51.0	90.4	-44	0.22	1.90	1.00	-5
Murchison Metals	54	20	1-9	34.0	36.6	-7	0.65	1.40	1.00	+1
NGM Resources	13	20	1-1	4.5	1.3	+240	0.58	3.32	1.00	+86
NGM Resources Ltd	13	20	1-1	4.5	1.3	+240	0.58	3.32	1.00	+86
Namakwa Diamond	7	20	0-7	1.0	0.1	+999	0.68	5.47	1.00	+512
Navigator Resources	18	20	1-4	5.9	4.5	+31	0.62	2.36	1.00	+34
Neptune Marine Serv	73	20	4-10	51.0	63.6	-20	0.89	1.10	1.00	-1
New Hope Corp	123	45	2-6	75.0	84.7	-11	0.42	1.42	1.00	-1
New Horozon Energy	15	20	0-4	2.4	1.7	+39	0.97	3.34	1.00	+269
Northwest Resources	27	20	1-11	16.0	14.0	+14	0.75	1.58	1.00	+16
Norton Gold Fields	14	20	4-7	6.0	5.2	+16	0.52	1.75	1.00	+15
Norwood Systems	6	20	1-11	1.9	1.7	+12	1.01	1.78	1.00	+92
Olympia Resources	21	25	0-4	2.1	2.3	-8	0.73	4.02	1.00	+115
On Q Group	50	30	2-3	16.0	26.7	-40	0.52	1.66	1.00	-4
Optima Corporation	8	20	1-1	1.0	0.7	+48	0.82	2.83	1.00	+159
Orchid Capital	5	5	0-9	1.0	1.4	-27	0.93	2.14	1.00	+43
ORT	15	20	2-0	2.0	6.6	-70	0.92	1.58	1.00	+21
ORT	15	10	2-0	6.0	9.2	-35	0.92	1.39	1.00	+3
Orient Resources	19	20	1-10	4.5	1.7	+171	0.11	7.57	1.00	+15
Oropa Ltd	16	5	1-10	5.0	11.9	-58	0.73	1.30	1.00	-23
Ottoman Energy	21	20	0-9	6.8	5.2	+30	0.62	2.69	1.00	+38
Pacific Magnesium	20	5	0-9	0.3	15.1	-98	1.22	1.25	1.00	-82
Pan Pacific Petroleum	11	15	1-4	4.4	1.4	+207	0.47	3.33	1.00	+53
Papyrus Australia	54	20	2-1	32.0	39.1	-18	0.79	1.30	1.00	-2
Paradigm Gold	6	25	2-3	3.0	0.2	+999	0.50	3.73	1.00	+95
Paramount Mining Corp	11	20	0-10	2.0	2.9	-31	1.20	1.96	1.00	+130
Perseus Mining	36	20	3-1	20.5	23.0	-11	0.64	1.40	1.00	+4
PharmAust Ltd	19	30	1-9	2.3	2.9	-20	0.52	2.83	1.00	+35
Pharmanet Group	5	5	0-10	2.2	1.8	+20	0.87	2.03	1.00	+44
Phosphagenics	25	20	3-3	14.0	10.6	+32	0.37	1.95	1.00	+10
Pinnacle VRB	3	5	2-10	1.9	1.9	-1	1.34	1.21	1.00	+37
Platinum Australia	40	20	0-9	25.0	21.7	+15	0.70	1.72	1.00	+17
Plentex Ltd	3	5	1-1	0.5	0.7	-32	1.17	1.83	1.00	+107
Polaris Metals NL	16	20	2-10	6.5	6.5	-1	0.67	1.70	1.00	+19
Polartechnics Ltd	8	20	0-9	0.3	1.1	-73	1.08	2.49	1.00	+230
Portland Orthopaedics	38	25	2-9	20.0	17.8	+12	0.37	1.87	1.00	+7
Prairie Downs Metals	44	25	2-3	24.0	22.6	+6	0.34	1.84	1.00	+5
Premier Bionics Ltd	21	20	0-10	4.0	4.5	-12	0.48	3.09	1.00	+17
Prima Biomed	8	20	0-9	0.9	0.1	+999	0.51	6.46	1.00	+248
Probiomics Ltd	6	75	0-0	0.1	0.0	+999	0.53	9.99	1.00	+999
Probiomics Ltd	6	25	0-4	0.2	0.0	+999	0.53	9.28	1.00	+999
Quantum Resources	2	10	4-8	0.1	0.9	-89	0.95	1.38	1.00	+41
Quantum Resources	2	10	6-2	0.2	1.2	-83	0.95	1.26	1.00	+30
Quantum Resources	2	5	6-9	0.8	1.4	-45	0.95	1.17	1.00	+17
Queensland Ores	25	30	0-11	5.5	4.8	+15	0.66	2.73	1.00	+50

Company	Share Price	Exercise Price	Yr/Mth to Expiry	Option Price	Black-Scholes Valuation	Option Over/ Under-Valued	Share Vola-tility	Option Lever-age	Options to Buy 1 Share	Break-Even Rate
Quest Investments	40	15	2-10	17.0	28.1	-40	0.53	1.36	1.00	-8
Ramelius Resources	14	20	1-10	4.8	3.8	+27	0.67	2.10	1.00	+37
Range Resources	4	5	1-7	1.6	1.0	+55	0.74	2.04	1.00	+47
Red Fork Energy	20	20	3-2	10.5	5.8	+81	0.34	2.39	1.00	+15
Red River Resources	15	20	4-1	6.5	6.3	+4	0.57	1.67	1.00	+15
Redbank Mines	15	28	2-3	2.2	4.2	-48	0.77	1.88	1.00	+39
Redport Ltd	8	5	1-4	3.7	4.8	-22	0.95	1.48	1.00	+5
Reefton Mining NL	3	10	3-9	0.9	1.6	-45	1.16	1.27	1.00	+44
Regis Resources	11	5	7-11	8.5	8.7	-2	0.53	1.20	1.00	+3
Regis Resources NL	11	20	6-2	4.5	4.7	-4	0.53	1.60	1.00	+14
Regis Resources NL	11	10	6-8	5.9	6.8	-13	0.53	1.37	1.00	+6
Republic Gold	11	25	0-9	1.4	0.2	+547	0.59	5.07	1.00	+221
Resonance Health	10	40	1-11	2.0	0.2	+999	0.51	4.12	1.00	+116
Resonance Health	10	15	0-11	2.2	0.7	+204	0.51	4.12	1.00	+88
Resources Mining	6	2	0-4	0.2	4.1	-95	0.64	1.47	1.00	-95
Rimfire Pacific Mining	4	8	0-7	1.0	0.1	+570	0.61	4.89	1.00	+241
Ritract Ltd	28	75	0-10	3.0	0.1	+999	0.49	6.86	1.00	+249
Rusina Mining NL	20	20	2-1	7.0	9.3	-25	0.79	1.61	1.00	+15
S8 Ltd	275	300	1-2	130.0	33.7	+286	0.31	4.41	1.00	+47
SP Telecom.	99	25	0-3	75.0	74.3	+1	0.40	1.33	1.00	+5
Safety Medical Prod.	16	20	2-10	8.0	2.5	+223	0.27	3.46	1.00	+22
Salus Technologies	5	10	2-4	1.5	5.0	-70	3.21	1.01	1.00	+42
Saracen Mineral Hold.	9	10	7-4	2.1	7.1	-70	0.79	1.17	1.00	+4
Saracen Mineral Hold.	9	13	3-9	2.0	4.9	-59	0.79	1.43	1.00	+14
Select Vaccines	11	20	2-3	4.2	1.9	+118	0.55	2.48	1.00	+42
Select-Tel Ltd	11	20	0-11	0.9	0.6	+57	0.55	4.20	1.00	+101
Siberia Mining Corp	16	20	1-1	3.6	5.4	-34	1.00	1.87	1.00	+45
Solbec Pharm.	10	30	0-7	1.1	0.0	+999	0.53	8.75	1.00	+664
Souls Private Equity	23	30	3-10	7.5	3.4	+121	0.23	3.48	1.00	+14
Southern Gold	20	20	1-1	9.5	7.7	+23	0.92	1.82	1.00	+43
Stirling Products	19	20	1-10	7.5	6.6	+14	0.67	1.92	1.00	+24
Strathfield Group	4	7	2-1	1.2	1.2	+2	0.79	1.86	1.00	+43
Structural Monitoring	13	20	1-2	3.5	2.4	+44	0.72	2.51	1.00	+66
Structural Systems	105	45	1-4	66.0	63.3	+4	0.29	1.66	1.00	+4
Style Plantation	15	20	2-11	2.8	6.7	-58	0.80	1.54	1.00	+17
Sunnycove Mgmt	75	150	3-3	12.5	25.8	-52	0.71	1.72	1.00	+27
Synergy Metals	7	10	1-0	1.7	1.4	+23	0.81	2.39	1.00	+75
Tasgold Ltd	9	20	1-9	3.0	1.4	+118	0.66	2.51	1.00	+68
Tasman Resources	11	20	0-0	0.1	1.4	-93	0.63	2.51	1.00	+999
Tawana Resources	50	100	2-2	10.0	3.8	+162	0.42	3.52	1.00	+44
Tomahawk Energy	62	20	2-10	45.0	46.2	-3	0.57	1.30	1.00	+2
Transol Corporation	6	25	0-3	2.0	0.0	+999	1.27	5.14	1.00	+999
Trent Capital	63	125	3-3	1.0	3.5	-72	0.28	4.19	1.00	+24
Trojan Equity	100	100	2-4	6.6	15.7	-58	0.15	4.81	1.00	+3
Union Resources	9	10	3-1	3.7	5.0	-26	0.84	1.42	1.00	+15
Union Resources	9	10	3-1	2.6	5.0	-48	0.84	1.42	1.00	+12
Uranium Exploration	15	20	2-1	5.0	0.9	+428	0.22	5.55	1.00	+28
Verus Investments	18	20	0-4	1.9	0.6	+241	0.28	9.99	1.00	+80
View Resources	26	20	2-4	11.0	13.5	-19	0.69	1.57	1.00	+8
Virax Holdings	14	25	-1-11	3.2	13.5	-76	0.51	1.57	1.00	-100
Visiomed Group	2	12	2-1	0.4	0.0	+999	0.55	3.93	1.00	+135
Wasabi Energy	2	2	0-10	0.8	0.8	+3	0.85	2.03	1.00	+34
Webspy Ltd	3	8	0-3	0.1	0.2	-40	1.61	3.16	1.00	+999
West Aust Metals	8	5	2-6	5.0	5.4	-7	1.10	1.24	1.00	+12
Westonia Mines Ltd	24	20	0-6	10.0	7.3	+37	0.80	2.45	1.00	+61
Westralian Gas & P.	13	25	3-7	2.9	3.4	-15	0.58	1.95	1.00	+25
Wilson Investment	92	108	0-4	0.1	0.0	+999	0.06	9.99	1.00	+77
Yilgarn Mining	22	25	1-4	6.0	4.5	+34	0.52	2.74	1.00	+32
ZBB Energy Corp	23	50	1-10	4.0	5.1	-22	0.80	2.07	1.00	+61
Zelos Resources NL	13	20	1-10	3.2	1.4	+132	0.40	3.50	1.00	+37

NZ Warrant / Option Analysis

Company	Share Price	Exercise Price	Yr/Mth to Expiry	Option Price	Black-Scholes Valuation	Option Over/ Under-Valued	Share Vola-tility	Option Lever-age	Options to Buy 1 Share	Break-Even Rate
Forty Two Below (06)	55	50	0-8	15.0	10.9	+37	0.39	3.7	1.00	+28%
Dorchester Pacific (06)	235	170	0-7	65.0	72.4	-10	0.20	3.2	1.00	+0%
Kingfish	95	100	1-10	14.0	13.7	+2	0.19	4.7	1.00	+10%
Salvus Strategic	68	100	1-10	4.5	2.6	+70	0.22	6.4	1.00	+26%

Australian Warrant / Option Analysis

Equigold NL (codes EQI and EQIO).
Equigold is a profitable gold mining company operating two mines in Australia and with significant interests in underexplored areas in Africa.

Annual gold production is around 150,000 ounces from its two Australian mines. *Mt Rawdon* produced 94,394 ounces in the year to June 2005 and has reserves for at least another 10 years of mining. *Kirkalock* produced 59,367 ounces, but existing reserves will be depleted by around late 2006 or early 2007.

The company also has extensive exploration interests in the **Ivory Coast** in West Africa. Its *Bonikro* project has gold resources around 1.37 million ounces and the company hopes - subject to the political situation - to approve development of a mining operation during 2006. Mine development could cost around US$45-50 million and could produce 130-150,000 ounces of gold annually for 7-8 years.

Overall the company has exploration licences covering 5,830 km^2 in the Ivory Coast where there are excellent prospects for large gold discoveries.

The company has $33.5 million in cash (19.6 cents per share) and sold forward 352,123 ounces of gold, about one-third of its reserves at its Australian mines, at A$607/ounce to minimise risks.

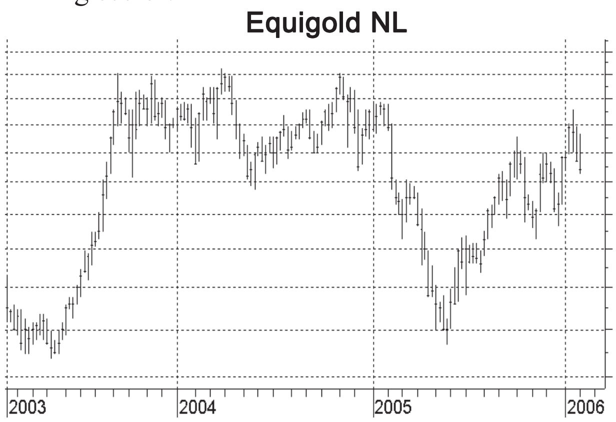
Equigold seeks to distribute around 65% of profits as a dividend. A 7.0 cents dividend was paid in the year to June 2005 and this was reduced to 6.0 cents in 2006. The company may not be able to pay a dividend this year as the new International Financial Reporting standards require its forward gold sales to be marked to market value. So a rise in the price of gold requires the company to account for a "loss" on the forward sales which will offset operating profits. The company has applied to the Australian Tax Office for approval to make a capital repayment in lieu of the interim dividend.

The directors and senior management have significant investments in Equigold shares and options, owning around 36.0% of the company. There have also been four *insider* buys (and no sells) on-market over the last year.

Equigold options have become attractive as a leveraged and speculative investment over the last quarter. The options will allow investors to buy shares at 140 cents on 31 May 2007. Over recent months the share price has risen to 134 cents - just short of the options' exercise price - while the options have remained steady around 20-20½ cents and are now slightly under-valued. While there is only 15 months until the final exercise/expiry date, the *Break-Even rate* is an achievable 16% p.a. while the option leverage is very high at 3.52 times.

Summary and Recommendation

Equigold is a gold company with a spread of low risk, income producing gold mines in Australia and higher risk, gold development projects in the Ivory Coast. The options offer a highly leveraged exposure to this company. Therefore, *if* Equigold's share price continues to rise over the next year, the options would soar rapidly in value. This is a high risk situation, but provides a potentially high return leveraged exposure to the gold mining sector.



Review of Existing Options

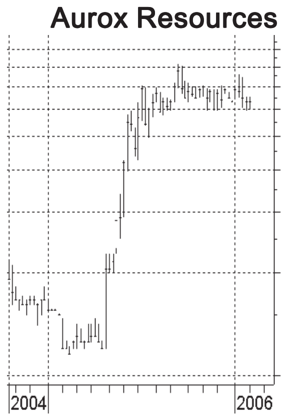
As recommended in November, we successfully sold our **PharmaNet Group** options - realising just a small loss on this position.

Aurox Resources (codes AXO and AXOO).
Aurox Resources has commenced a Bankable Feasibility Study on its *Balla Balla* vanadium project which should be completed by mid-May.

The company has also signed a Letter of Intent with German based **ThyssenKrupp Metalurgie** for the sale of its future ferro vanadium production.

Aurox Resources had just over $1 million of cash in the bank, but plans to spend $1.8 million over the next quarter, so last week placed 1,700,000 shares (plus 850,000 unlisted options to buy shares at 67½ cents) at 65 cents to raise $1.1 million.

The shares and options have risen so strongly since we first bought into this company that the options now don't offer very much leverage. Nevertheless, this is an interesting mineral development and we are happy to remain investors. "Hold".



(Continued on Page 14)

Warrant/Option *(Continued from Page 13)*

Bounty Industries (codes BNT and BNTO).

Bounty Industries' shares and options plunged just prior to our last quarterly review owning to **Centennial Coal** terminating Bounty's contract at the *Ivanhoe* mine. Based upon this, Bounty Industries has downgraded its profit forecast to June 2006 from $6 million to $5 million (6¼ cents per share).

The options still have 10½ months until their final exercise/expiry date of 31 December 2006, when we can use them to buy shares at 20 cents. They also offer a high 1.91 times leverage so will multiply any future gains in the Bounty Industries share price.

Achieving its current profit forecast of $5 million to June 2006 should see the shares re-rated over the months ahead, so the options are still an attractive "Buy".

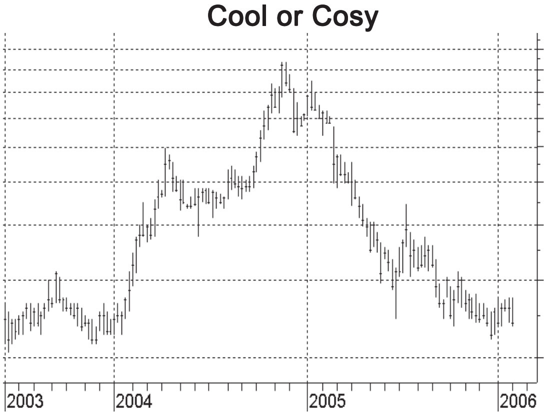
Bounty Industries

Cool or Cosy (codes COS and COSO).

Since we first reviewed this company in August 2005 the shares have fallen 25% to 24 cents and the options 55% to 7½ cents. At this price, however, the options are 31% under-valued, offer a high 1.74 times leverage, have a low 6% *Break-Even rate* and 2¼ years until their final exercise/expiry date.

The options are therefore an attractive leveraged investment and rated a "Buy".

Cool or Cosy



Financial Resources (FRL and FRLO).

Financial Resources is a small company but has made further significant growth over the last quarter.

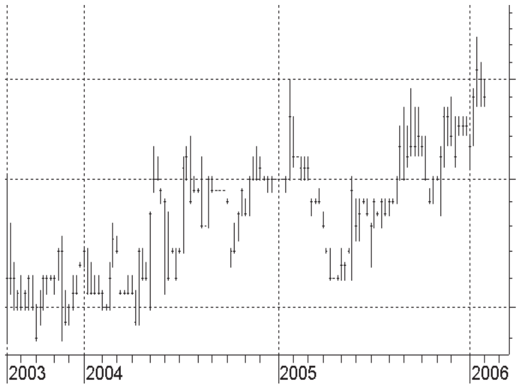
The company has agreed to acquire a 75% interest in **Quik Rent**, an internet based finance business specialising in leasing, rental and lending for commercial equipment and high volume/high margin lending on consumer goods. Quik Rent is itself expanding rapidly, hoping to be writing 1500 lending contracts per month by June 2006 and in the final stages of completing a strategic alliance with the **Police & Nurses Credit Society** to further expand its range of financial services.

The contracting business, **FRL Contracting**, has won an earthworks contract worth $500-800,000 from **Roche Mining** for **LionOre Nickel**'s *Maggie Hay Upgrade Project*. It has also secured a three-year, $6-7 million contract for earthworks for **St Ives Gold Mining**.

Its 50% owned subsidiary, **Sovereign Hydrology**, has entered a Memorandum of Understanding to form a new 50% owned joint venture with a Singapore based project management and property company. This new venture will market the NOH2O technology in Singapore.

The options are a very attractive leveraged investment, offering a high 2.36 times leverage, have 2¼ years until their final exercise/expiry date and trade at a 12% discount to fair value. This is a growth company so the share price could continue to appreciate strongly. "Buy".

Financial Resources



Global Mining Investments (codes GMI and GMIO).

This investment company's diluted net asset backing (after tax and diluted for the eventual exercise of options) increased 5.9% to 125 cents during the December quarter.

Since we reviewed this company three months ago the share price has risen 14% to 125 cents and the options are up 81% to 24½ cents. The final exercise/expiry date for the options is 30 November 2006, so the options provide a very high 4.03 times leveraged exposure to global mining shares over the next nine months.

Global Mining Investments

Image Resources (codes IMA and IMAO).

Image Resources options are just 6½ months away from their final exercise/expiry date of 25 August. The exercise price is 25 cents and the shares trade around 44 cents, so the options are "in the money" and trade around their *intrinsic value* of 19 cents.

We originally reviewed this company in February last year and the shares have since increased 19% to 44 cents and the options 57% to 18 cents. The shares have appreciated strongly over the last quarter and a continuation of that trend would add further leveraged gains to our options.

With just a short period until the exercise/expiry date we would <u>not</u> purchase more options at this time, but our current position remains a "Hold" for further gains.

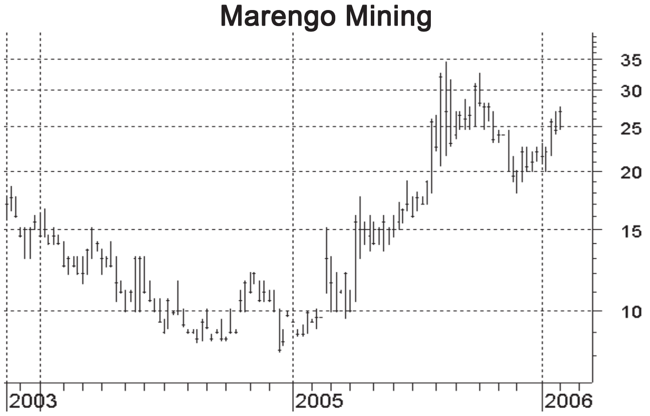
Image Resources

Marengo Mining (codes MGO and MGOO).
Marengo Mining has digitalised previous data from 33,000 metres of drilling at its *Yandera Project* in Papua New Guinea and contracted for another 10,000 metres of drilling to begin in March. The company aims to have a JORC compliant resource this year and then commence a pre-feasibility study of this large copper-molybdenum deposit.

A new share placement depressed the share price during the last quarter of 2005 but the shares have again started to rise over recent weeks. The options have two years until their final exercise/expiry date, are "in the money" (i.e. the shares trade above the 20 cents exercise price), are 30% under-valued and offer 1.42 times leverage with a *Break-Even rate* of just 7%.

Mineral exploration is risky, but Marengo Mining has interesting prospects and the options offer an attractive entry into this situation. A speculative, but reasonable, "Buy" for higher risk investors.

Marengo Mining



Metroland Australia (codes MTD and MTDO).
These options are inactively traded at present and the *Break-Even rate* is getting a little high at 29% per annum. Nevertheless, there is still over three years until their expiry so the company *could* recover from its depressed valuation over that period. "Hold".

ORT (codes ORT and ORTO).
ORT has made significant progress in financing its waste disposal technology over the last quarter. **Perpetual's Diversified Infrastructure Fund** has agreed to provide all of the up to $12 million of equity funding for the $20 million waste disposal plant, with the balance being funded by debt.

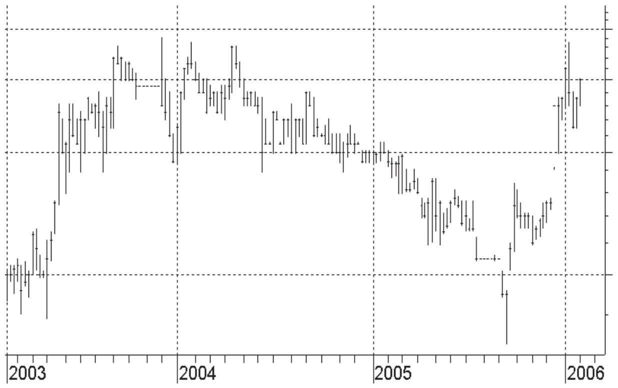
ORT - which itself has only $834,000 in cash - is reviewing how it can "participate alongside Perpetual" in other projects in the future.

Perpetual therefore appears to have earned a 50% interest in the current project *and* to have become a 50% joint venture partner in future applications of this technology for its $12 million investment. That implies at least a similar $12 million value for ORT, which would value the shares at around 7-9 cents each.

ORT shares are currently trading on-market at 15 cents and the options around 6 cents. That is a significant improvement of the share price of 6 cents and option price of just 2.1 cents in our last quarterly review!

We originally reviewed these options in November 2004 at around 5 cents. The options still have two years until their final exercise/expiry date, but this is a very high risk situation owing to the company's lack of cash. We wouldn't buy new options at this time, but will "Hold" our existing position and see how things work out in the future.

ORT



Orchid Capital (codes ORC and ORCO).
These options expire in about 9 months and if the share price doesn't recover above 5 cents will expire worthless. Fortunately, we realised two-thirds of these options (at around 3 cents and around 9-11 cents) so have already recouped our initial investment about 5½-fold. "Hold".

Stirling Products (codes STI and STIO).
Cash short Stirling Products has signed an agreement with South African based **AFGRI Operations** who will "fund Stirling to conduct trials and complete the registration for ST810 in *(Continued on Page 16)*

Warrant/Option *(Continued from Page 15)*

South Africa". Stirling will own the full intellectual property rights and product registration, licensing AFGRI Operations as the sole marketing and distribution agent of ST810 in Africa.

Trials will begin in early 2006, product registration is expected in the September quarter with ST810 sales expected from 2007.

AFGRI Operations will also be granted an option to subscribe for new Stirling Products shares to give it up to a 51% holding. These options can be exercised at 50 cents until 31 December 2006 or at 100 cents until 31 December 2007.

This agreement at least guarantees funding the testing and approval of ST810 as a growth promotor in animals in one market and will take the company through to the time it starts to earn revenues from product sales. The options also offer the potential to raise $36-72 million on favourable terms (i.e. 50-100 cents per share) to fund expansion in other markets.

Our listed options allow us to buy Stirling Products shares at just 20 cents until 31 December 2007. *If* this current venture is commercially successful and AFGRI Operations exercises its options, then Stirling Products shares *could* be worth over 50 cents by the end of this year or over 100 cents by the end of 2007 when our options reach their final exercise/expiry date. This would value our options at 30 cents in 2006 or 80 cents in 2007.

In other company funded research, ST810 has been shown to *reduce* weight gain of up to 79% on obese Zucker rats. This study has provided initial data for the company's weight loss project for obese companion animals (i.e. 30-40% of dogs and cats in the US).

Stirling Products is still a high risk company in a development stage, but one of the highest risks has been the need to raise additional cash. Issuing new shares when the price is depressed can result in significant dilution of shareholders investment in the company. The South African agreement reduces the need to raise cash and the risk of significant dilution on unfavourable terms. The 50-100 cents exercise price on the AFGRI Operations options also indicates the *potential* profit that company sees from its association with Stirling Products.

Our options give us another 23 months to assess the success of the company, but allow us to participate in the significant potential that is possible. Therefore we continue to view a small investment in Stirling Products options as an attractive high risk/high return investment. "Buy".

Stirling Products

Total Return Index for All Listed Shares

Jan 9	2252.10	Jan 16	2270.62
Jan 10	2248.79	Jan 17	2266.76
Jan 11	2255.95	Jan 18	2262.07
Jan 12	2267.91	Jan 19	2268.31
Jan 13	2270.76	Jan 20	2266.16
Jan 23	2248.78	Jan 30	2258.31
Jan 24	2250.67	Jan 31	2259.00
Jan 25	2259.99	Feb 1	2257.42
Jan 26	2257.73	Feb 2	2256.64
Jan 27	2259.24	Feb 3	2255.84

Dividend$

Company	Cents per Share	Ex-Date	Pay-able	Tax Credit
Ashburton Building Society	7.50	-	-	Full
Blue Chip Financial	1.90	09-01	30-03	Full
Seeka Kiwifruit	10.00	10-02	20-02	Full
Smith City Market	1.50	06-02	10-02	Nil
South Port NZ	2.75	20-02	03-03	Full

Office Closed 13-24 February

The office will be closed for two weeks later this month - but we shall be checking emails, monitoring our investments and maintaining the online database.

Next Issue

The next issue of *Market Analysis* will be posted in five weeks time on Tuesday March 14, 2006 (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.

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