

Market Analysis

Inside Market Analysis

HOLD Vision Systems while rivals battle for control .. 6	SELL Richina Pacific 8
BUY Smiths City Group 7, 8	Insider Trades 12 - 15
BUY M2 Telecommunications 9, 10	Insiders Buy Codan 15, 16

Founder: James R Cornell (B.Com.)

Summary and Recommended Investment Strategy.

The general outlook is Neutral to moderately Bullish (i.e. favourable), but we see good value in our *Recommended Portfolio* (as do a couple of bidders for Vision Systems!) which continues to appreciate in value. Remain fully invested.

Investment Outlook.

What drives daily fluctuations in share price? For want of a better answer, most traders simply follow the overnight fluctuation of the United States stockmarket. Over the last month, driven by falling energy prices and the expectation that interest rates have peaked, the Dow Jones index has moved to a new high. (The more broad based indices are still some way below their previous peaks).

Beyond daily fluctuations, higher share prices in the US enable companies to raise capital for acquisitions abroad. So perhaps the current takeover battle for Vision Systems would not have been possible 3-4 years ago when the US stockmarket was lower.

Australian interest rates may also have peaked. In Europe and the United Kingdom, however, interest rates are still increasing. New Zealand interest rates had peaked in late 2005, eased slightly and were quite stable around 7½% - but have risen towards 7.7% over recent weeks.

Rising interest rates not only make interest bearing investments *relatively* more attractive, but they depress corporate profitability (owing to higher interest costs) and suppress consumer spending - all of which are unfavourable for share prices.

So our Forecasts for the New Zealand stockmarket remain fairly Neutral. Nevertheless, this situation does allow us to buy and hold shares near the bottom of an economic downturn which are under-valued.

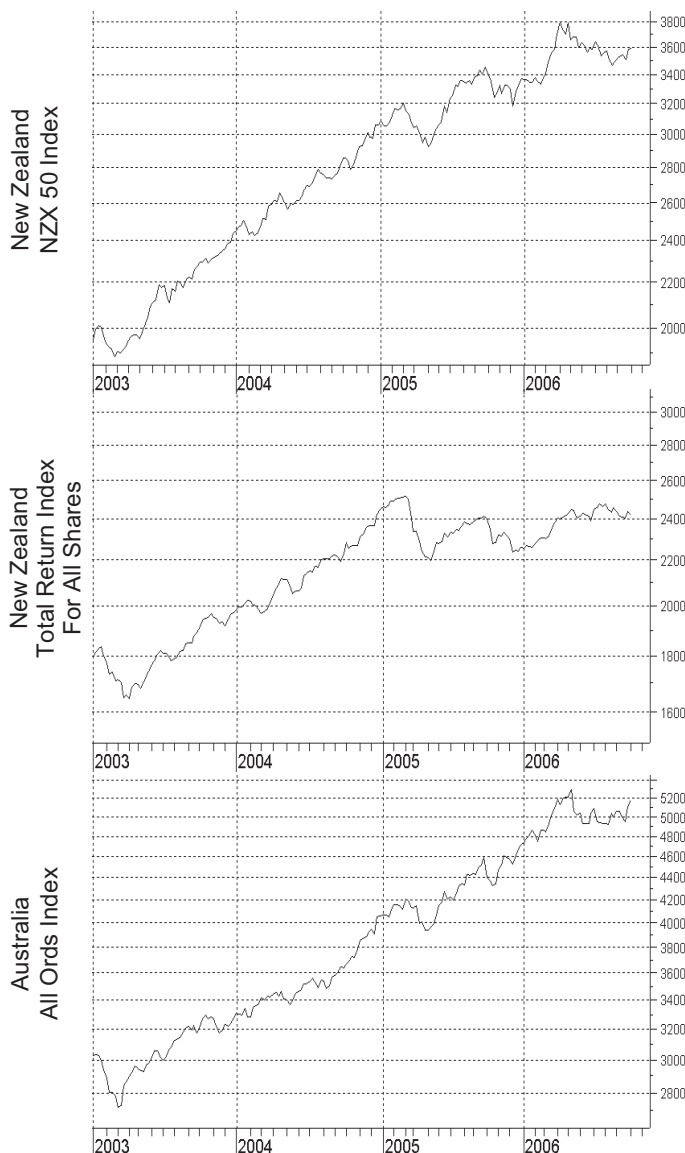
Our Australian Forecasts are only slightly better.

Once again our quarterly *Insider* reports shows that Australia's most knowledgeable investors are Bullish - with 81.7% of Buys over the last 13 weeks and only 18.3% Sell trades. In New Zealand, *insiders* bought shares in a Neutral 44.3% of trades, selling shares in 55.7%.

The takeover of Vision Systems - perhaps at prices further above the current offer? - should ultimately generate a large cash sum which we shall look to re-invest in current and new share recommendations.

Stockmarket Forecasts

	<u>One-Month</u>	<u>One-Year</u>
Australia:	80% (Bullish)	62% (Bullish)
New Zealand:	59% (Neutral)	59% (Neutral)



Performance Forecasts

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

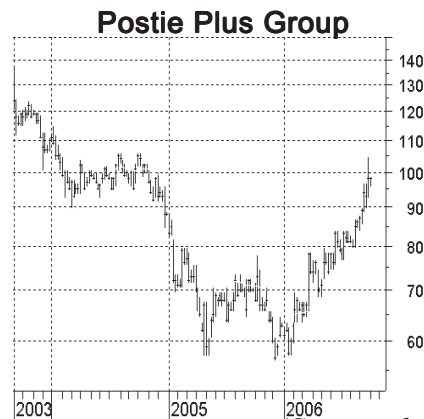
	Performance Forecast	Price	Price/Sales Ratio	P/E Ratio	Gross Yield		Performance Forecast	Price	Price/Sales Ratio	P/E Ratio	Gross Yield		Performance Forecast	Price	Price/Sales Ratio	P/E Ratio	Gross Yield
A2 Corporation	D	8.0	6.56	NE	Nil	Infratil NZ	C	414	3.01	NE	4.5	Pumpkin Patch	C	406	2.17	24	3.1
AMP Onyx Mgmt	B	115	5.76	15	6.5	Jasons Media	D	50	0.71	16	Nil	Pyne Gould Corp	B	425	0.90	11	6.3
AMP Limited	B	1022	1.40	21	3.6	Just Water Int.	A	100	2.42	18	5.3	Rakon Ltd	C	340	4.86	75	Nil
AXA Asia Pac.	B	685	2.14	19	2.3	Kidicorp	D	18	1.02	21	Nil	Renaissance	C	128	0.32	10	11.7
Abano Health.	C	120	0.42	17	Nil	Kingfish Ltd	A	129	3.22	4	2.9	Restaurant Brds	C	106	0.32	10	14.1
Affco Holdings	E	36	0.19	9	2.8	Kirkcaldie & St	C	225	0.52	19	5.3	Richina Pacific	E	49	0.09	NE	Nil
Air New Zealand	C	138	0.36	14	5.4	Kiwi Property	B	137	N/A	13	6.6	Rubicon Limited	E	93	0.39	29	Nil
Akd Int Airport	C	209	8.34	25	5.9	Life Pharmacy	C	80	3.75	20	5.1	Ryman Health.	A	882	6.18	25	1.9
Allied Work.	A	155	0.54	13	9.6	Lion Nathan Ltd	B	944	2.58	21	3.7	Salvus Strat.	C	82	N/A	NE	4.6
Allied Farmers	C	224	0.42	27	4.7	Livestock Imp.	A	176	0.52	8	13.9	Sanford Limited	D	475	1.21	15	6.9
Apple Fields	C	4.6	N/A	NE	Nil	Loan & Building	B	430	1.37	17	5.2	Satara Co-op	D	110	0.57	NE	4.1
Blis Technology	E	7.1	N/A	NE	Nil	Lombard Group	E	1.9	1.62	19	Nil	Savoy Equities	D	2.2	N/A	73	Nil
Blue Chip Fin.	C	71	0.68	5	Nil	Lytelton Port	C	206	2.66	21	3.6	Scott Tech. Ltd	C	205	1.27	NE	2.9
Botry-Zen Ltd	E	4.5	N/A	NE	Nil	MDSnews	E	0.3	N/A	NE	Nil	Sealegs Corp	E	20	4.08	NE	Nil
Brierley Invest	D	136	3.15	30	2.6	MG Property Trt	B	128	N/A	19	7.7	Seeka Kiwifruit	C	360	0.44	10	8.3
Briscoe Group	B	169	1.04	14	6.6	Mainfreight Grp	A	640	0.69	21	2.8	Skellerup Hold.	B	150	0.98	12	8.0
Broadway Ind	B	85	0.43	21	4.7	Media Tech.	E	4.0	0.20	NE	Nil	Sky City Ltd	C	523	2.98	19	7.4
CACI Group Ltd	B	33	0.48	7	Nil	Methven Limited	B	153	1.35	12	9.0	Sky Network TV	D	565	4.01	37	2.1
CDL Investments	C	39	3.35	9	7.7	Metro. LifeCare	A	650	9.60	49	1.4	Smartpay NZ Ltd	D	6.8	N/A	NE	Nil
Cabletalk Group	D	42	0.37	13	7.1	Michael Hill	C	705	0.89	18	4.9	Smiths City	B	64	0.14	6	8.6
Cadmus Tech Ltd	E	19	1.73	NE	Nil	Mid-Cap Index	D	294	N/A	NE	Nil	Software of Exc	D	169	1.77	NE	Nil
Calan Hlthcare	B	132	9.79	17	7.0	Mike Pero Mort.	C	106	2.01	16	8.4	Sol. Dynamics	D	70	0.53	NE	Nil
CanWest Media.	C	145	1.31	25	6.5	Millennium & C.	C	62	1.26	8	5.1	South Port NZ	B	170	3.01	18	6.8
Canty Bldg Soc.	C	400	1.15	10	5.6	Mooring Systems	E	395	N/A	NE	Nil	Speirs Group	B	106	0.24	13	9.9
Cavalier Corp	C	326	1.06	15	8.2	Mowbray Collect	E	145	3.42	NE	Nil	Steel & Tube	C	451	0.90	13	10.6
Cert Organics	E	3.7	1.67	NE	Nil	Mr Chips Hold	C	102	0.58	84	Nil	Sthn Travel	C	36	0.14	9	12.4
Charlie's Group	E	15	2.80	NE	Nil	NZ Experience	D	28	1.20	13	10.7	Summit Gold Ltd*	N/R	200	N/A	NE	Nil
Col Motor Co	B	314	0.19	13	11.4	NZ Exchange Ltd	A	621	7.59	33	6.0	Tag Pacific Ltd	D	34	0.38	7	1.6
Comvita	B	338	N/A	28	2.2	NZ Finance Hold	B	159	5.04	32	1.2	Taylor's Grp Ltd	B	180	0.64	12	10.0
Connexion	D	26	3.14	NE	Nil	NZ Invest Trust	C	903	N/A	NE	0.9	TeamTalk Ltd	C	240	2.37	15	11.8
Contact Energy	C	716	1.77	15	5.4	NZ Oil and Gas *	N/R	97	N/A	90	Nil	Telecom Corp	C	419	1.41	10	12.6
Cynotech Hold.	D	12	1.18	10	6.2	NZ Refining Co	C	610	4.01	10	8.0	Tenon Ltd	D	308	0.34	16	Nil
Delegat's Group	B	230	2.69	44	1.0	NZ Wine Company	A	230	2.11	19	4.5	Toll NZ Ltd	D	295	0.90	12	Nil
Dominion Fin.	A	149	2.95	10	7.6	NZ Windfarms	C	126	N/A	NE	Nil	Tourism Hold.	B	189	1.05	17	8.7
Dorchester Pac	B	215	0.60	8	7.6	NZ Wool Service	C	46	0.24	11	9.7	Tower Limited	C	330	1.05	12	Nil
Eastern Hi-Fi	B	60	0.33	11	14.9	NZSX 10 Fund	E	114	N/A	NE	Nil	Training Sol.	D	20	0.40	NE	Nil
Ebos Group Ltd	B	535	0.49	13	6.3	NZSX 50 Port.	D	171	N/A	NE	Nil	Trans-Tasman	D	54	4.13	92	Nil
Evergreen	E	32	1.52	NE	Nil	NZX Aust MidCap	D	590	N/A	NE	Nil	Trust Power Ltd	C	675	3.14	26	5.1
F & P Appliance	C	385	0.84	16	7.0	Nat Property Tr	C	69	4.58	17	5.9	Turners & Grow.	D	245	0.37	14	Nil
F & P Health.	C	415	6.51	30	4.5	New Image Group	C	16	2.75	NE	Nil	Turners Auction	B	162	0.56	9	12.9
Feltex Ltd	E	3.0	0.02	NE	Nil	Northland Port	B	290	N/A	63	3.1	Utilico Int'l	D	65	5.09	NE	Nil
Finzsoft Sol'ns	D	86	0.91	14	Nil	Nuplex Indust	B	663	0.40	13	6.7	VTL Group Ltd	B	110	0.69	15	Nil
Fletcher Build.	C	862	0.73	11	6.9	Opio Forestry	D	91	N/A	38	Nil	Vector Ltd	C	243	N/A	54	7.4
Forty Two Below	C	75	N/A	NE	Nil	Oyster Bay	C	228	1.92	22	6.5	Viking Capital	E	26	N/A	NE	Nil
Freightways Ltd	C	368	1.84	19	7.0	Ozgy (Tortis)	D	312	N/A	NE	Nil	WN Drive Tech.	D	54	N/A	NE	Nil
GDC Communicat.	E	1.0	0.01	NE	Nil	PGG Wrightsons	D	172	0.57	18	8.7	Wakefield Hlth	A	730	2.02	30	2.9
Genesis Res.	E	25	2.52	NE	Nil	POD Ltd	E	53	0.23	NE	Nil	Warehouse Group	A	670	1.09	21	3.6
Guinness Peat	C	245	0.82	10	1.1	Pac Edge Bio.	E	16	N/A	NE	Nil	Waste Mgmt NZ	A	862	3.43	28	5.3
Gullivers Trv.	B	233	0.38	30	3.5	Pacific Retail	D	155	0.15	NE	Nil	Widespread Port*	N/R	2.1	3.33	5	Nil
Hallenstein G.	B	525	1.59	14	10.0	Plus SMS Hold.	D	10	N/A	NE	Nil	Windflow Tech.	D	272	8.29	NE	Nil
Hellaby Hold.	C	508	0.50	11	9.1	Port Tauranga	C	511	5.59	22	5.8	Wool Equities	D	65	0.55	NE	Nil
Heritage Gold *	N/R	3.2	N/A	NE	Nil	Postie Plus Grp	A	98	0.31	10	10.7	World Index Fd	E	143	N/A	NE	Nil
Hirequip NZ Ltd	B	128	1.65	20	4.4	Property F Ind.	B	133	N/A	20	6.3	Zintel Comm.	D	40	0.50	6	13.0
Horizon Energy	C	385	3.47	18	7.4	Propertyfinance	C	128	N/A	NE	Nil	Ave of 163 Cos	C	227	0.42	20	4.0
ING Property	B	122	9.38	15	8.2	Provenco Group	C	91	0.71	29	4.3						
ABC Learning	A	644	4.01	31	1.7	DUET Group	C	280	1.69	NE	8.4	Oil Search Ltd	C	331	4.13	14	2.0
AMP Ltd	B	915	1.42	21	3.5	David Jones	B	350	0.84	19	4.6	Onestee Ltd	B	421	0.60	13	3.4
ANZ Bank	B	2742	5.37	35	3.7	Deutsche Div Tr	C	131	6.10	14	7.1	Orica Ltd	C	2224	1.15	26	3.2
APN News Media	A	528	1.85	17	4.6	Downer EDI Ltd	C	576	0.39	NE	3.5	Origin Energy	B	700	0.93	17	2.6
AWB Limited	C	314	0.21	7	9.2	Energy Resource	B	1237	8.87	58	1.4	Oxiana Ltd	B	286	N/A	49	0.3
AXA Asia Pac	C	657	2.33	21	2.1	Excel Coal Ltd	A	946	3.93	21	2.5	Pacific Brands	B	253	0.78	13	5.9
Adelaide Bank	A	1315	0.88	15	4.4	FKP Limited	B	585	4.73	10	2.5	Paladin Res.	D	496	N/A	NE	Nil
Adelaide Bright	B	242	1.83	14	6.7	Fairfax (John)	B	435	2.14	18	4.5	Paperlin X Ltd	C	372	0.22	25	2.7
Alinta Limited	B	1138	2.78	29	3.9	Flight Centre	B	1343	1.27	16	3.9	Perpetual Ltd	C	7580	7.35	23	4.3
Allco Finance	B	1073	N/A	32	3.8	Fortescue Metal	D	887	N/A	NE	Nil	Primary Health	A	1265	6.44	33	3.3
Alumina Ltd	C	619	N/A	23	3.2	Foster's Group	C	626	2.47	11	3.4	Promina Group	A	598	1.56	12	3.9
Amscor Ltd	B	730	0.59	19	4.7	Futuris Corp.	C	206	0.44	17	4.4	Publishing & Br	A	1966	3.70	22	3.0
Ansell Ltd	B	1066	1.40	14	1.1	GPT Group	B	490	8.35	17	5.0	Q.B.E. Insur.	A	2435	1.54	18	2.9
Aquarius Plat.	A	2170	4.29	21	1.1	Galileo Shop Am	B	121	6.74	9	8.4	Qantas Airways	A	398	0.57	16	5.5
Argo Investment	B	720	N/A	28	3.3	Gandel R. (CFS)	B	194	N/A	19	5.4	Ramsay Health	B	1090	0.95	22	2.2
Aristocrat Leis	B	1396	4.99	27	2.1	Goodman Fielder	B	219	1.91	20	2.5	Reece Australia	A	1658	1.48	19	2.7
Aust Foundation	B	480	N/A	25	3.5	Guinness Peat	B	218	0.75	9	1.1	Rinker Group	C	1434	1.97	14	2.6
Aust Wealth Mgt	B	251	N/A	69	1.8	Hardman Res.	E	202	N/A	NE	Nil	Rio Tinto Ltd	C	6925	5.01	25	1.5
Aust Stock Exch	B	3385	N/A	26	3.5	Harvey Norman	C	368	1.72	17	2.2	Rural Press Ltd	A	1105	2.23	12	4.9
Aust Pipeline	B	431	3.62	22	5.6	Healthscope	B	478	0.99	20	3.0	SP Ausnet	B	131	3.60	8	2.5
Australand Prop	C	183	1.05	8	9.0	Henderson Group	B	238	2.39	14	1.4	Santos Ltd	C	1085	2.50	8	3.5
Aust W'wide Exp	D	282	N/A	NE	Nil	ING Office Fund	B	163	8.11	5	6.4	Seek Ltd	B	495	N/A	41	1.0
Austar United	C	127	3.32	26	Nil	ING Indust Trt	B	244	N/A	17	6.4	Seven Network	B	891	1.55	18	1.7
Aust Gas Light	B	2180	2.34	22	3.1	Iluka Resources	C	740	1.73	13	3.0	Sigma Pharm.	C	273	1.20	36	2.5
B & B Infrastr.	B	165	2.81	29	8.0	Incitec Pivot	B	2585	1.39	NE	0.6	Sims Group Ltd	B	2140	0.71	14	4.9
BHP Billiton	C	2520	2.14	11	1.5	Insurance Aust.	B	549	1.34	10	5.4	Smorgon Steel	B	170	0.47	10	5.3
Babcock & Brown	B	2010	5.57	26	0.7	Investa Prop.	B	251	2.88	11	6.7	Sonic Health	C	1356	2.42	23	3.0
Bank of Q'land	A	1598	1.89	18	3.0	James Hardie	C	729	1.75	12	1.4	Soul Pattinson	B	857	1.60	5	2.9
Bendigo Bank	A	1460	1.86	18	3.6	Jubilee Mines	A	1060	4.66	13	3.6	St George Bank	A	3105	2.80	18	4.4
Billabong Int'l	C	1450	2.92	21	3.0	Kagara Zinc Ltd	B	543	9.11	30	Nil	Stockland	B	770	4.51	10	5.4
Bluescope Steel	C	670	0.59	5	6.3	Leighton Hold	B	2054	0.67	21	3.2	Suncorp-Metway	B	2216	1.62	14	4.4
Boral Limited	C	735	0.91	12	4.6	Lend Lease Corp	B	1702	0.56	16	3.6	Symbion Health	C	346	0.56	27	3.2
Brambles Ind.	B																

Recommended Investments

Postie Plus Group has reported a 9.8% lift in revenues to \$125.5 million for the year to 31 July 2006, while profits have recovered 135.3% to \$3,925,000 (9.8 cents per share). A final dividend of 4.0 cents, lifts the annual dividend 133.3% to 7.0 cents (plus full imputation tax credits).

Postie Plus Group is to install SAP sales and financial reporting software in all 116 stores, providing a "superior common platform" to further improve inventory management. The company will "continue to implement a growth strategy across every part of our business" and "brand development is strategic" to this growth.

With the profit and dividend recovery, at 98 cents the shares still appear to offer very good investment value.



(Continued on Page 4)

Portfolio of Recommended Investments

CURRENT ADVICE	Company	Initial Recommendation Code	- Date -	Price	Performance Forecast	Issued Shares (mil.)	Volatility Ratio	Price/Sales Ratio	Price/Earnings Ratio	Gross Dividend Yield	Recent Share Price	Cash Dividends Rec'd	Total Return %
	<u>NZ Shares</u>												
HOLD	CDL Investments Ltd	CDI	12/01/99	25	C	210.6	1.4	3.35	9	7.7	39	13.3	+109%
BUY	Cavalier Corporation	CAV	05/12/95	156*	C	65.5	0.5	1.06	15	8.2	326	188.0	+229%
HOLD+	Colonial Motor Company	CMO	10/11/92	150	B	27.9	0.5	0.19	13	11.4	314	292.8	+305%
HOLD	Lyttelton Port Company	LPC	12/12/00	150	C	102.3	0.6	2.66	21	3.6	206	54.3	+74%
HOLD+	Michael Hill Int'l Ltd	MHI	11/06/91	46*	C	39.2	0.4	0.89	18	4.9	705	182.0	+1828%
HOLD	Nuplex Industries Ltd	NPX	11/02/97	350	B	78.4	0.5	0.40	13	6.7	663	141.5	+130%
BUY	Postie Plus Group	PPG	08/05/06	71	A	40.0	0.9	0.31	10	10.7	98	Nil	+38%
BUY	Renaissance Corp	RNS	13/08/96	85*	C	38.5	0.8	0.32	10	11.7	128	40.4	+98%
SELL	Richina Pacific	RPL	03/11/95	94*	E	151.2	1.3	0.09	NE	Nil	49	11.4	-36%
BUY	Smiths City Group	SCY	09/10/06	64	B	53.0	1.0	0.14	6	8.6	64	Nil	
HOLD	South Port New Zealand	SPN	13/02/96	120	B	26.2	0.7	3.01	18	6.8	170	89.3	+116%
HOLD	Steel & Tube Holdings	STU	08/08/00	146	C	88.1	0.5	0.90	13	10.6	451	164.0	+321%
HOLD+	Taylors Group Ltd	TAY	09/11/99	102	B	24.3	0.7	0.64	12	10.0	180	62.0	+137%
	<u>Australian Shares</u> (in Aust cents)												
HOLD	AJ Lucas Group	AJL	13/05/03	120	C	52.0	1.0	0.29	16	Nil	94	20.5	-5%
BUY	Atlas Pacific Ltd	ATP	14/05/96	73	B	87.8	1.4	3.16	16	2.7	37	9.5	-37%
HOLD	Austin Group Ltd	ATG	08/02/05	93	C	62.2	1.7	0.30	NE	11.5	26	7.0	-65%
HOLD+	Campbell Brothers Ltd	CPB	12/10/99	406*	B	51.0	0.4	1.78	27	2.7	1830	192.6	+398%
BUY	Candle Australia	CND	08/04/03	86	B	49.8	0.7	0.62	14	5.0	338	42.5	+342%
BUY	Cellnet Group Ltd	CLT	12/02/02	152	A	51.5	0.9	0.12	44	1.5	135	33.5	+11%
HOLD+	Centennial Coal Ltd	CEY	16/01/01	70*	B	295.1	0.5	1.31	21	3.6	358	26.0	+449%
BUY	Circadian Technologies	CIR	10/02/04	188	C	40.1	0.9	1.24	NE	Nil	146	65.0	+12%
HOLD	Commander Comm.	CDR	11/09/01	92	B	222.9	0.9	0.58	18	2.0	205	23.2	+148%
BUY	Computershare Ltd	CPU	12/08/03	189	B	599.3	0.6	2.98	26	1.6	802	34.5	+343%
HOLD+	Ellex Medical Lasers	ELX	14/03/06	49	B	61.2	1.3	1.40	24	Nil	80	Nil	+63%
HOLD+	Int'l AllSports	IAS	11/02/03	180	B	66.4	1.9	0.02	12	6.7	23	4.0	-85%
HOLD+	Iluka Resources Ltd	ILU	12/10/04	471	C	232.9	0.6	1.73	13	3.0	740	44.0	+66%
HOLD	Keycorp Ltd	KYC	10/08/04	123*	D	82.2	1.3	0.70	NE	Nil	81	Nil	-34%
HOLD	LongReach Group Ltd	LRX	11/01/05	23½	C	175.1	4.0	0.60	8	Nil	5	Nil	-79%
BUY	M2 Telecommunications	MTU	09/10/06	32½	A	59.4	1.6	0.58	9	6.2	32½	Nil	
HOLD+	Melbourne IT	MLB	10/02/04	53	A	54.3	0.6	1.81	24	3.1	241	18.5	+390%
HOLD	M.Y.O.B. Ltd	MYO	15/07/03	84*	B	392.4	0.9	2.57	26	2.6	107	6.3	+35%
BUY	Namoi Cotton Co-op Ltd	NAM	14/03/06	65	B	112.7	1.1	0.20	5	10.6	62	3.5	+0%
BUY	Ross Human Directions	RHD	14/08/01	92	A	82.3	1.2	0.13	9	7.6	53	25.0	-16%
HOLD	Skilled Engineering	SKE	12/03/02	126	A	103.9	0.5	0.60	23	3.4	553	76.5	+400%
HOLD	Sonnet Corporation	SNN	07/09/04	31½	C	166.6	3.4	0.32	NE	Nil	6	3.0	-71%
HOLD+	Technology One Ltd	TNE	11/11/03	44	A	296.7	1.1	3.68	20	4.1	83	9.4	+109%
HOLD+	The Reject Shop Ltd	TRS	11/01/05	257	A	25.1	0.7	0.77	20	3.1	733	47.5	+204%
HOLD	UXC Limited	UXC	11/01/00	55*	A	170.4	0.8	0.79	14	4.7	139	32.0	+211%
HOLD	Vision Systems Ltd	VSL	10/11/98	54*	B	176.4	0.7	5.43	NE	0.6	351	26.9	+600%

The average Total Return (i.e. both Capital Gains/Losses plus Dividends received) of all current investments from initial recommendation is +181.9%. This is equal to an average annual rate of +33.0%, based upon the length of time each position has been held.

The average annual rate of gain of ALL recommendations (both the 39 current and 133 closed out) is +33.4%, compared with a market gain of +8.6% (by the SRC Total Return Index).

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

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

Recommended Investments

(Continued from Page 3)

The Price/Sales ratio is a very low 0.31, the Price/Earnings ratio just 10 and the gross Dividend Yield 10.7%. “Buy” for high income and further capital appreciation as the retail sector is re-rated and as Postie Plus Group continues to grow by steadily expanding its store numbers.

Australian Shares

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

AJ Lucas Group's revenues recovered in the year to June 2006, up 130.4% to \$171.2 million. The company also returned to profitability, earning a net profit of \$3,030,000 (5.8 cents per share) - compared with a loss of \$22.3 million in 2005. No dividend will be paid as the company seeks to retain cash to finance expansion and growth. The net operating cash surplus was \$15.7 million.

AJ Lucas Group predicts revenues will grow around 25% this year to \$160-165 million and while unwilling to forecast profits the company would seek to improve its gross profit margin from 4.9% to 6-8%.

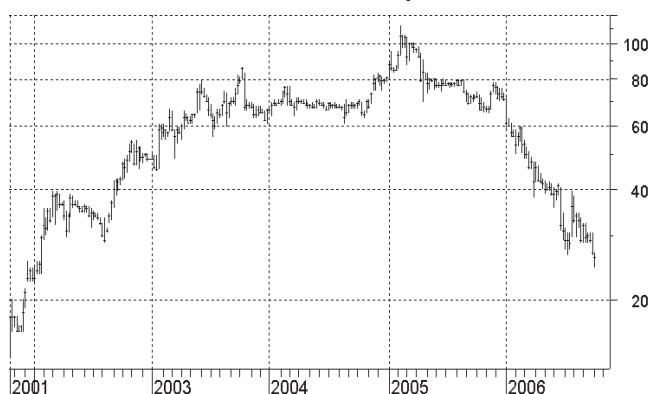
A consortium of AJ Lucas Group, **Transfield Services** and **McCalls** has been named as the preferred construction partners to tender for pipelines between Luggage Point and Bundamba as part of the Queensland government's *Western Corridor Recycled Water* network. This project is planned to recycle 200 million litres of water per day to the *Tarong* and *Swanbank* power stations, other industry and possibly agricultural users. Construction work should begin in early 2007.

AJ Lucas Group



Austin Group suffered an 11.7% fall in revenues to \$53.9 million for the year to June 2006 and traded at a loss of \$1,430,000 (minus 2.3 cents per share), compared with a profit of \$4,095,000 last year. No final dividend will be paid, leaving the annual payout at 3.0 cents (i.e. the interim dividend), down 57.1%.

Austin Group



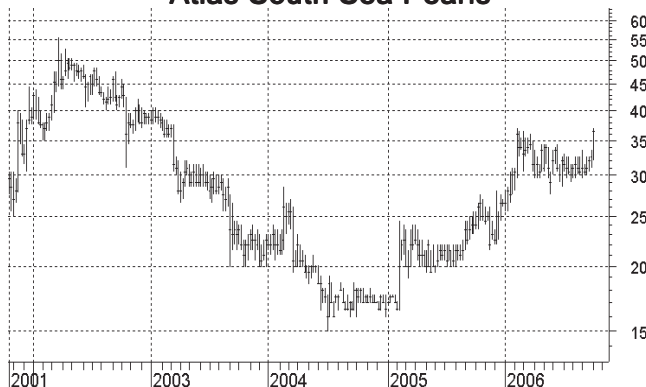
The business continued to generate a cash operating surplus, but down 72% to \$1.5 million.

The company believes it needs to better develop strong brands, review its basic business model, reduce its cost structure and improve supply chain management systems to better match inventory with sales.

Atlas South Sea Pearls reports “the promising start to 2006 has continued to gain momentum” and the directors are predicting a final 1.5 cents dividend - making a total of 3.0 cents - for the current year to December 2006.

The company reported revenues of \$5.4 million for the half year but these are now up to “almost as much” as the \$10.1 million for the “whole of 2005”, with about 30% of the annual harvest still to be sold.

Atlas South Sea Pearls



Rumours that **Centennial Coal's** *Tahmoor* mine had “collapsed” were greatly exaggerated! There was a “localised fall of immediate roof in a roadway” in late August which has “slightly delayed” the longwall change over, but “total production for this year will not be impacted”.

Circadian Technologies has agreed to invest a further \$1,500,000 in **Vegenics** - its joint venture with the **Ludwig Institute for Cancer Research** and **Licentia** (i.e. the **University of Helsinki**). This will increase its share in Vegenics from 50.0% to 57.9%. Vegenics recently signed an agreement with US based **CoGenesys Inc** to acquire further intellectual property rights related to VEGF-C.

Circadian Technologies



International All Sports returned to profitability for the year to June 2006. Wagering turnover was 59.8% higher at \$938.6 million and revenues up 40.2% at \$39.1 million. The company earned a profit of \$1,228,000 (1.8 cents per share), up from a loss of \$5.5 million in 2005. As previously reported (and paid in January), dividends were re-instated at 1.5 cents per share.

The net operating cash surplus was \$6.4 million, up

October 9, 2006.

from just \$0.6 million the previous year.

The result was *after* legal costs of \$1.2 million (to date) relating to the \$16.9 million claim by the **Commonwealth Bank of Australia** which will go to trial on 5 March 2007.

Profits to June 2006 were also depressed by re-organisation and restructuring costs to convert **Canbet** to the proprietary software, trading and risk management systems used by IAS. The company also spent \$3.3 million on marketing to re-establish that business. The overall impact was that the Canbet business operated at a *loss* of \$3.0 million, but the benefits of this restructuring and marketing should be realised this financial year.

48% of International All Sports turnover and 56% of revenues come from Australian racing. International racing contributes another 17% of turnover and 23% of revenues. 95% of these bets are placed via the internet, giving the company a significant cost advantage compared with the traditional TAB wagering. International All Sports has a very small market share, but eventually business *always* moves toward the low cost operator.

Over the current financial year the company expects "continued growth" and further "improvement in profitability".

The United States attempt to ban internet gambling will not impact on the business of International All Sports as US horse racing is exempted from the legislation while the impact on UK based Canbet is "not expected to have any financial effect on operating profits".

International All Sports will pay \$300,000 to acquire a "non-exclusive, worldwide, perpetual and royalty-free licence" to continue using software from **Sunthunder Systems** which is used in its proprietary betting systems. This gives the company full control and ownership of its software systems.

International All Sports has also reached agreement with **Racing Victoria** and will make a financial contribution to the Victorian Racing Industry in return for the right to publish Victorian race fields. The payment, while described as "significant", will not have a "material" impact on profitability.

International All Sports



Iluka Resources has expanded its heavy mineral resources at its *Adamson* deposits. The mineral extension to the north, to be called *Adamson North*, consists of 17.47 million tonnes, with around 4.0% heavy minerals.

The *Tripitaka* resource, which straddles one exploration licence owned by Iluka Resources and a second owned by an Iluka Resources/**Adelaide Resources** joint venture, has been determined to contain

42 million tonnes, averaging 2.4% heavy minerals but with a high 65% Zircon. About 40% of this deposit is wholly owned by Iluka Resources, with about 60% in the joint venture area.

Keycorp has acquired the Canadian business of **Optimal Services Group** at virtually no cost, but will need to spend A\$3 million to significantly restructure and integrate it into the group. Optimal Services Group is Canada's largest provider of services to leading payment processors and major retailers and similar to Keycorp's existing EFTPOS Engineering (Customer Service) business in Australia.

Keycorp will restructure Optimal Services Group and use its service capabilities to replicate its successful and profitable Managed Payments Solutions model in Canada which is moving to the EMV payment standard.

Keycorp plans to complete restructuring within the year, with Canadian revenues rising to A\$50 million in the year to June 2008.

Keycorp

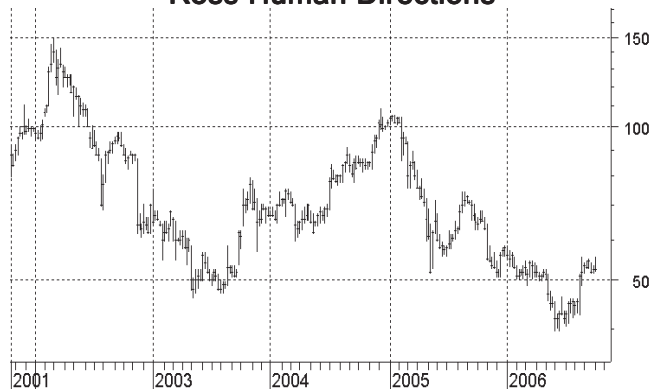


Ross Human Directions shares are being further upgraded to a "Buy". There have been three further *insider* buys on-market over the last month - making a very high ten buys (and no sells) over the last year. The Relative Strength rating has also turned *positive* at +0.7%, ranked 43. Those two conditions (i.e. *insider* buying and an uptrend in the share price) are a "Buy" under the Insider Buying criteria of our *Comprehensive Share Selection Criteria*.

Ross Human Directions shares also look *undervalued* on a Price/Sales ratio of only 0.13, a low Price/Earnings ratio of 9 and a Dividend Yield of 7.6%.

We have held these shares for five years at a small loss (after the dividends collected), but we still consider Ross Human Directions an attractive investment for a high current income and capital appreciation - so will be further adding to our holding in this company.

Ross Human Directions



(Continued on Page 6)

Recommended Investments

(Continued from Page 5)

Skilled Group has received acceptances of 96.26% under its takeover offer for **Catalyst Recruitment** and extended the closing date two weeks until 10 October.

Sonnet Corporation has reported revenues 8.1% lower at \$33.8 million and a trading *loss* of \$434,487 (*minus* 0.4 cents per share). In addition, the company wrote off impairment losses of \$2.6 million in its IT Enterprise Services and \$14.3 million in its Mobile Virtual Network divisions.

No dividend will be paid. The company's operation produced a cash *deficit* of \$1.0 million, compared with a surplus of \$5.2 million last year.

Sonnet Corporation reports that the IT Enterprise Services business achieved *positive* earnings in June and “the viability of the business has significantly improved”.

In the Mobile division, the “focus of growth continues to be the development of the wholesale partnerships”.

The company also notes “the increase in annuity style revenues across both subsidiaries has vastly improved the prospects of the group going forwards” - but, of course, compared with the last couple of years, just about *anything* would be a “vast improvement”.

Sonnet Corporation will provide its mobile services to - and take a 10% shareholding in - **Cicada Mobile** (which will trade as *Gecko*). The company will market the top selling US children's phone *Firefly* under the brand name *Gecko* in Australia, New Zealand and Fiji to the 6-9 year old market! The phones will have restricted calling and receiving of calls and no SMS. It is difficult, however, to imagine this market segment generating much revenue!

Sonnet Corporation



Developments at **Vision Systems** over the last month demonstrate why we have always recommended against selling early in a takeover situation. **Ventana Medical Systems** offered 213 cents through a scheme of arrangement although it was unclear to us *why* the Vision Systems directors had agreed to this scheme.

The market price of Vision Systems shares moved above 213 cents - indicating the *potential* for a rival bid or the *expectation* that the offer would be increased.

On 13 September, US based **Cytc Corporation** announced its intention to offer 235 cents in cash for Vision Systems in a full takeover offer “subject to no adverse change” to Vision Systems.

On 17 September, Ventana announced it would not increase its price (but reserved its right to do anything to acquire Vision Systems) and the next day re-filed its dubious patent infringement action against the company. Cytc responded that it did not consider this legal action a material adverse change and would continue with its takeover offer.

A *potential* third bidder, US based **Danaher Corporation**, approached Vision Systems to undertake due diligence relating to a possible competing bid.

On 27 September, Ventana purchased 22,166,603 Vision Systems shares (12% of the company) on-market for \$63.2 million or 285 cents. The company still did not raise the price offered in its takeover, but obviously could not expect the Vision Systems directors or shareholders to approve the original 213 cents. For Ventana to acquire Vision Systems it would need to offer *at least* the 285 cents to all shareholders.

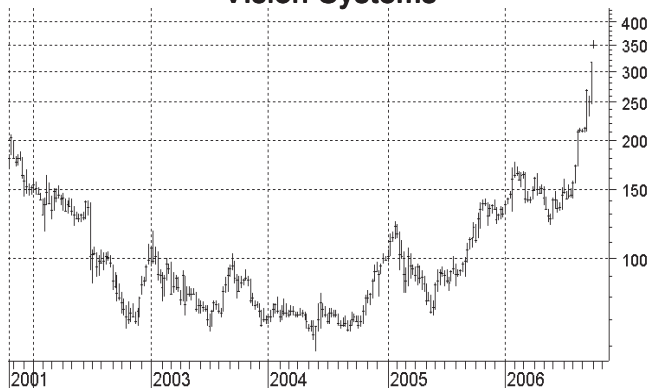
On 29 September, Cytc increased its offer to 325 cents and made it unconditional. The company, which has secured pre-bid acceptances for 25 million shares and 3.6 million notes (i.e. 13.9% of Vision Systems) has mailed its takeover to shareholders and will accept and pay for any shares offered to it.

On 2 October Ventana and Danaher announced they were discussing “a potential co-operative effort to acquire Vision Systems”.

Do NOT accept any offers or sell Vision Systems shares on-market at this stage. This is still an active takeover battle where two parties have acquired minority stakes and both still seek to gain full control of Vision Systems. Vision Systems shares trade on-market at 351 cents - 26 cents or 8% above the current 325 cents offer - reflecting the *potential* for further developments in this situation. *At worst* we can get 325 cents from Cytc, missing out on the higher market price at present. Selling on-market, however, would certainly result in us missing out on any further competitive bidding - and this is still a *very active* competitive takeover situation!

In a competitive takeover, the *last* investors to sell usually get the best price. “Hold” pending further developments.

Vision Systems



Share Recommendation: Buy Smiths City Group

BUY Smiths City Group (code SCY).

Over the last year this newsletter has argued that the weakness in the share prices of smaller domestic listed companies - such as retailers - since the start of 2005 resulted from the market *anticipating* the current economic slowdown. These shares have therefore been near the bottom of their price cycle *ahead* of the difficult trading conditions, and lower profits, *currently* being experienced. In late 2006 and through 2007, depressed retail shares *could* start to recover - *anticipating* the improvement in their businesses in 2007 and 2008.

We reviewed Smiths City Group in May this year (*Market Analysis* Issue 406), concluding that the shares were “*out of favour* and *depressed* and so offer good *value* at current prices - although the shares may drift sideways in the immediate future” and “a more attractive buying opportunity may develop later in 2006”.

The company performed well in its financial year to April 2006, there were three *insider* buys on-market in July and the share price trend is starting to improve . . . so we judge this is the time to upgrade Smiths City Group shares to a formal “Buy” recommendation.

Company History

The company was incorporated in 1938 as **Smiths City Market** to continue an auctioning and retail business that was started in 1918. The company listed on the NZ stockmarket in 1972 but rapid expansion during the 1980's boom resulted in the shares being delisted and the company was placed in receivership in 1991. The current company, Smiths City Group, was formed from a subsidiary that was released from receivership in 1994 and entered a Scheme of Arrangement with creditors. The shares were relisted on the NZ stockmarket in November 2003.

In 2004 the company again ventured into the North Island with the purchase of an 80% interest in Wellington based **L V Martin & Son**.

In March 2005 the group further expanded in the North Island with the acquisition of **Meikles**, a Bay of Plenty retailer with six stores selling appliances and furniture, and **Meikles Finance** for around \$7.5 million.

In March the group also announced plans to open a *Smiths City* store in Palmerston North.

As a result of the receivership and prior losses, in November 2004 the company received a binding ruling from the **Inland Revenue Department** for tax losses of \$52.2 million. After the April 2006 financial year the group had tax losses of \$31.7 million - so will not need to pay tax on profits for the next 5-6 years.

Recent Results

For the year to 30 April 2002, revenues increased 6.3% to \$180.9 million but profits jumped 41.4% to \$3,366,000 (6.4 cents per share). A 20% lower dividend of 2.0 cents

(plus full imputation tax credits) was paid.

To April 2003, revenues were 6.6% higher at \$192.7 million with profits ahead 20.3% at \$4,048,000 (7.6 cents per share). The annual dividend was raised 50.0% to 3.0 cents (plus full imputation tax credits).

Revenues rose a further 6.4% to \$205.1 million in 2004, with profits rising 7.1% to \$4,343,000 (8.2 cents per share). The annual dividend was 16.7% higher at 3.5 cents (plus tax credits).

The year to April 2005 recorded a 10.9% lift in revenues to \$227.5 million, but pre-tax profits slipped 18.2% to \$5,187,000 (9.8 cents per share) while a \$3.6 million tax *refund* boosted the total reported profits to \$8,761,000 (16.5 cents per share). The annual dividend rate was 42.9% higher at 5.0 cents but *without* imputation tax credits (i.e. the gross dividend was 4.3% *lower*), plus there was a 1.5 cents unimputed special dividend.

The year to April 2006 saw revenues 6.8% higher at \$243.0 million, pre-tax profits 0.4% higher at \$5,209,000 and the net profit (excluding the prior year tax benefit) up 4.8% to \$5,436,000 (10.3 cents per share). The company paid a final dividend of 4.0 cents, making a 10.0% higher 5.5 cents (*without* imputation tax credits).

The net operating cash surplus improved 59% to \$8.3 million.

Investment Criteria

At 64 cents Smiths City Group shares trade on a low Price/Earnings ratio of 0.14, a low Price/Earnings ratio of 6 and offer a high Dividend Yield of 8.6%.

The reliable cashflow and profits from the Finance business will offset some of the volatility in the group's Retail business. Property development and ownership of its retail stores is also an important part of the business.

The issued capital is 52,956,844 shares, making this a *smaller* company with a market capitalisation of just \$34 million.

Over the last year there have been four *insider* buys (and no sells). Chairman CD Boyce purchased 200,000 shares on-market at 59 cents in February 2006 to lift his holding to 3,415,039 shares (6.4% of the company). Director JW Holdsworth bought 92,327 shares at 64 cents and 90,000 shares at 62 cents in July, lifting his investment to 7,914,611 shares (14.9%), while Deputy Chairman JA Dobson bought 50,000 shares on-market at 62 cents to own 501,479 shares.

The Managing Director, R Hellings, also holds 4,778,075 shares (9.0% of the company).

The shares are *neglected* by brokers - none follow the company closely enough to publish profit forecasts - and institutional investors own very little of the company.

The shares rose strongly during 2004, peaking at 94 cents in December 2004, then (Continued on Page 8)

BUY Smiths City Market

(Continued from Page 7)

weakened to a low of 55 cents in March. The shares now appear to be in the early stages of a recovery and new uptrend. The Relative Strength rating has recently turned *positive* at +0.4%, ranked 58.

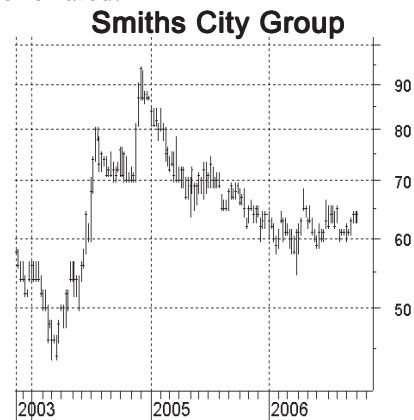
Under our *Comprehensive Share Selection Criteria* Smiths City Group shares now rate as a “Buy” under our *Under-Valued Shares*, *Best Performing Shares* and *Insider Buying* criteria.

Summary and Recommendation

Smiths City Group is *out of favour* with “the market” but the people who know the company best - the *insiders* - not only have very large investments but have been increasing those holdings with on-market purchases. Trading conditions in the retail sector remain “competitive”- so we are not looking for any great improvement in profits in the short term - but the shares

are *under-valued* and the company is steadily expanding in this depressed market which will eventually boost the long term growth and return to shareholders.

“Buy” for current income (without tax credits) and capital appreciation as the economy improves and the shares are re-rated.



Sell Richina Pacific

SELL Richina Pacific (code RPL).

We have decided to sell Richina Pacific - and cut our losses on this long term under-performer.

Developing businesses in China is not easy, but although Richina Pacific does appear to have significantly grown the revenues from its Leather processing, positive cashflows and profitability remain elusive. The company has acquired other Chinese businesses and assets, and looks to be expanding into Property development. That again appears to offer the *potential* for great profits and to build shareholder wealth.

Perhaps, however, it would be best to develop the existing businesses to the stage where they were generating *positive* cashflows and becoming profitable - then use those cashflows to finance expansion and diversification. The current expansion will continue to leave the company short of finance and needing to make further *insider* deals with interests associated with the major shareholding group.

Accounting policies appear to make asset writedowns against *Shareholders' Equity*, while the repayment of a debt at a discount is classified as a financial gain and a large share is credited to the outside investors associated with the major shareholder. This type of transaction gives minority shareholders little confidence that this will become a particularly profitable investment. As an investor, we want to put our money in a company which is being managed for the benefit of *all* shareholders. This is not the case when the major shareholder has other equity interests that participate in selective parts of the business.

Richina Pacific also continues to operate at significant cash *deficits* and this is leading to the build up of interest bearing debts. So there is no prospect of the company paying dividends, while the ordinary shareholders will eventually be called upon to pour more investment cash into the business - or be “rescued” by another joint venture with interests associated with the major shareholder.

Summary and Recommendation

We are concerned about continuing *large* operating cash *deficits*, expansion into new businesses which will put additional pressure on funding and conflict between the interests of the major shareholder and the minority shareholders.

We have given Richina Pacific plenty of time to develop and prove its business, but the financial risks appear to be increasing. So it is now time for us to quit this unsuccessful investment and move on.



Share Recommendation: Buy M2 Telecommunications Group

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

BUY Australian listed M2 Telecommunications Group (Code MTU).

As a *virtual* telecommunications company, M2 Telecommunications is ideally situated to profit from the growth of this sector without the massive capital investment in depreciating infrastructure that makes the network operators unattractive for investment. This is a non-capital intensive business - so growth is limited simply by the company's ability to compete successfully in the market to win and retain customers.

While not without risks, this gives the company virtually unlimited growth potential, yet the shares trade on a low valuation. M2 Telecommunications shares therefore offer a high current income yield - although our main interest is the potential for above average capital appreciation over the medium to long term.

Company History

This company was formed in December 1999 and listed on the Australian stockmarket in late 2004. Existing shareholders retained all of their shares, with the company issuing 10,000,000 new shares (about 18% of the capital) to the public at 25 cents to raise \$2.5 million to finance future growth.

In February 2005 the group acquired **Protel Communications International** and **Protel IP**, a "complementary business" (i.e. a competitor) in Sydney for an initial payment of \$1.5 million (i.e. \$900,000 in cash and 1,643,835 shares issued at 36.5 cents) plus a performance related sum of up to \$1.5 million payable in July 2006. Based upon the total consideration of up to \$3.0 million and annual profits of around \$800,000 this business was acquired on a low Price/Earnings ratio of 3.7. In fact, the second payment was settled early, in February 2006, at just \$502,750 - making the total cost of this acquisition just \$2.0 million.

Other growth has been through a series of deals to expand its range of services: In August 2005 it entered an alliance with **Singtel Optus** to access wholesale telecommunications services from the *Optus Mobile* network and provide its own *M2 Mobile* brand of retail mobile services. This expanded from May 2006 with the new *Wholesale Telecoms Services* (WTS) division offering a Mobile Virtual Network Enabler service to companies that wish to sell their own branded mobile services. WTS has finalised agreements with **Dodo Australia** (an ISP with 250,000 customers), **Telecom One**, **Smartcharge Australia** and **E-Direct** to provide MVNE services and expects to complete four further deals in the near future.

In January 2006 the business expanded into New Zealand with a wholesale service agreement with **Telecom NZ** covering fixed line services in Auckland and Wellington, with regional expansion to follow. This was expanded to mobile services from August 2006

with a wholesale mobile service agreement with **Vodafone New Zealand**.

M2 Telecommunications has also licenced its intellectual property and supplier relationships to *E-Direct* to market to non-competing sectors (i.e. individual users) in Australia and NZ. The company will receive a licence fee and royalties on revenue generated by E-Direct.

The company began offering Voice Over Internet Protocol services from May 2006 after negotiating a wholesale alliance with **engin**.

Strategy and

Competitive Advantage

The Telecommunications industry is growing but traditional network operators are not attractive for investment. Technology is lowering the cost of building networks - and lowering the revenues those networks generate. So a network operator faces the risk of investing in expensive infrastructure which can quickly become obsolete (or be duplicated more cheaply by a competitor). Falling revenues will fail to provide network operators with a good return on their investment.

The solution - for investors - is to buy shares of a telecommunications company with a *virtual* network. Companies like Commander Communications and M2 Telecommunications which buy wholesale network capacity from a range of network owners and on-sell to the end consumer. These companies have no capital invested in depreciating infrastructure assets, while falling prices impact on *both* revenues and costs.

The success (or otherwise) of a *virtual* telecommunications network company depends upon its ability to win (and retain) customers at a low cost and to bundle the telecommunications and other value added services that its customers require.

M2 Telecommunications has sought an "innovative approach to branding, sales and alliance marketing" to develop a "robust business model and a cost effective sales channel strategy" which "provides M2 with a considerable competitive advantage".

M2 Telecommunications "bundles" telco services with loyalty programs involving *Travelscene American Express*, *Virgin Blue* and *Bartercard*. It runs a low cost business with no investment in infrastructure and low overhead costs, so has the flexibility to purchase from a range of network operators and providers of new technologies. The business provides strong, recurring cashflow with little investment in debtors. 90% of revenues come from direct debit payments or credit card payments.

Recent Results

For the year to June 2005, revenues rose 54.7% to \$23.7 million, while profits were up 38.9% to \$1,804,456 (3.0 cents per share) and an

(Continued on Page 10)

BUY M2 Telecommunications

(Continued from Page 9)

annual dividend of 2.28 cents was paid. The operating cash surplus was \$2.0 million.

The half year to December 2005 saw revenues up 27.4% to \$14.0 million but profits fell 24.4% to \$501,000. The interim dividend was also cut 24.4% to 0.59 cents. The profit decline was the result of higher costs from the launch of new broadband, mobile and fixed line services.

For the full year to June 2006, revenues rose 41.2% to \$33.5 million, while profitability recovered to be 16.2% higher at \$2,178,889 (3.7 cents per share). A 33.3% higher final dividend of 2.0 cents will lift the annual payout 13.6% to 2.59 cents.

The company aims to distribute over 70% of profits to shareholders as a dividend.

For the year to June 2007 the company is seeking to lift revenues 40-45% to \$45-49 million and profits 10-20% to \$2.4-2.6 million (4.0-4.4 cents per share). The wholesale mobile services are expected to contribute strongly to revenue growth this year and generate up to 20% of profits.

Longer term, profit growth rates should be closer to revenue growth and M2 Telecommunications could grow 15-25% per annum over many years.

Investment Criteria

At 32½ cents, M2 Telecommunications shares trade on a low Price/Sales ratio of 0.58, a low Price/Earnings ratio of 9 and offers a high Dividend Yield of 6.2%.

Importantly this business is not capital intensive. So M2 Telecommunications has the *potential* to grow rapidly and significantly *if* it can win new customers and retain its existing customers. The company should not require additional capital from shareholders which would dilute growth in earnings per share. In Australia the telecommunications industry has annual revenues of \$40,000 million, while M2 Telecommunications' small enterprise sector of the market is \$6,000 million. The company's current revenues give it a 0.6% share of this sector - so there is virtually unlimited growth potential for a company that can outperform its competitors.

The issued capital consists of 59,366,898 shares, giving the company a market capitalisation of just \$19.3 million. This makes M2 Telecommunications a *very small* listed Australian company but *the shares are actively traded in good volumes* so there shouldn't be too much of a problem acquiring a stake in this company.

The directors and management have a very large investment in M2 Telecommunications - which should motivate them to maximise the growth and value of the company for the benefit of *all* shareholders, rather than simply seeking to maximise their salaries and other benefits. Four of the five directors are founding shareholders in the company and still retain a total of 25,393,370 shares or 42.8% of the company. The Chairman owns 1,008,000 shares. Four senior executives own a further 3,369,281 shares.

Over the last year there has been one *insider* buy (and no sells) on-market. In March 2006, Managing Director and largest shareholder, VG Brown, purchased 84,500 shares on-market at 24 cents, lifting his holding to 11,382,166 shares (19.2% of the company).

M2 Telecommunications is *neglected* by stockbrokers (i.e. none follow the company closely enough to publish profit forecasts) and by institutional investors (i.e. there are no significant institutional shareholdings). This is a very favourable situation. *Neglected* shares tend to be under-valued - and the less you pay for an investment the *higher* the future returns. Furthermore, *if* M2 Telecommunications continues to grow then it will eventually become large enough for brokers and institutions to *discover* this emerging growth company. The resulting buying can significantly increase the value of the shares - to the benefit of investors who bought in when the shares were neglected and under-valued.

M2 Telecommunications rose strongly from their 25 cents issue price in October 2004 to a peak of 51 cents in February 2005 - and then fell sharply to a low of 20 cents in February this year. Since then the share price has started to recover. The Relative Strength rating is +8.1%, ranked 20 (on a scale of 0-99).

Summary and Recommendation

M2 Telecommunications is a company that has the potential to grow strongly depending upon its continued success at winning and keeping customers and expanding its range of services to increase revenues and profits. With a small share of a growing market, M2 Telecommunications could be capable of growing 15-25% per annum for many, many years - which will *double* the expected dividends, profits and share price every 3-5 years. That would compound to a 4-8 fold growth over a decade.

The company should also be able to continue to distribute a high percentage of profits to its shareholders as a dividend, providing a high current income yield as well as the potential for above average capital appreciation.

All share investments involve risks, so an investment in M2 Telecommunications should be part of a diversified portfolio.

M2 Telecommunications



“Insider” Trades in Australian Shares

The table below shows the number of Purchases and Sales of a company's shares by its Directors over the last twelve months (excluding “Neutral” situations where the number of Buyers and Sellers were equal). Shares where many “insiders” have been buying can outperform the market for up to two years, while shares where many “insiders” have sold can under-perform for a similar period.

“Insider” Indicators

Last 5 wks: 79.7% Buyers

Last 13 wks: 81.7% Buyers

Company	Insider Buyers-Sellers	Company	Insider Buyers-Sellers	Company	Insider Buyers-Sellers	Company	Insider Buyers-Sellers	Company	Insider Buyers-Sellers
1300 Smiles Ltd	0-1	Ausmelt Ltd	2-0	Broadcast Serv.	3-0	Cougar Metals	3-0	Folkestone Ltd	3-0
A-Cap Resources	0-1	Auspine Ltd	5-0	Buderim Ginger	8-0	Coventry Group	3-0	Fortescue Metal	0-2
A.P. Eagers	2-0	Ausquest Ltd	6-0	Buka Gold Ltd	3-0	Crane Group	2-0	Foster's Group	1-0
AAV Limited	3-0	Ausron Limited	1-0	Bunnings W/hse	2-0	Credit Corp	1-3	Fox Resources	9-0
ABB Grain Ltd	4-0	Aust Education	3-0	C.S.R. Ltd	1-0	Crescent Gold	0-1	Funtastic Ltd	0-1
ABC Learning	7-0	Aust Foundation	3-0	CBD Energy Ltd	1-0	Cromwell Corp	0-1	Futuris Corp.	1-0
AED Oil Ltd	2-0	Aust Stock Exch	0-2	CCI Holdings	12-0	Cryosite Ltd	2-0	G.R.D. NL	7-0
AI Limited	2-0	Aust Pharm. Ind	2-0	CDS Tech	1-2	CuDeco Ltd	2-1	G.U.D. Holdings	0-1
AJ Lucas	1-0	Aust Mines Ltd	0-1	CFK Childcare	0-2	Cumminscorp Ltd	1-0	GBST Holdings	3-0
AMCIL Limited	0-1	Aust Agricult.	8-0	CFS Private Cap	2-0	Cumamona En.	1-0	GME Resources	1-0
AMP Ltd	11-0	Aust Zircon NL	2-0	CMA Corporation	6-0	Cygenics Ltd	1-0	GPT Group	1-0
ANZ Bank	1-5	Aust Infra.	7-0	CMI Limited	1-0	Cypress Lakes	1-0	GVM Metals Ltd	1-0
APN News Media	4-2	Aust Ren. Fuels	0-1	CO2 Group Ltd	1-3	Cytopia Ltd	3-0	GWA Internat'l	0-3
ARB Corporation	1-0	Aust Ethanol	0-1	CPT Global Ltd	3-2	D'Aguilar Gold	1-0	Gale Pacific	8-0
ARC Energy	1-0	Aust Oriental	2-0	CSL Limited	0-2	DCA Group Ltd	0-1	Gateway Mining	4-0
AV Jennings	1-0	Aust W/wide Exp	1-0	CTI Logistics	3-0	DKN Financial	1-0	Gazal Corp	7-0
AWB Limited	1-0	Austar United	1-0	CVC Limited	1-0	DUET Group	2-0	Genetic Tech.	4-0
Aberdeen Leader	4-0	Austal Limited	2-0	Cabcharge Ltd	0-3	Danks Holdings	2-0	Genesis Bio.	2-0
Access Provider	3-0	Austereo Group	5-2	Calliden Group	3-0	Data 3 Ltd	0-5	Gindalbie Met.	3-1
Acrox Ltd	0-1	Austin Group	2-0	Canada Land	1-0	David Jones	0-2	Gippsland Off.	0-1
Adamus Resource	0-2	Austin Eng.	8-0	Canada Land	1-0	Deep Yellow Ltd	8-0	Glengarry Res.	3-0
Adcorp Aust.	1-0	Austral Waste	1-0	Candle Aust.	0-2	DenX Ltd	1-0	Global Mining I	1-0
Adelaide Bank	0-3	Aust Gas Light	2-0	Cape Lambert IO	3-0	Destra Corp Ltd	1-0	Global Approach	3-0
Adelphi Energy	1-0	Aust Resources	3-0	Cape Range Wire	0-1	Devine	3-0	Global Petrol.	0-1
Adelaide Bright	5-2	Avastra Ltd	4-0	Capral Alum.	4-0	Dia-B Tech Ltd	1-0	Gloucester Coal	4-0
Admiralty Res.	2-0	Avexa Limited	6-0	Cardno Ltd	1-3	Diatreme Res.	0-5	Go Connect Ltd	1-0
Adtrans Group	3-1	Avoca Resources	1-0	Carlton Invest	0-1	Dioro Explor.	1-0	Golden Cross	3-2
Adv Nanotech.	2-0	Aztec Resources	1-0	Carnegie Corp	1-0	Downer EDI Ltd	5-0	Goldlink Growth	4-0
Adv. Ocular	3-0	Azumah Res.	1-0	Carnarvon Pet.	4-0	Dragon Mining	0-1	Golden Tiger	0-1
Adv. Magnesium	2-0	B & B Env. Inv.	2-4	Carpathian Res.	10-0	Drake Resources	1-0	Goldsearch Ltd	1-0
Advanced Energy	3-0	B & B Infrastr.	8-0	Carrick Gold	5-1	Dulhunty Power	1-0	Golden State	1-0
Aequus Capital	3-0	B & B Wind Part	3-0	Castle Minerals	2-0	E-Bet Limited	5-0	Goldstream Min.	2-0
Aevum Ltd	5-0	B Digital Ltd	2-1	Catalyst Rec'mt	3-0	E.R.G.	1-0	Gold Aura Ltd	0-1
Affiance Group	5-0	B&B Res Land	4-0	Cedar Woods Prp	1-2	ETRADE Aust.	3-0	GoldLink Income	4-0
Agenix Limited	3-0	B&B Japan Prop.	0-1	Cellnet Group	0-1	ETT Ltd	2-0	Goldstar Res.	3-0
Aim Resources	5-0	BBX Holdings	3-0	Cellestis Ltd	0-1	Eagle Bay Res.	3-0	Goodman Fielder	1-0
Albidon Ltd	2-0	BHP Billiton	6-5	Centro Retail	5-0	Eastern Corp	3-0	Gowing Brothers	1-0
Alcaston Mining	1-0	BMA Gold Ltd	1-3	Century Aust In	2-0	Echelon Res.	1-0	Grange Resource	2-0
Alchemy Ltd	0-1	BQT Solutions	5-0	Ceramic Fuel C.	1-0	Eden Energy Ltd	1-0	Gravity Diamond	1-0
Ale Property	5-0	Bakehouse Quart	47-0	Chalice Gold	2-0	Effel Ltd	1-0	Great Artesian	0-1
Allco Finance	2-0	Ballarat Gold	3-0	Chal Financial	2-0	Eiffel Tech.	1-0	Great Aust Res	1-0
Allied Tech Grp	0-1	Bannerman Res.	1-0	Chalmers	1-0	Electro Optic	5-1	Great Gold Mine	1-0
Allied Gold Ltd	1-2	Baraka Petrol.	1-0	Chal Wine Trust	1-0	Electrometals	1-0	Greater Pacific	1-2
Alloy Resources	1-0	Bass St Oil Coy	2-0	Charter Pacific	1-0	Elk Petroleum	6-0	Green Rock En.	1-0
Alpha Tech.	5-1	Bass Metals Ltd	2-0	Chariot Limited	0-3	Ellex Medical	4-0	Green's Foods	5-0
Ambertech Ltd	3-0	Batavia Mining	0-4	Cheviot Bridge	7-1	Embelton Ltd	1-0	Gregory Aust.	4-0
Ambition Group	2-0	Baxter Group	3-1	Chiquita Brands	1-0	Emeco Holdings	2-0	Gro Pep Limited	0-1
Amcom Telecom.	0-1	Baycorp Advant.	2-1	Chiracian Tech	1-0	Emerald Oil & G	1-0	Gryphon Mineral	1-0
Amcor Ltd	1-0	Beach Petroleum	4-2	Citigold Corp	0-1	Emitch Limited	3-1	Gt Sthn Plant'n	1-0
Analytica Ltd	2-0	Beaconsfield Gl	1-0	City View	1-0	Emperor Mines	6-0	Guinness Peat	0-1
Andean Res.	1-0	Becker Group	5-0	Clough Limited	6-0	Encounter Res.	2-0	Gullewa Gold NL	1-2
Anglo Pacific	2-1	Bemax Resources	1-0	Clover Corp.	6-0	Entek Energy	2-0	Gunns Ltd	5-0
Anglo Australia	2-0	Bentley Int'l	5-0	Cluff Resource	0-2	Envestra	3-0	HFA Holdings	2-0
Angus & Coote	1-0	Betcorp Ltd	6-0	Cobac Cons Res.	1-0	Envirozel Ltd	5-0	HFA Accelerator	4-0
Ansell Ltd	2-0	Billabong Int'l	0-5	Cochlear Ltd	2-0	Environm't Grp	1-0	Hamilton James	2-0
Antares Energy	34-0	Biodiem Ltd	0-1	Cockatoo Ridge	1-0	Equigold NL	2-0	Hannans Reward	3-0
Anzon Australia	2-0	Biometrics Ltd	4-0	Codan Ltd	6-0	Equity Trustees	10-0	Hardman Res.	2-0
Apa Financial	3-0	Bionomics Ltd	1-0	Coffey Int'l	6-1	Esplanade Prop.	6-0	Harvey Norman	0-3
Apex Minerals	3-1	Biosignal Ltd	1-0	Cogstate Ltd	2-0	Espreon Ltd	2-0	Hastie Group	2-0
Apollo Life Sci	5-0	Biota Holdings	2-0	Colorado Group	0-1	Eurogold Ltd	4-0	Havilah Res.	9-0
Aquarius Plat.	2-6	Biotech Capital	1-0	ComOps Limited	1-0	Evans & Tate	1-0	Healthscope	2-0
Aquila Res.	1-0	Biron Apparel	1-0	Comet Resources	4-0	Everest Babcock	5-0	Heartware Ltd	10-0
Arafura Res.	0-2	Blackmores Ltd	1-0	Comet Ridge Ltd	3-0	Excel Coal Ltd	0-6	Heemskirk Cons.	1-0
Argosy Minerals	1-0	Bluescope Steel	8-0	Commander Comm.	1-3	Exco Resources	0-2	Helix Resources	0-1
Argo Investment	4-1	Bonaparte Diam.	2-0	Commoditel Ltd	1-0	F.F.I. Holdings	1-0	Hills Indust.	0-1
Aristocrat Leis	1-0	Boom Logistics	2-3	Community Life	5-0	Fairfax (John)	1-0	Hillgrove Res.	0-1
Arrow Energy	0-1	Boral Limited	2-0	ComputerCOPR	1-0	Falcon Minerals	4-0	Hillcrest Litig	1-0
Ashburton Min.	1-0	Boulder Steel	1-2	Compass Res	0-2	Felix Resources	6-2	Hire Intell.	3-0
Aspen Group Ltd	1-0	Bounty Oil Gas	1-0	Compumedics Ltd	1-0	Fiducian P Serv	0-2	Hodges Res.	3-0
Astron Ltd	0-3	Bow Energy Ltd	3-0	Computershare	2-0	Financial Res.	2-0	HomeLeisure Ltd	5-1
Atcor Medical	2-0	Bradken Ltd	2-0	Concept Sports	0-1	Finbar Intern'l	3-1	Homeloans Ltd	5-0
Atlas SS Pearl	3-0	Brainytoys Ltd	2-0	ConnectEast Grp	4-0	First Capital	3-0	Horizon Oil Ltd	5-0
Atlas Grp Hold.	5-0	Brambles Ind.	9-0	Conquest Mining	2-0	Fleetwood Corp	1-3	Horizon Global	0-1
Atlas Iron Ltd	12-1	Brandrill	2-0	Cons Minerals	2-3	Flight Centre	1-0	Hostworks Group	0-4
Atlantic Gold	0-1	Bremer Park Ltd	1-0	Contango Micro.	0-1	Flinders Diam.	2-1	Housewares Int.	1-0
Audax Resources	1-0	Brickworks Ltd	4-0	Cooper Energy	1-5	Focus Minerals	1-0	Hunter Hall Int	0-1
Aura Energy Ltd	2-0	Brickworks Inv.	3-0	CopperCo Ltd	2-0			Huntley Invest	4-0
Ausdrill Ltd	0-1							Hunter H Global	2-0
Auselect Ltd	1-0							Hydromet Corp.	8-1

Company	Insider Buyers-Sellers	Company	Insider Buyers-Sellers	Company	Insider Buyers-Sellers	Company	Insider Buyers-Sellers	Company	Insider Buyers-Sellers
Hyperion Flag.	6-5	Macquarie Infra	6-0	Nylex Ltd	4-0	Range River Gld	2-0		
Hyro Limited	2-0	Macquarie DDR	3-0	OAMPS	0-3	Rebel Sport	0-1	TSV Holdings	0-1
IBA Health Ltd	0-2	Macquaries C&I	0-1	OBJ Limited	0-1	Reckon Limited	1-0	Tabcorp Holding	3-0
IBT Education	0-3	Macquarie Off.	2-1	OFM Investment	6-0	Reclaim Indust.	2-1	Tag Pacific	2-0
ICE Corporation	1-0	Macquarie Good.	3-0	OM Holdings	2-0	Red Fork Energy	4-0	Takoradi Ltd	0-2
IFC Capital Ltd	1-3	Macquarie Leis.	1-0	ORT Ltd	1-0	Redbank Mines	3-0	Talent2 Int'l	0-1
IM Medical Ltd	3-0	Magnum Gold NL	1-0	Oaks Hotel	0-1	Redflex Holding	6-4	Tamawood Ltd	3-0
IMF (Aust) Ltd	1-0	Magna Metals	1-0	Oakton Limited	2-1	Reed Resources	4-2	Tanami Gold NL	11-0
ING Priv Equity	2-0	Malachite Res.	2-0	Occupational Md	2-0	Reef Casino Trt	4-0	Tandou Ltd	0-2
ING Office Fund	0-1	Marathon Res.	0-1	Ocean Capital	2-0	ReefTime Media	3-0	Tasmanian Perp	6-0
ISS Group Ltd	1-0	Marengo Mining	2-0	Oceana Gold Ltd	1-0	Regis Resources	5-1	Tassal Group	4-0
IT & e Limited	2-0	Marine Produce	1-0	Oilex Ltd	6-0	Renison Cons	4-0	Tattersall's	3-1
ITL Limited	4-0	Mariner Wealth	1-2	Oldfields Hold	4-0	Repeco Corp Ltd	1-0	Technology One	0-2
IWL Limited	6-0	Marion Energy	2-0	On Q Group Ltd	2-1	Repool Ltd	3-1	Techniche Ltd	0-1
Iatia Limited	0-2	Mariner Fin.	0-1	Optima Corp Ltd	1-0	Republic Gold	1-0	Tectonic Res.	1-0
Icon Resources	3-0	Mariner Am Prop	2-0	Orchid Capital	13-0	Resource Pac.	1-0	Templeton Globa	1-0
ilNet	1-0	Marybor'gh Suga	1-0	Oriel Comm.	1-0	Resolute Mining	1-0	Tennant Creek G	0-6
IluKa Resources	1-0	Matilda Mineral	2-0	Orient Res Hold	3-0	Resources Min.	1-0	Territory Iron	1-0
Image Resources	6-3	Matrixview Ltd	7-0	Origin Energy	0-1	Resonance Hlth	1-0	Terrain Mineral	1-0
Imdex Limited	1-0	Mawson West Ltd	2-0	Orion Telecom.	3-0	Retail Cube	4-0	Thomas & Coffey	4-0
Impact Capital	4-0	Maxi TRANS	4-0	Oroton Group	5-0	Retail Food Grp	9-1	Thundelarra Exp	5-0
Impress Venture	7-0	Mayne Pharma	2-0	Ottoman Energy	1-0	Reward Minerals	3-0	Tianshan Gold.	3-0
Incitec Pivot	4-1	McPherson's Ltd	3-1	Oxiana Ltd	0-1	Rey Resources	1-0	Tiger Resources	2-0
Incremental Pet	5-0	Medaire Inc	1-0	P-Sivida Ltd	3-0	Rialto Energy	2-0	Tollhurst Noall	0-1
Independ. Group	0-4	Medec Limited	1-5	PCH Group	0-1	Rimfire Pacific	1-0	Toll Holdings	0-2
Indo Mines Ltd	3-0	Medical Dev Int	13-0	PMP Limited	1-2	Rinker Group	5-0	Toodyay Res.	3-0
Info Choice Ltd	2-0	Medical Therapy	6-0	PPK Group Ltd	3-0	Rio Tinto Ltd	0-1	Traka Resources	1-0
Institute Drug	1-0	Medivac Ltd	1-0	Pac. Star Netwk	7-0	Riversdale Min.	7-0	Transfield Serv	2-0
Insurance Aust.	1-0	Medusa Mining	1-0	Pacific Energy	2-0	Roc Oil Company	0-2	TransMetro Corp	1-0
Int Research	2-1	Mermaid Marine	5-1	Pacrim Energy	2-0	Rockeby Biomed	1-0	Tranzact Fin.	1-0
Int'l Concert	0-1	Metabolic Phar.	3-0	Palamedia Ltd	1-0	Rocklands Rich.	3-0	Transurban Grp	5-0
Int'l Goldfield	3-0	Metal Storm Ltd	1-0	Paladio Group	2-0	Ross Human Dir.	10-0	TransPacific In	3-0
Intermin Res	4-0	Metallica Min.	2-3	Palm Springs	1-0	Royal Resources	10-0	Travel.com.au	0-2
Integrated Grp	4-0	Meteoric Res.	3-0	Pan Pacific Pet	1-0	Rubicon Europe	0-1	Treasury Group	0-2
Intec Ltd	2-0	Metroland Aust	4-0	Pan Palladium	1-0	Run Corporation	4-0	Trent Capital	5-0
Investa Prop.	1-0	Microview Ltd	1-0	Panaegis Gold	1-0	Ruralco Hold.	0-3	Tri Origin Min.	2-0
Investika Ltd	21-0	Midas Resources	1-0	Panbio Ltd	4-0	S8 Limited	4-0	Trinity Group	1-0
Invocare Ltd	0-2	Mikoh Corp.	1-0	Paperlin X Ltd	2-0	SMC Gold Ltd	2-0	Troy Resources	1-3
Iress Mkt Tech	0-1	Millers Retail	3-0	Pelican Res.	1-0	SP Ausnet	2-0	Tutt Bryant Grp	0-1
Ironbark Cap.	2-0	Milton Corp.	1-0	Pengana Hedge.	0-4	SP Telecom.	6-0	UXC Limited	0-6
Ironbark Gold	2-0	Minara Resource	4-0	People Telecom	2-0	STW Comm Group	2-0	Undercoverwear	1-0
JB Hi-Fi Ltd	0-3	Mincor Resource	0-1	PeopleBank Aust	4-1	Safety Medical	1-0	Union Resources	0-4
Jackgreen Ltd	3-0	Mindax Limited	1-0	Pepinnini Min.	0-3	Saferoads Hold.	2-0	United Group	7-0
Jackson Gold	1-0	Minerals Corp.	1-0	Peptech Limited	6-0	Salinas Energy	1-0	United Kimberly	4-0
James Hardie	2-0	Mineral Res.	1-0	Perilya Mines	3-1	Sally Malay Min	1-0	Unwired Group	3-0
Jindalee Res.	4-0	Mineral Sec.	3-0	Perpetual Ltd	5-3	Salmat Ltd	6-0	Uranex NL	1-0
Joyce Corp.	3-0	Mining Projects	0-1	Perseus Mining	6-0	Saracen Mineral	2-1	VPH Limited	0-3
Jumbo Corp	7-1	Mintails Ltd	5-1	Perseverance	0-1	Scantech	1-0	Valad Property	0-1
Jupiter Energy	5-0	Mirrabooka Inv.	1-0	Petratherm Ltd	4-0	Scarborough Equ	3-0	Van Eyk Three P	2-0
Jupiter Mines	0-5	Mirvac Group	3-0	Pharmaxis Ltd	4-0	Scigen Ltd	0-1	VeCommerce Ltd	3-0
Just Group Ltd	5-2	Mission Biofuel	1-0	Pharmaust Ltd	3-0	Seek Ltd	0-1	Verticon Group	13-5
KLT Technology	1-0	Mobilesoft Ltd	0-2	Phileo Aust.	2-0	Select harvest	3-0	Verus Investm't	3-0
Kagara Zinc Ltd	0-1	MobileActive	1-0	Phoslock Water	3-0	Select Vaccines	3-0	Villa World	1-0
Kimberley Diam.	1-4	Moby Oil & Gas	7-0	Phosphagenics	1-0	Service Stream	2-0	Village Road.	8-6
Kings Minerals	0-1	Moly Mines Ltd	1-0	Photon Group	1-0	Servcorp Ltd	0-4	Virax Holdings	0-3
Kip McGrath EC	7-0	Monadelphous Gr	2-4	Phylogica Ltd	1-0	Sims Group Ltd	1-0	Virgin Blue	1-0
Konekt Limited	1-0	Monarch Gold M.	3-0	Pinnacle VRB	1-0	Sino Securities	0-1	Viridis Clean E	1-0
Korab Resources	6-0	Monax Mining	1-0	Pioneer Nickel	6-0	Sirius Telecom.	1-0	Vital Metals	1-0
Korvest Ltd	2-0	Monaro Mining	1-0	Platinum Aust	0-1	Skilled Group	8-0	Voltage IP Ltd	2-0
LV Living Ltd	1-0	Monitor Hold.	0-2	Platsearch NL	1-0	Snowball Group	4-0	Voxson Limited	1-0
Lakes Oil NL	5-0	Monto Minerals	2-0	Port Bouvard	1-0	So Natural Food	9-0	Volcan Res.	2-0
Landmark White	3-0	Montec Int'l	1-0	PowerTel Ltd	6-0	Solbec Pharm.	3-0	W'bool Cheese	1-0
Legend Corp.	0-1	Mooter Media	0-1	Powerlan Ltd	6-0	Solco Ltd	0-1	WAM Capital Ltd	2-0
Legend Mining	1-0	Mortgage Choice	0-1	Precious Metals	2-1	Somnomed Ltd	1-0	WRF Securities	0-1
Leighton Hold	0-6	Mosaic Oil NL	2-0	Premium Invest.	1-0	Sonnet Corp Ltd	2-0	Waterco Ltd	3-0
Lemarne Corp	1-3	Mt Burgess Min.	8-1	Prima Biomed	2-0	Souls Priv Equ	3-0	Watpac Ltd	0-1
Lend Lease Corp	2-0	Mt Gibson Iron	0-4	Primary Health	4-2	Soul Pattinson	3-0	Wattyl Ltd	1-0
Liberty Gold NL	6-0	NGM Resources	3-0	Prime Life Corp	2-0	Southern Gold	0-1	Webjet NL	1-2
Life Therapeut.	5-0	Nat'l Can	4-0	Pro-Pac Pack.	4-0	St Barbara Ltd	5-4	Webster Ltd	1-0
Lighting Corp.	1-0	Nat'l Leisure	5-0	Progen Indust.	1-0	Stericorp Ltd	2-0	Webpsy Limited	1-0
Lihir Gold	2-0	Nat'l Aust Bank	1-0	Promina Group	3-0	Sthn Cross Brd.	2-0	Wellcom Group	1-0
Lindsay Aust	2-0	National Hire	0-1	Promentum Ltd	1-0	Stockland	2-0	Wentworth Mut.	9-0
Linq Resources	4-0	Navigator Res	3-0	Prophecy Int'l	1-0	Stokes (Aust)	1-0	Wesfarmers Ltd	2-0
Lionore Mining	0-6	Neptune Marine	1-0	Publishing & Br	1-0	Straits Res.	0-12	West'n Metals	5-1
Livingstone Pet	1-0	Netcomm Limited	3-0	Pure Energy Res	1-0	Strike Oil Ltd	7-0	Western Areas	2-4
Living Cell T.	2-0	Neuren Pharm.	2-0	Q'dl Trustees	1-0	Strike Res.	1-0	West Gas Power	1-0
Loftus Capital	8-1	Neurodiscovery	1-0	Q-Mastor Ltd	1-0	Structural Syst	6-0	Westfield Group	3-1
London City Eq.	3-0	New Privateer	0-2	Q.B.E. Insur.	0-3	Style Limited	1-0	Westonia Mines	1-0
Ludowici Ltd	0-6	New Opportunity	3-0	QED Occtech Ltd	0-1	Sub-Sahara Res.	0-2	Westpac Banking	0-1
Lycopodium Ltd	0-6	Newcrest Mining	1-0	QM Technologies	5-0	Sundowner Group	5-0	Westgold Res.	2-0
Lynas Corp Ltd	2-0	Newhaven Hotels	3-0	QRSciences Hold	4-0	Sunland Group	6-3	Whitefield Ltd	1-0
M2 Telecom. Grp	1-0	Nexus Energy	6-3	Qantas Airways	2-0	Sunshine Heart	2-0	Willmott Forest	2-0
MFS Living & L.	4-0	Niagara Mining	2-0	Quadrant Irid.	0-1	Sunvest Corp	1-0	Wilson Leaders	0-1
MFS Limited	9-0	Nickel Aust Ltd	2-0	Quantum Energy	2-1	Supply Network	2-0	Wilson Inv Fund	4-0
MMC Contrarian	1-0	Nick Scali Ltd	1-0	Queens'd Cotton	0-2	Swish Group	1-0	Woodside Petrol	1-0
MXL Limited	2-0	Nido Petroleum	0-1	Queensland Gas	5-0	Sydney Roads	2-0	Woolworths Ltd	0-1
Macarthur Cook	2-0	Noni B Limited	0-1	Queste Comm's	1-0	Sydney Gas Ltd	9-0	Worley Group	0-3
Macarthur Coal	2-3	North Aust Diam	1-0	Quickstep Hold.	0-1	Sylvastate Ltd	4-0	Wrigdways Aust	4-2
Macarthurcook P	1-0	Northern Mining	2-0	Quiktrak Netwks	5-1	Symbion Health	2-0	Xceed Biotech.	11-0
Macmin Silver	0-9	Norwood Systems	1-0	RCR Tomlinson	1-6	Symex Holdings	2-0	Yilgam Mining	2-0
Macquarie Priv.	2-0	Nuenco NL	1-2	RM Capital Ltd	1-0	Synergy Equity	1-0	ZBB Energy Corp	6-0
Macquarie Air.	2-0	Nufarm Limited	4-0	RMG Limited	2-0	TFS Corporation	7-0	Zicom Group	3-0
Macquarie Bank	8-2			Ramelius Res.	0-2			Zylotech	2-0

“Insider” Trades in NZ Shares

The table below shows the number of Purchases and Sales of a company's shares by its Directors over the last twelve months (excluding “Neutral” situations where the number of Buyers and Sellers were equal). Shares where many “insiders” have been buying can outperform the market for up to two years, while shares where many “insiders” have sold can under-perform for a similar period.

“Insider” Indicators

Last 5 wks: 40.8% Buyers
Last 13 wks: 44.3% Buyers

Company	Insider Buyers-Sellers	Company	Insider Buyers-Sellers	Company	Insider Buyers-Sellers	Company	Insider Buyers-Sellers	Company	Insider Buyers-Sellers
AMP Limited	10-0	Dorchester Pac	1-0	Metro. LifeCare	0-1	Propertyfinance	1-0	Tag Pacific Ltd	2-0
Affco Holdings	0-2	F & P Appliance	0-21	Michael Hill	10-0	Pumpkin Patch	0-4	Taylor's Grp Ltd	1-0
Air New Zealand	2-5	F & P Health.	0-26	Mike Pero Mort.	0-1	Pyne Gould Corp	2-1	TeamTalk Ltd	0-6
Akd Int Airport	0-1	Feltex Ltd	3-0	Mooring Systems	0-1	Renaissance	1-5	Telecom Corp	3-18
Allied Farmers	4-1	Fletcher Build.	1-3	Mowbray Collect	0-1	Rubicon Limited	1-0	Tenon Ltd	1-0
Botry-Zen Ltd	0-1	Forty Two Below	1-0	Mr Chips Hold	1-0	Ryman Health.	1-0	Tourism Hold.	5-1
Brierley Invest	6-2	Freightways Ltd	1-2	NZ Experience	0-1	Salvus Strat.	1-0	Tower Limited	2-0
Briscoe Group	5-2	Genesis Res.	3-0	NZ Exchange Ltd	0-4	Sanford Limited	0-2	Trust Power Ltd	0-2
Broadway Ind	2-0	Hallenstein G.	1-3	NZ Finance Hold	1-0	Scott Tech. Ltd	6-0	Turners & Grow.	3-2
Cadmus Tech Ltd	0-2	Heritage Gold	1-0	NZ Invest Trust	0-2	Seeka Kiwifruit	3-0	Turners Auction	4-0
Calan Hlthcare	1-0	Hirequip NZ Ltd	3-2	NZ Refining Co	0-1	Skellerup Hold.	2-0	VTL Group Ltd	0-1
CanWest Media.	1-0	Kiwi Property	2-6	NZ Wine Company	1-0	Sky City Ltd	0-16	Vector Ltd	7-0
Canty Bldg Soc.	1-0	Life Pharmacy	1-2	NZ Wool Service	2-0	Sky Network TV	2-0	WN Drive Tech.	0-3
Cavalier Corp	5-0	Livestock Imp.	3-0	Northland Port	5-1	Smiths City	4-0	Wakefield Hlth	7-1
Col Motor Co	5-0	Loan & Building	4-0	Nuplex Indust	1-0	Software of Exc	2-1	Warehouse Group	0-1
Cornvita	9-0	MG Property Trt	3-1	Oyster Bay	0-1	Speirs Group	1-0	Waste Mgmt NZ	0-2
Cynotech Hold.	1-2	Mainfreight Grp	1-4	POD Ltd	2-0	Sthn Travel	0-2	Widespread Port	0-1
Dominion Fin.	1-3	Methven Limited	2-1	Port Tauranga	1-2	Summit Gold Ltd	1-0	Wool Equities	3-0

“Insider” Trades in Australian Shares

One company with significant *insider* buying and where directors and management have a major investment is Codan, a manufacturer of specialty communications equipment:

Codan (code CDA).

Codan manufactures HF Radio, Satellite and Digital Microwave Radio communications equipment in Australia for niche markets, with sales to governments, businesses and aid agencies worldwide. It also provides some TV broadcasting equipment and manufactures printed circuit boards for the Australian and New Zealand markets. 90% of revenues, however, come from exports.

In the year to June 2006 the company suffered a 52.2% drop in profits to \$8,488,000 (5.4 cents per share) from revenues down 6.5% to \$117.3 million. The annual dividend rate was maintained at 6.0 cents. The operating cash surplus fell 57% to \$7.2 million.

This decline in revenues, profits and cashflows is all the result of exchange rate movements. The company exhausted its foreign exchange hedges in the previous year so its export revenues (i.e. mainly US dollars) converted back to fewer Australian dollars - with a small decline in overall revenues but a significant impact on profits.

Codan hopes to offset this unfavourable exchange rate movement through growth and better efficiency. Over the last two years the company has invested in new products, expanded its production facilities and invested in new IT business systems. New products are expected to result in “appreciable growth in sales volumes”.

In addition, the company began a *profit improvement program* at the start of this calendar year. Two small

manufacturing sites were closed and merged with the expanded Adelaide factory. Staff numbers were reduced from 450 to 400. The company reviewed its product range to “eliminate complexity and inefficiency” and its global distribution to improve service to its most important markets. Selling prices were selectively raised. These changes resulted in one off costs, further reducing profits in the June 2006 year by \$1.2 million but are expected to contribute \$3.5 million annually to *future* profitability.

These changes *could* see profits recover this year by 50-60% to \$12.7-13.6 million (8.1-8.7 cents per share) - but still well short of its 2005 profit of \$17.7 million. Longer term the company seeks to grow profitability by around 15%.

Codan appears to be a sound company, manufacturing products for a niche market with good growth potential, but the valuation is not too cheap. At 128 cents the shares trade on a Price/Sales ratio of 1.77, a high Price/Earnings ratio of 24 and a Dividend Yield of 4.7%. Profitability *needs* to recover to maintain this dividend rate, but even with 50-60% growth this year the P/E would be 15-16. That is a reasonable valuation for a company that could grow 15% per annum over the long term.

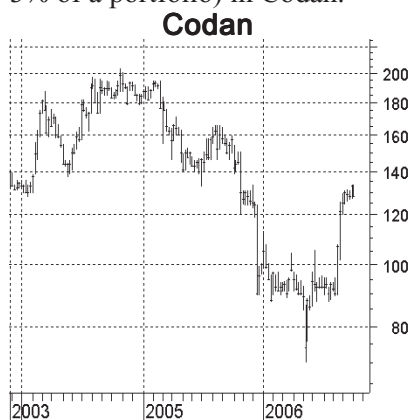
What makes Codan a lot more interesting is (1) the directors own a few shares - 130,277,880 shares in total or 83.4% of the company - and (2) they have been *adding* to those massive holdings by buying more shares on-market. Over the last year there have been six on-market buys (and no sells) with five of those trades in June 2006 at prices around 90-95 cents.

(Continued on Page 16)

Codan (Continued from Page 15)**Summary and Recommendation**

This appears to be a quality company with a global niche market and good growth prospects. What makes it stand out from other good businesses is the extremely large shareholdings by six of the directors and their investment of new cash buying shares on-market in the recent downturn. Clearly the directors have some confidence in the future investment merits of the shares - and if Codan can continue to grow and attract institutional investors then a "tight scrip" situation could develop with the potential for the shares to appreciate significantly in value.

While many of the directors may each have \$5-60 million invested in this company, we believe investment portfolios should be more *widely diversified* - and investors may wish to consider a *small* investment (i.e. perhaps 1-3% of a portfolio) in Codan.

**Total Return Index for All Listed Shares**

Sep 11	2408.19	Sep 18	2412.30
Sep 12	2400.37	Sep 19	2417.86
Sep 13	2413.12	Sep 20	2418.82
Sep 14	2417.99	Sep 21	2419.06
Sep 15	2408.52	Sep 22	2402.10
Sep 25	2391.27	Oct 2	2422.29
Sep 26	2395.86	Oct 3	2417.19
Sep 27	2412.84	Oct 4	2422.17
Sep 28	2435.12	Oct 5	2423.45
Sep 29	2434.80	Oct 6	2419.13

Dividends

Company	Cents per Share	Ex-Date	Pay-able	Tax Credit
Auckland Int'l Airport	4.45	13-10	20-10	Full
Briscoes Group	3.50	28-09	05-10	Full
Broadway Industries	2.00	20-10	27-10	Nil
Colonial Motor Company	13.00	13-10	25-10	Full
Delegat's Group	1.60	12-10	26-10	Full
Ebos Group	13.00	20-10	27-10	Full
Fletcher Building	21.00	22-09	12-10	Full
Hallenstein Glasson	18.00	01-12	11-12	Full
Hellaby Holdings	16.00	29-09	06-10	Full
Hirequip	2.50	29-09	06-10	Full
Lytelton Port Company	5.00	17-10	27-11	Full
Michael Hill International	14.00	06-10	16-10	Full
NZ Refining Company	10.00	22-09	28-09	Full
Nuplex Industries	19.50	06-10	20-10	4.00
Oyster Bay	10.00	01-11	15-11	Full
PGG Wrightsons	6.00	15-09	02-10	Full
Postie Plus Group	4.00	10-11	12-12	Full
Pumpkin Patch	4.25	06-10	17-10	Full
Salvus Strategic	2.50	13-10	27-10	Full
Skellmax Group	5.00	06-10	13-10	Full
South Port NZ	5.00	29-09	06-11	Full
Southern Travel Holdings	3.00	10-11	21-11	Full
TeamTalk	10.00	13-10	20-10	Full
Tourism Holdings	6.00	20-10	27-10	Full
Warehouse Group	5.50	10-11	20-11	Full

Australian Shares

Cellnet Group	2.00	19-09	02-10
M2 Telecommunications	2.00	10-10	31-10
Melbourne IT	3.50	19-09	27-10
Ross Human Directions	2.00	18-09	13-10
Skilled Group	12.00	19-09	17-10
UXC	4.00	01-11	21-11

Next Issue:

The next issue of *Market Analysis* will be emailed in five weeks time on **Monday November 13, 2006**.

The print version will be delivered later that week, depending upon printing and postal delivery times.

MARKET ANALYSIS is published 12 times per year by Securities Research Company Limited, P.O. Box 34-162, Birkenhead, Auckland. Subscribe online at www.stockmarket.co.nz or www.australia-stockmarket.com or email james@stockmarket.co.nz.

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