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

Market Analysis

Issue No. 435 www.stockmarket.co.nz September 8, 2008

Inside Market Analysis

Founder: James R Cornell (B.Com.)

Summary and Recommended Investment Strategy.

Our stockmarket forecasts are fairly Neutral, but we see good value in many shares, so will remain close to fully invested.

Investment Outlook.

Over recent months this newsletter has commented on the attractive share valuations not seen since the 1970's and 1980's. So let's start putting those valuations to work in our portfolio . . .

Longer term readers of the newsletter may remember in October 1986 we recommended a share that was trading on a Price/Earnings ratio of just 2.9 and offering a Dividend Yield of 15.0%. At this point the *smart money sceptics* will jump to their feet and interject, pointing out that such a low valuation indicates a very dubious company and with the 1987 stockmarket crash just a year away, they are certainly glad *they* didn't put their money in that company and get caught in the crash!

Please sit down! You sceptics put your money in Equiticorp and Chase - and see where that got you.

That October 1986 recommendation was, in fact, a company called NZ Refining Company. Even though the stockmarket and economy did some terrible things in the late 1980's, a $10,000 investment in NZ Refining shares - and held through the volatility of the October 1987 crash - ultimately produced $128,420 in cash from dividends and special dividends and another $214,580 from the sale of the shares a decade later. Making your *first* million was the hardest - but just one investment contributed one-third of that heavy lifting!

Enough ancient history. Can modern day investors find that sort of valuation? Well, up until six months ago we thought not - but what a difference a *Credit Crunch*, energy crisis and recession can make! As a result we are able to find a small company share trading on a Price/Earnings ratio of 6 and Yield of 15.4%. Unlike that "dubious" 1986 recommendation, this company has no interest bearing debt and a cash hoard equal to almost *half* its current share price.

Of course, there is no guarantee with any *individual* company share which is why it is important to maintain a diversified portfolio. Building investment wealth isn't about one "hot tip" but a sound investment strategy and diversified portfolio which will grow in value over the medium to long term, despite the varying performance of individual shares.

Stockmarket Forecasts

	One-Month	One-Year
Australia:	**31%** (Bearish)	**53%** (Neutral)
New Zealand:	**54%** (Neutral)	**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	11	5.95	NE	Nil
AMP Onyx Mgmt	B	105	5.99	6	8.0
AMP Limited	C	870	0.96	15	5.4
Abano Health.	B	538	1.00	16	5.0
Affco Holdings	C	57	0.30	NE	Nil
Air New Zealand	C	114	0.26	6	11.1
Akd Int Airport	C	202	7.03	22	6.1
Allied Work.	C	64	0.20	9	13.5
Allied Farmers	C	128	0.21	64	Nil
Apple Fields	D	4.5	1.33	2	Nil
Barramundi Ltd	D	69	N/A	NE	Nil
Blis Technology	E	6.0	8.96	NE	Nil
Botry-Zen Ltd	E	1.7	8.50	NE	Nil
Briscoe Group	D	93	0.48	9	12.8
Broadway Ind	C	70	0.29	13	2.9
Burger Fuel	E	45	5.06	NE	Nil
CDL Investments	D	29	2.04	6	11.8
Cabletalk Group	D	1.0	0.01	NE	Nil
Cadmus Tech Ltd	D	9.5	1.02	NE	Nil
Canty Bldg Soc.	B	425	1.37	25	2.8
Cavalier Corp	B	300	0.80	11	10.0
Cavotec MSL	B	410	1.96	36	1.5
Cert Organics	E	1.8	0.59	NE	Nil
Charlie's Group	E	13	1.26	NE	Nil
Col Motor Co	B	320	0.17	12	10.7
Comvita	E	181	0.97	NE	Nil
Connexion	E	15	1.00	NE	Nil
Contact Energy	B	836	1.75	20	5.0
Cynotech Hold.	D	15	1.15	8	5.1
Delegat's Group	A	240	1.46	13	3.7
Dominion Fin.	C	2.0	0.02	0	74.6
Dorchester Pac	E	9.5	0.05	NE	Nil
Eastern Hi-Fi	D	10	0.06	NE	Nil
Ebos Group Ltd	B	495	0.26	14	6.9
F & P Appliance	C	180	0.36	9	13.1
F & P Health.	B	324	4.61	47	5.1
Finzsoft Sol'ns	D	68	0.69	NE	6.6
Fletcher Build.	C	755	0.54	8	9.5
Freightways Ltd	B	340	1.35	14	8.2
Genesis Res.	E	12	4.04	NE	Nil
Goodman Prop.	C	112	7.93	9	8.8
Guinness Peat	D	137	0.51	6	1.9
GuocoLeisure	D	68	1.43	53	7.7
Hallenstein G.	C	300	0.89	8	17.4
Hellaby Hold.	C	205	0.20	5	6.8
Heritage Gold *	N/R	2.2	N/A	NE	Nil
Horizon Energy	A	348	3.10	16	7.1
ICP Biotech.	E	1.5	N/A	NE	Nil
ING Property	C	75	3.73	5	13.1
ING Med. Prop.	B	110	6.33	18	8.9

	Performance Forecast	Price	Price/Sales Ratio	P/E Ratio	Gross Yield
Infratil NZ	C	223	0.87	NE	4.2
Inv Research Gr	E	7.0	2.69	NE	Nil
Jasons Media	C	75	1.09	15	3.0
Just Water Int.	C	47	1.13	81	11.4
Kermadec Prop.	C	61	4.34	8	14.2
Kingfish Ltd	C	105	N/A	NE	6.4
Kirkcaldie & St	C	280	0.62	24	5.3
Kiwi Property	C	113	5.45	8	8.1
Life Pharmacy	E	37	2.17	NE	Nil
Lion Nathan Ltd	B	1058	2.70	22	3.7
Livestock Imp.	A	315	0.78	7	11.8
Lombard Group	E	5.0	0.03	NE	Nil
Lyttelton Port	B	235	2.88	23	3.2
Mainfreight Grp	B	700	0.72	16	3.8
Marlin Global	E	73	N/A	NE	Nil
Media Tech.	D	4.0	0.63	4	Nil
Methven Limited	B	165	0.96	11	10.6
Metro. LifeCare	D	440	6.61	NE	4.3
Michael Hill	C	84	0.85	13	5.7
Mid-Cap Index	C	262	N/A	NE	Nil
Millennium & C.	D	56	1.16	8	6.7
Mowbray Collect	E	90	2.05	42	Nil
Mr Chips Hold	A	274	1.18	13	2.2
NZ Experience	C	25	0.98	7	17.9
NZ Exchange Ltd	C	692	5.34	19	4.5
NZ Farming Sys.	C	160	N/A	NE	Nil
NZ Finance Hold	D	33	0.95	7	4.5
NZ Invest Trust	B	1090	N/A	NE	0.8
NZ Oil & Gas *	N/R	151	N/A	24	Nil
NZ Refining Co	B	714	5.07	15	9.4
NZ Windfarms	C	100	N/A	32	Nil
NZ Wine Company	A	240	1.94	22	4.4
NZ Wool Service	C	40	0.19	20	Nil
NZSX 10 Fund	D	98	N/A	NE	Nil
NZSX 50 Port.	D	146	N/A	NE	Nil
NZX Aust MidCap	C	612	N/A	NE	Nil
Nat Property Tr	B	51	2.87	4	9.8
New Image Group	D	16	1.32	NE	Nil
Northland Port	A	285	N/A	13	5.8
Nuplex Indust	B	626	0.33	11	7.2
Opus Int'l Cons	D	168	N/A	NE	Nil
Oyster Bay	A	301	1.71	10	Nil
Ozzy (Tortis)	D	335	N/A	NE	Nil
PGG Wrightsons	A	272	0.65	11	8.8
Pac Edge Bio.	E	9.0	N/A	NE	Nil
Pike River Coal	E	185	N/A	NE	Nil
Plus SMS Hold.	E	5.8	4.17	NE	Nil
Port Tauranga	A	700	6.30	22	5.3
Postie Plus Grp	C	35	0.10	5	25.6
Propertyfinance	D	10	0.08	NE	Nil

	Performance Forecast	Price	Price/Sales Ratio	P/E Ratio	Gross Yield
Property F Ind.	C	113	7.65	13	7.8
ProvencoCadmus	E	19	0.24	NE	Nil
Pumpkin Patch	C	155	0.71	9	8.7
Pyne Gould Corp	B	372	1.53	8	9.2
Rakon Ltd	D	288	2.02	32	Nil
Renaissance	C	57	0.13	7	19.6
Restaurant Brds	D	70	0.22	6	13.9
Richina Pacific	D	35	0.11	2	4.3
Rubicon Limited	D	98	0.44	NE	Nil
Ryman Health.	C	170	N/A	12	2.9
Salvus Strat.	B	91	2.12	2	9.0
Sanford Limited	A	620	1.57	29	5.3
Satara Co-op	A	90	0.25	11	5.0
Savoy Equities	E	1.9	N/A	NE	Nil
Scott Tech. Ltd	B	127	1.07	10	10.6
Sealegs Corp	E	39	4.91	NE	Nil
Seeka Kiwifruit	B	245	0.29	12	Nil
Skellerup Hold.	C	100	0.60	NE	4.5
Sky Network TV	B	481	2.84	19	4.3
Sky City Ltd	C	377	2.01	16	8.5
Smartpay NZ Ltd	D	1.0	0.07	NE	Nil
Smiths City	C	43	0.09	6	10.5
Sol. Dynamics	C	42	0.36	NE	Nil
South Port NZ	B	240	4.10	25	5.9
Speirs Group	C	60	0.14	NE	Nil
Steel & Tube	B	375	0.66	15	7.6
Sthn Travel	C	25	0.11	6	17.9
Tag Pacific Ltd	D	24	0.14	2	3.9
Taylors Grp Ltd	C	136	0.47	14	13.2
TeamTalk Ltd	B	210	1.39	11	14.2
Telecom Corp	C	315	1.01	8	13.7
Tenon Ltd	D	74	0.10	12	Nil
Tourism Hold.	D	136	0.88	16	12.1
Tower Limited	B	210	0.78	11	4.3
Training Sol.	E	0.1	5.00	NE	Nil
Trust Power Ltd	B	790	3.66	25	5.3
Turners & Grow.	A	208	0.35	11	10.0
Turners Auction	C	77	0.25	9	12.0
Utilico Int'l	B	61	3.43	9	Nil
VTL Group Ltd	D	1.5	0.01	0	Nil
Vector Ltd	A	225	1.90	16	8.8
WN Drive Tech.	E	31	N/A	NE	Nil
Wakefield Hlth	B	920	1.85	16	3.2
Warehouse Group	C	322	0.57	9	8.1
Widespread Port*	N/R	40	N/A	NE	Nil
Windflow Tech.	C	325	8.00	NE	Nil
Wool Equities	C	26	0.29	NE	Nil
World Index Fd	D	127	N/A	NE	Nil
Xero Ltd	C	88	N/A	NE	Nil
Zintel Comm.	B	27	0.37	6	12.4
Ave of 150 Cos	**C**	195	0.21	7	5.3

	Performance Forecast	Price	Price/Sales Ratio	P/E Ratio	Gross Yield
ABB Grain Ltd	A	825	0.81	NE	1.8
AGL Energy Ltd	A	1463	1.19	21	3.6
AMP Ltd	B	699	0.92	14	5.7
ANZ Bank	C	1626	2.66	7	8.4
APA Group	B	359	1.91	25	3.0
APN News Media	C	320	1.19	9	9.8
ASX Limited	B	3350	9.33	16	5.7
AWB Limited	B	304	0.22	10	6.6
AXA Asia Pac	B	535	1.53	14	3.5
Adelaide Bright	A	344	2.10	16	3.9
Adelaide Bank	B	1558	4.93	18	4.2
Alumina Ltd	B	368	N/A	8	6.5
Amcor Ltd	B	545	0.49	18	6.2
Ansell Ltd	A	1196	1.30	16	2.2
Aquarius Plat.	B	900	2.46	10	5.3
Aquila Res.	C	1417	N/A	NE	Nil
Aristocrat Leis	B	633	2.60	12	5.7
Arrow Energy	C	295	N/A	NE	Nil
Asciano Group	C	444	1.01	NE	10.4
Ausenco Ltd	B	1340	3.00	27	2.3
Australand Prop	C	59	0.63	3	28.2
Aust Infra.	B	275	N/A	13	6.0
Austar United	C	116	2.91	7	Nil
Aust Foundation	B	506	N/A	12	4.2
Aust W'wide Exp	C	303	1.66	5	Nil
B & B Infrastr.	C	45	0.45	NE	22.5
BHP Billiton	A	3700	2.09	8	2.0
Bank of Q'land	B	1490	1.13	13	4.6
Bendigo Bank	B	1094	1.04	15	5.3
Billabong Int'l	A	1325	2.03	16	4.2
Bluescope Steel	A	817	0.59	10	6.0
Boral Limited	A	625	0.70	15	5.4
Bradken Ltd	A	1087	1.80	23	1.9
Brambles Ltd	B	790	2.41	17	4.4
Brickworks Ltd	A	1220	2.90	15	3.1
C'wth Prop Off.	B	133	7.19	6	6.9
C.S.R. Ltd	B	234	0.71	4	6.4
CFS Retail Prop	B	221	9.33	7	5.4
CSL Limited	A	3943	5.72	31	2.0
Caltex Austrlia	B	1109	0.16	6	7.2
Campbell Bros	A	3615	2.48	26	2.6
Centennial Coal	B	511	2.29	27	4.1
Chal Financial	C	286	0.67	NE	4.4
Coal & Allied	A	11900	7.28	50	1.1
CocaCola Amatil	A	875	1.49	23	3.7
Cochlear Ltd	B	5397	4.98	26	2.8
Com'wealth Bank	B	4159	1.50	11	6.4
Computershare	B	904	3.07	17	2.3
ConnectEast Grp	E	82	N/A	NE	10.4
Cons Media Hold	B	325	N/A	2	5.1
Crown Ltd	B	963	3.00	48	5.6

	Performance Forecast	Price	Price/Sales Ratio	P/E Ratio	Gross Yield
DUET Group	B	301	1.96	37	9.0
David Jones	A	422	0.96	17	5.2
Deutsche Div Tr	A	131	6.10	14	7.1
Dexus Property	B	147	6.39	10	8.1
Downer EDI Ltd	A	756	0.45	15	3.4
Energy Resource	B	1850	9.74	46	1.1
Energy World	C	82	N/A	59	Nil
Equinox Min.	D	366	N/A	NE	Nil
FKP Limited	A	446	5.31	9	7.1
Fairfax Media	B	275	1.42	11	7.3
Felix Resources	A	1836	8.17	19	2.9
Flight Centre	A	1919	1.31	13	4.5
Fortescue Metal	D	639	N/A	NE	Nil
Foster's Group	B	553	2.33	95	4.7
Futuris Corp.	B	149	0.36	15	6.4
GPT Group	B	179	4.06	3	15.4
Goodman Fielder	B	144	0.71	69	9.4
Goodman Group	C	305	6.04	8	10.3
Guinness Peat	B	113	0.48	5	2.0
Harvey Norman	B	348	2.59	10	4.0
Healthscope	B	435	0.71	16	4.5
Henderson Group	B	280	5.25	18	5.0
ING Indust Trt	B	158	6.06	26	11.4
ING Office Fund	B	150	8.62	8	7.2
Iluka Resources	A	433	0.94	9	5.1
Incitec Pivot	A	13312	4.89	33	2.0
Insurance Aust.	C	417	1.01	NE	5.4
JB Hi-Fi Ltd	A	1317	0.76	21	2.0
James Hardie	C	491	1.38	NE	4.2
Leighton Hold	B	4385	1.19	20	3.3
Lend Lease Corp	B	938	0.26	14	8.2
Lihir Gold Ltd	E	192	6.44	NE	Nil
Linc Energy Ltd	C	435	N/A	NE	Nil
Macarthur Coal	B	1138	6.03	33	1.5
Macquarie Off.	B	106	7.18	10	10.6
Macquarie Air.	B	309	3.59	9	8.1
Macquarie Infra	B	226	N/A	7	8.8
Macquarie Group	B	4200	0.82	6	8.2
Macquarie C'Wde	B	110	4.40	8	13.6
Macquaries C&I	C	307	0.67	NE	15.0
Metcash Ltd	B	407	0.31	16	5.2
Midwest Corp	C	637	N/A	NE	Nil
Milton Corp.	A	1855	N/A	13	4.7
Mirvac Group	B	292	1.31	5	10.9
Monadelphous Gr	A	1575	1.38	19	4.6
Mt Gibson Iron	D	208	3.84	15	Nil
Nat'l Aust Bank	C	2360	2.11	16	7.1
New Hope Corp.	B	426	N/A	50	1.1
Newcrest Mining	B	2177	4.18	73	0.5
News Corp.	B	1700	1.46	9	0.7
Nufarm Limited	A	1596	1.55	26	2.0

	Performance Forecast	Price	Price/Sales Ratio	P/E Ratio	Gross Yield
OZ Minerals Ltd	D	152	N/A	NE	5.3
Oil Search Ltd	B	521	6.81	11	2.0
Onesteel Ltd	B	608	0.71	22	3.5
Orica Ltd	A	2360	1.34	15	3.8
Origin Energy	B	1565	1.66	37	1.6
Pacific Brands	A	216	0.51	9	7.9
Paladin Energy	C	502	N/A	NE	Nil
Perpetual Ltd	A	4551	3.85	13	7.3
Platinum Asset	B	365	7.23	13	6.6
Portman Limited	B	1782	6.49	27	Nil
Primary Health	A	527	3.01	NE	5.1
Q.B.E. Insur.	A	2345	1.61	13	4.1
Qantas Airways	A	360	0.42	7	9.7
Queensland Gas	B	369	N/A	12	Nil
Ramsay Health	B	1030	0.67	19	3.2
Reece Australia	A	2025	1.40	18	2.8
Rio Tinto Ltd	B	11008	1.49	5	1.3
Riversdale Min.	C	875	N/A	NE	Nil
SP Ausnet	B	111	2.19	15	10.5
Santos Ltd	B	1746	3.77	16	2.3
Seek Ltd	B	587	8.05	22	3.2
Seven Network	B	791	N/A	12	4.3
Sigma Pharm.	B	135	0.39	15	5.2
Sims Group Ltd	B	3172	0.45	8	3.8
Sonic Health	A	1422	1.99	19	3.7
Soul Pattinson	A	1100	3.08	26	2.6
Spark Infrastru	B	164	7.70	64	9.3
St George Bank	B	3045	1.74	14	5.5
Stockland	B	545	3.01	11	8.5
Suncorp-Metway	B	1064	0.78	18	10.1
Tabcorp Holding	B	865	1.12	8	5.4
Tatts Group Ltd	B	263	1.08	13	3.6
Telstra	B	427	2.13	14	6.6
Ten Network	B	159	1.46	22	8.2
Toll Holdings	B	714	0.83	18	3.5
Transurban Grp	C	500	5.94	NE	11.4
TransPacific In	B	688	0.91	11	2.6
Transfield Serv	B	825	0.55	20	4.4
United Group	A	1424	0.67	18	4.1
Wesfarmers Ltd	B	3090	0.74	24	6.5
Western Areas	C	880	N/A	NE	Nil
Westfield Group	B	1725	3.33	5	6.2
West Aust News	B	903	4.01	17	5.9
Westpac Banking	B	2335	4.69	14	5.0
Whitehaven Coal	B	335	5.12	25	0.5
Woodside Petrol	B	5598	9.79	26	2.3
Woolworths Ltd	B	2730	0.71	20	3.4
Worley Group	B	3280	1.70	23	2.6
Zimplats Hold.	B	1100	3.87	10	Nil
Ave of 1958 Cos	**C**	170	0.19	15	3.4

Recommended Investments

Cavalier Corporation has reported a 21.7% increase in revenues to $250.1 million for the year to 30 June 2008. Profits were up 20.7% to $17,937,000 - with earnings per share up 17.6% to 26.7 cents per share. The company will pay a final dividend of 11.0 cents, bringing the annual dividend rate to a 5.3% higher 20.0 cents (plus full imputation tax credits).

The net operating cash surplus was 34% higher at $29.6 million.

Despite "soft market conditions for residential carpets" in both New Zealand and Australia, Cavalier Corporation expects the current financial year to show a "modest increase" in earnings. Losses from the *Microbial Technologies* project ended in March 2008, there will be a full year's contribution from **Norman Ellison Carpets** (up from just five months this year), a lower exchange rate improves the profitability of exports to Australia and the corporate tax rate has been reduced from 33% to 30%.

After being marked down *(Continued on Page 4)*

Portfolio of Recommended Investments

CURRENT ADVICE	Company	Code	Initial Recommendation - Date -	Initial Recommendation 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	D	218.9	1.4	2.04	6	11.8	29	17.9	+88%
BUY	Cavalier Corporation	CAV	05/12/95	156*	B	67.1	0.7	0.80	11	10.0	300	216.0	+231%
HOLD	Colonial Motor Company	CMO	10/11/92	150	B	27.9	0.5	0.17	12	10.7	320	326.8	+331%
HOLD	Lyttelton Port Company	LPC	12/12/00	150	B	102.3	0.7	2.88	23	3.2	235	64.8	+100%
BUY	Michael Hill Int'l Ltd	MHI	11/06/91	5*	C	382.5	0.8	0.85	13	5.7	84	23.4	+2048%
BUY	Nuplex Industries Ltd	NPX	11/02/97	350	B	81.7	0.5	0.33	11	7.2	626	217.0	+141%
HOLD	Postie Plus Group	PPG	08/05/06	71	C	40.0	1.5	0.10	5	25.6	35	8.5	-39%
HOLD+	Renaissance Corp	RNS	13/08/96	85*	C	42.7	1.3	0.13	7	19.6	57	50.9	+27%
HOLD+	Smiths City Group	SCY	09/10/06	64	C	53.0	1.5	0.09	6	10.5	43	10.0	-17%
HOLD	South Port New Zealand	SPN	13/02/96	120	B	26.2	0.8	4.10	25	5.9	240	97.0	+181%
HOLD	Steel & Tube Holdings	STU	08/08/00	146	B	88.2	0.8	0.66	15	7.6	375	202.0	+295%
HOLD+	Taylors Group Ltd	TAY	09/11/99	102	C	24.3	0.8	0.47	14	13.2	136	80.0	+112%
	Australian Shares (in Aust cents)												
HOLD	AJ Lucas Group	AJL	13/05/03	120	A	59.3	0.6	0.86	27	1.1	615	30.5	+438%
BUY	Atlas South Sea Pearl	ATP	14/05/96	73	B	89.3	1.3	1.47	4	11.6	35	17.5	-29%
HOLD+	Campbell Brothers Ltd	CPB	12/10/99	406*	A	52.1	0.3	2.48	26	2.6	3615	357.6	+878%
HOLD	Cellnet Group Ltd [1]	CLT	12/02/02	147*	C	76.8	1.4	0.06	NE	Nil	32	32.4	-43%
HOLD	Circadian Technologies	CIR	10/02/04	188	C	40.1	0.9	4.09	NE	Nil	83	65.0	-21%
BUY	Clarius Group Ltd	CND	08/04/03	86	B	57.4	0.8	0.26	7	11.1	144	61.5	+139%
SELL	Computershare Ltd	CPU	12/08/03	189	B	555.7	0.4	3.07	17	2.3	904	61.5	+411%
BUY	CPT Global Ltd	CGO	10/03/08	88	B	36.9	0.9	0.60	16	6.8	73	Nil	-17%
BUY	Devine Ltd	DVN	13/11/06	94	A	285.7	0.9	0.45	8	8.7	92	12.0	+10%
BUY	Ellex Medical Lasers	ELX	14/03/06	49	C	68.5	1.6	0.35	10	Nil	26	Nil	-47%
BUY	Fiducian Portfolio Ser	FPS	11/02/08	260	A	32.8	0.8	2.71	12	5.7	230	6.5	-9%
HOLD	Housewares Int'l	HWI	13/11/06	171	C	129.5	0.8	0.39	8	8.3	127	8.5	-21%
HOLD	Iluka Resources Ltd	ILU	12/10/04	471	A	232.9	0.6	0.94	9	5.1	433	64.0	+6%
BUY	Integrated Research	IRI	14/01/08	40	A	166.5	1.3	1.58	10	8.5	36	3.0	-4%
HOLD+	Int'l AllSports	IAS	11/02/03	180	D	66.4	1.9	0.29	NE	Nil	20	4.0	-87%
SELL	Keycorp Ltd	KYC	10/08/04	123*	C	81.1	1.6	0.55	NE	Nil	25	Nil	-80%
BUY	M2 Telecommunications	MTU	09/10/06	33	A	78.9	1.0	0.48	10	7.6	66	5.0	+115%
HOLD+	Mercury Brands Ltd	MCB	08/02/05	93	C	62.2	4.0	0.06	NE	Nil	4	7.0	-88%
HOLD	Mercury Mobility [1]	MMY			C	105.0	2.3	2.04	NE	Nil	13		
HOLD	Melbourne IT	MLB	10/02/04	53	A	76.8	0.5	1.55	17	4.2	310	36.0	+553%
HOLD	M.Y.O.B. Ltd	MYO	15/07/03	84*	B	385.3	0.8	2.39	25	3.7	114	33.3	+75%
BUY	Probiotec Ltd	PBP	11/02/08	116	A	46.6	0.8	0.96	10	1.9	135	2.5	+19%
BUY	Prophecy International	PRO	08/09/08	26	A	45.1	1.7	2.00	6	15.4	26	Nil	
HOLD	Ross Human Directions	RHD	14/08/01	92	B	83.5	1.3	0.08	8	9.2	38	31.0	-25%
BUY	Skilled Group Ltd	SKE	12/03/02	126	B	122.0	0.6	0.19	9	7.7	300	107.5	+223%
HOLD+	Technology One Ltd	TNE	11/11/03	44	B	297.7	0.9	3.30	18	4.3	87	13.1	+128%
BUY	TFS Corporation Ltd	TFC	08/01/07	45	A	187.3	0.8	3.75	9	2.9	137	0.9	+206%
HOLD+	The Reject Shop Ltd	TRS	11/01/05	257	A	25.7	0.4	0.84	18	4.1	1159	107.5	+393%

The average Total Return (i.e. both Capital Gains/Losses plus Dividends received) of all current investments from initial recommendation is +178.9%. This is equal to an average annual rate of +29.5%, 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 141 closed out) is +32.1%, compared with a market gain of +5.9% (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.

(1) Cellnet Group return includes 1½ shares of Mercury Mobility distributed to shareholders.

Recommended Investments

(Continued from Page 3)

to a low of 210 cents in the June/July global stockmarket sell-off, Cavalier Corporation shares have recovered strongly to around 300 cents. At that price they trade on a Price/Sales ratio of 0.80, a Price/Earnings ratio of 11 and a gross Dividend Yield of 10.0%. That is still a very attractive valuation, so we continue to rate the shares a "Buy".

Cavalier Corporation

Colonial Motor Company recorded a 15.1% increase in revenues for the year to June 2008, while profits rose 11.0% to $7,217,000 (25.9 cents per share). The company will pay a 12.0 cents final dividend, keeping the annual dividend steady at 23.0 cents (plus imputation tax credits).

There was a cash operating *deficit* of $6.4 million (compared with a surplus of $10.7 million last year), mainly owing to $19.4 million higher inventories at balance date, including stocking a new range of heavy trucks.

Sales volumes of used cars and large engined vehicles slowed during the last quarter (and into the new financial year) in response to higher fuel prices.

At 320 cents the shares trade on a P/S ratio of 0.17, a P/E ratio of 12 and a gross Yield of 10.7%. That is sound investment value.

Lyttelton Port Company's revenues grew 9.3% to $83.4 million over the year to 30 June 2008. Profits also increased 7.3% to $10,345,000 (10.1 cents per share). A final dividend of 3.6 cents will lift the annual dividend rate 27.5% to 5.1 cents (plus tax credits).

The net operating cash surplus grew 38% to $24.2 million. This allowed the company to finance all of its $14.7 million of capital expenditure for maintenance and upgrading facilities from cashflow as well as reducing interest bearing debts by $3.1 million.

Annual coal volumes are expected to rise from 2.2 million tonnes last year to around 3.5 million tonnes by the end of 2010.

Michael Hill International continues to keep growing its business at a steady, but above average, rate which should continue to build further Shareholder wealth over the year ahead. For the year to June 2008, revenues grew 7.9% to $378.4 million, with profits up 20.1% to $25,232,000 (6.6 cents per share) and the annual dividend rate was up 23.1% to 3.2 cents (plus full imputation tax credits).

The net operating cash surplus was 81% lower at $7.8 million. Last year's cash surplus was obviously abnormally high, while this year's lower cash surplus reflects the additional investment in opening and stocking new stores.

Total store numbers at balance date were up 18 to 210 - after opening two new stores in New Zealand, opening 13 and closing three stores in Australia and opening six new stores in Canada.

The 17 stores in West Canada generated earnings of C$890,000 - up from just C$19,000 in 2007 - but this improvement was largely offset by start-up costs and overheads in East Canada where five stores were opened in Ontario.

Continued store growth is one of the main factors that has driven Micheal Hill International's revenue and profit growth over the last two decades. All of this growth has been financed from operating cash flows - and moderate new debt. Most other companies seek to finance growth from share placements and/or cash issues, but that dilutes earnings per share growth and may add nothing to Shareholder wealth.

In August, Michael Hill International expanded into the United States, buying 17 stores from **Whitehall Jewelers Holdings Inc** which is in bankruptcy and had a total of 373 stores.

Michael Hill International has paid US$5.5 million (NZ$7.5 million) - subject to a final stock take - being 80% of the *cost* price of stock held at the 17 stores. The company will acquire store fitouts, all other assets and take over leases at no additional cost. The stores are in malls and 65-230m^2 in size. The company "does not expect these stores to achieve profitability for several years", but this acquisition gives it 17 stores in "prime locations", mainly clustered around Chicago, to "test its retail model", which has proved successful in other markets, and focus upon "honing our retail formula for future growth from this base".

This is a very low risk expansion option. The company is acquiring stock at a 20% discount to normal wholesale prices, with no up-front costs to find, setup or acquire a cluster of 17 fully operational stores with existing staff. The company will take over the obligation for future lease payments and staff costs - so its net risk/return is the future performance of these stores under the company's management.

If this venture is completely unsuccessful, then the net cost to the company will be some relatively minor operating losses from this division over the next several years. The company has survived that before (e.g. when, over a few years of madness, it experimented with shoe stores!). If successful . . . how many *thousands* of Michael Hill Jeweller stores do you think the company could open over the *next* two decades?

At 84 cents, Michael Hill International shares are trading on a Price/Sales ratio of 0.85, a Price/Earnings ratio of 13 and offer a gross Dividend Yield of 5.7%. The shares have been volatile and there has been some *insider* selling over the last year. The current valuation, however, looks very attractive for a company with a successful track record on opening in new markets (i.e. Australia and Canada) and building revenues and growth through steadily rolling out new stores. The company is still expanding in Australia and proved Canada as a market for future growth. It is now making a small test in the United States. With no limits in sight to its geographic expansion the company should be able to continue the growth that has been so profitable for investors over the last two decades! "Buy".

Michael Hill International

Nuplex Industries revenues lifted 5.5% to $1,532.1 million for the year to 30 June 2008 and with improved margins the net profit jumped 84.4% to $48,304,000 (59.1 cents per share). A final dividend of 23.0 cents will lift the annual payout to 43 cents.

Both dividends carry full franking tax credits for Australian resident investors but there was only 2.0 cents of NZ imputation tax credits on the interim dividend and none on the final dividend.

The net operating cash surplus increased almost 5½-fold to $76.7 million.

Over the last year the company invested in new manufacturing capacity in Europe, the United States and Australia as well as efficiency programs to lower costs, so should be well placed to benefit from organic growth as well as acquisitions.

At 626 cents, Nuplex Industries shares trade on a Price/Sales ratio of 0.33, a Price/Earnings ratio of 11 and a gross Dividend Yield of 7.2%. That is an attractive valuation - and most of the business is offshore, diversifying NZ investors from the local economy and exchange rate - so the shares are a sound investment. "Buy".

Nuplex Industries

South Port NZ's revenues grew 5.1% to $15.4 million for the year to June 2008. Profits were up 12.5% to $2,512,000 (9.6 cents per share). The annual dividend will rise 22.6% to 9.5 cents per share (plus full imputation tax credits) with the payment of a final dividend of 6.75 cents.

The net operating cash surplus was 11% lower but still a high $3.7 million.

South Port NZ could gain from an expansion of dairy exports as **Dairy Trust**'s Awarua plant began production in August, **Mataura Valley Milk** will commission further processing plant in the spring of 2009 and **Fonterra**'s *Edendale* plant is undergoing substantial expansion.

Sheep meat and beef exports are also expected to increase over the next year.

Longer term the port could obtain work relating to oil and gas exploration in the Great South Basin. Two exploration licence holding consortiums will collect seismic data over summer which will be processed over the following 12-15 months ahead of any decision to drill exploration wells.

South Port NZ owns a 10% shareholding in **Hardwood Forests** which is subject to a conditional sale to a foreign investor. Completion of this sale would result in a $500,000 gain (1.9 cents per share) for the company.

Steel & Tube Holdings lifted revenues 8.1% to $503.9 million but profits slipped 18.8% to $22,546,000 (25.6 cents per share) for the year to June 2008. A 4.0 cents lower final dividend of 10.0 cents brings the annual dividend to a 34.5% lower 19.0 cents (plus tax credits).

The net operating cash surplus recovered 63% to $21.3 million.

The company expects "an improved result in the year ahead", with "market conditions to gradually improve in early 2009 as construction activity increases" and the lower exchange rate assists the export sector.

Taylors Group saw revenues rise 3.3% to $68.8 million but higher labour and raw material costs (owing to problems commissioning new equipemt) depressed profits 35.0% to $2,367,000 (9.7 cents per share). The company will pay a final dividend of 6.0 cents, maintaining an annual dividend rate of 12.0 cents (plus full imputation tax credits).

The cash operating surplus was 18% lower, but still a high $9.9 million.

Over recent years the company has made significant capital investments at three of its six plants, Auckland, Hamilton and Christchurch, with new laundry equipment requiring "significantly less labour, energy and water" than the older equipment. Capacity was also increased.

Investments in Auckland and Christchurch are now "largely complete", although some investment is planned for Kelston and Hamilton this financial year. The Wellington site is under review and may require relocating to a new facility at a new site at some stage in the future.

Transitional issues and damaged components resulted in delays, reduction in efficiencies and additional labour costs for overtime . . . but "actions over the past months" are now "delivering improved performances which will be reflected in future trading results".

The directors now expect the June 2009 financial year to show a "material improvement in earnings".

At 136 cents, Taylors Group shares trade on a Price/Sales ratio of 0.47, a Price/Earnings ratio of 14 and a gross Dividend Yield of 13.2%. *(Continued on Page 6)*

Recommended Investments

(Continued from Page 5)

The relatively high P/E probably reflects current low earnings rather than a high share price, while the high Yield reflects the very strong operating cashflows and directors' expectations that profits will recover. So the shares appear to offer good investment value, although the share price has fallen considerably over the last 18 months as a pessimistic market punishes the company for the dip in current profits. The shares should be a good buy when the price stabilises and market sentiment stops deteriorating.

Taylors Group

Australian Shares

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

AJ Lucas Group has reported a 96.1% jump in revenues to $424.3 million for the year to 30 June 2008. Profits were 110.6% higher at $13,468,000 (22.7 cents per share). A final 4.5 cents dividend will lift the annual payout to 8.0 cents (from 2.5 cents in 2007).

The operating cash surplus also jumped sharply - up over 5-fold to $50.1 million.

The Pipeline business lifted revenues almost 3-fold to $218.5 million with earnings up over 4½-fold to $20.0 million. Drilling revenues (including work for other group divisions) was up 85% to $127.7 million, with earnings up 24% to $18.1 million. The Construction & Infrastructure division increased revenues 55% to $117.3 million while earnings increased almost 6-fold to $3.2 million.

The company sees an “extremely positive outlook across all of the group's sectors”, but with challenges. These includes retaining staff in the resource sector but it has in place a plan to retain staff and provide performance incentives. The group is also focused upon the best way to finance expected future growth which will require around $38 million of capital expenditure over the next year. Most of this will be funded from strong cashflows and “significant borrowing facilities”, but the company also believes “there is significant unrealised asset value” in its coal seam gas portfolio.

The company has formed a 50% owned joint venture company, **Marsais-Lucas Technologies Pty**, to exploit the French engineering company **Groupe Marsais SA**'s “innovative one-pass, mechanised trenchless technology for installing telecommunications and energy networks”. The joint venture will specifically target the planned 100,000 kilometres of cabling that would be required for the Australian government's proposed broadband roll-out which is expected to begin in 2009. The technology - claimed to be ten times faster than traditional open-cut trench installations and less than one-third the cost - will be demonstrated in October.

Atlas South Sea Pearl's first half report is difficult to compare with last year's first half owing to significant accounting changes. The company reports revenues of $11.2 million and a profit of $4,275,928 (4.7 cents per share). A steady interim dividend of 2.0 cents was paid in July.

In the same period *last* year the company reported revenues of $9.0 million and a profit of $2.5 million - but that has been restated to $16.4 million of revenues and $8.1 million of profits under the new accounting standard. The *old* accounting standard placed no value on harvested pearls, other than the historical cost of the oysters, while the *new* accounting standard accounts for harvested pearls at market value (less a discount, less an amount for marketing). The restated June *2007* result, however, probably double counts profitability by (1) showing the full profit on pearls harvested in 2006 but sold in 2007 plus (2) the value (less discounts) of pearls harvested in 2007. So the restated 2007 result probably *over-states* profitability owing to the transition from one accounting standard to the other. The 2008 result, for example, counts $1.8 million for “the gain arising on initial recognition of harvested pearls” compared with $5.6 million in 2007.

That might suggest the restated 2007 profit is over-stated by around $3.8 million before tax. If so, then the current half year result is perhaps down about 20%.

The company expects full year pearl revenues around $15.8 million plus another $1 million for jewellery and by-product sales. Indonesian fuel prices have increased 50% and the Japanese Yen (i.e. the currency of most sales) weakened against the Australian dollar over the first half year, although that trend has since reversed.

80,000 pearls - worth around $5 million - were delivered to the company's sales agent in July and a final harvest for the year is planned for August/September.

The Malaysian expansion is still awaiting local land use approval, but the oysters for these sites are being grown in Indonesia and “this delay is not expected to impact adversely on long term growth projections”. The company has received “a number of invitations” from other South East Asian and Pacific countries to establish pearling operations.

Despite *El Nino* weather conditions both hatcheries performed well and juvenile oyster numbers are “on target”. Through to July the company has seeded over 200,000 oysters and some of these are being transported to the “fast growing waters of Papua” (Alyui Bay) to improve growth and reduce production costs. A new grow-out site in East Bali has been surveyed and approved by the local government, with pilot scale farming expected to begin within the next few months.

Retail jewellery sales have increased, with new retail outlets in Seminyak and Ubud, in Bali.

Cellnet Group suffered a 16.8% drop in revenues to $439.5 million for the year to June 2008. The company recorded a loss of $4,646,000 (*minus* 6.0 cents per share), although $3.1 million was from doubtful debts dating from prior periods. That compares with a $2.5 million trading loss in 2007. No dividend will be paid.

There was a net operating cash surplus of $4.4 million - which compares with the *previously reported* surplus of $13.0 million last year or the re-stated surplus of $7.1 million.

Circadian Technologies reported revenues of $8.1 million for the year to June 2008 and a *loss* of $1,147,806 (*minus* 2.8 cents per share). The company has changed from an incubator investment company to a drug development company. Cash and investments are worth $58 million (130 cents per share) and the company expects a cash burn of $10-12 million annually over the next two years.

Clarius Group's revenues rose 7.9% to $321.4 million over the year to 30 June 2008, while profits slipped 15.5% to $11,333,000 (19.7 cents per share). A final 7.0 cents dividend will make a 15.8% lower 16.0 cents annual dividend.

There was a cash operating *deficit* of $0.3 million, compared with a surplus of $14.4 million in 2007, with the current result depressed by both $5.1 million of working capital invested in new acquisitions plus a major customer delaying the payment of a $3.1 million debt until after balance date.

The company has restructured to change its focus from growth by acquisition to organic growth.

CPT Global has suffered a sharp, short term drop in profitability owing to the combined impact of (1) higher costs as it sought to expand its international business, (2) a slowdown and deferred new work owing to the impact and uncertainty of the *Credit Crunch* and (3) the higher exchange rate which depressed the Australian dollar value of its international revenues.

Overall, revenues grew just 7.7% to $44.5 million and profits dipped 45.2% to $1,648,000 (4.5 cents per share). A final 1.75 cents dividend will cut the annual dividend rate 35.5% to 5.0 cents.

The operating cash surplus *doubled* to $1.4 million, recovering from a low of $0.7 million last year.

The Australian operations "performed well", but international markets - which offer the potential for good long term growth and higher profit margins - were more difficult. The company has increased its capacity and staff numbers ahead of expected growth, but experienced both "a delay in clients' decision making and postponement of contract start dates". So revenue growth has lagged behind increases in costs, squeezing profit margins and the net profit. The company, however, retains a strong balance sheet with only around $1.5 million (about 4.2 cents per share) of interest bearing debts.

CPT Global believes it has "established a solid foundation for growth in Europe and the US" and now expects to see a return on this business development investment over the next 12-18 months. The company believes "the potential looks promising for the year ahead" and expects this to be "reflected in our future financial results". The recent weakening of the Australian dollar will also have a positive impact on future profitability.

CPT Global's share price has fallen sharply in line with the short term dip in profitability and dividend, so at 73 cents the shares trade on a Price/Sales ratio of 0.60, a Price/Earnings ratio of 16 and offer a Dividend Yield of 6.8%. That would appear to be good value, plus there is excellent potential for profit recovery over the current financial year and strong growth over the following years.

CPT Global

Devine lifted revenues 5.4% to $577.5 million for the year to June 2008 but profits were 49.0% higher at $31,850,000. The issued capital has increased significantly over the last two years - with a placement to **Leighton Holdings** and then a cash issue - but diluted earnings per share were 23.3% higher at 11.1 cents. The annual dividend rate remains steady at 8.0 cents.

The business generated a high $94.1 million cash operating surplus.

The major change in the balance sheet over the last year has been the $300 million investment in land for development - mainly funded from the cash issue of $62.5 million and additional borrowing of $187.7 million.

Housing & Land revenues rose 51% to $277.7 million, with earnings of $4.5 million compared with a *loss* of $6.2 million last year. Property Development revenues were 20% lower at $292.7 million but earnings were 10% higher at $41.3 million. Its Body Corporate Management business (acquired in September 2007) increased revenues 6-fold to $8.8 million with earnings of $1.5 million (from a *loss* of $1.5 million in 2007). Devine has completed a strategic review and a detailed business plan to "significantly grow" this body corporate management business over the next five years.

Despite uncertainty over the timing of a recovery in the housing market and, owing to regulatory and other approvals, the timing of a number of large property developments, Devine is predicting a 15% growth in profits in the current financial year.

Devine is to sell an office building at 96 Albert Street, in the Brisbane CBD, for $24.5 million, with settlement in January 2009. The five storey building was purchased in April last year for $20.1 million and provided "a good income" while being held for "mid to long term redevelopment". Devine received "several approaches" and decided to sell this property for "an early profit" and focus development on its $1.2 billion *French Quarter* project and two other Brisbane commercial developments.

At 92 cents, Devine shares trade on a Price/Sales ratio of 0.45, a Price/Earnings ratio of 8 and a Dividend Yield of 8.7%. That is an *(Continued on Page 8)*

Recommended Investments

(Continued from Page 7)

attractive valuation for an *income* investment, with some medium to long term growth likely as the company rapidly expands its business (although earnings per share growth has been diluted by share issues over the last two years).

Ellex Medical Lasers lifted revenues 13.4% to $50.4 million over the year to June 2008, with profits - including tax benefits - up 11.2% to $4,745,000 (6.9 cents per share). Excluding the tax benefits, profits were down 34.2% to $1,858,000 (2.7 cents per share). The company does not yet pay dividends, retaining cash to finance expansion.

With investment in building the business there was a cash operating *deficit* of $1.2 million, compared with a surplus of $1.9 million in 2007.

The company has established six direct sales representatives in the United States (in addition to a network of independent representatives in other territories), but results have been below expectations. The directors "view this market as a significant opportunity", but no further direct representatives will be appointed until this business achieves an appropriate return.

It may be more successful in Germany, "one of the largest ophthalmic markets in the world", where the previous distributor had performed poorly and has been replaced by a new wholly owned subsidiary, with two staff, which is "expected to be profitable in a short period of time".

Ellex Medical Lasers will seek to restore profitability to an acceptable level for the current financial year, with a "more measured approach to growth" in the current economic environment. A cost reduction program will seek to maintain competitiveness and improve margins, while a focus on inventory levels will seek to reduce working capital and improve cashflows.

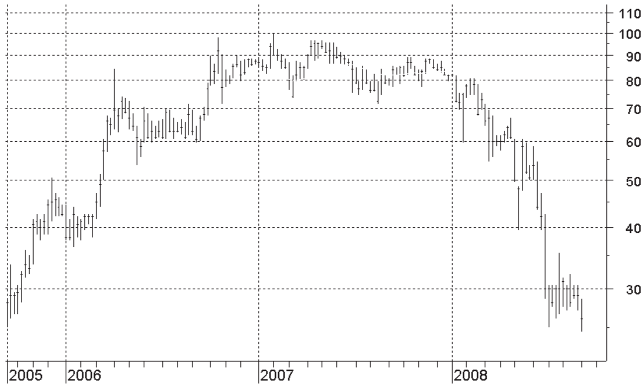
The company invests around 8% of revenues (or about $4 million) in new product development, with about $1 million of this funded by research and development grants and the balance written off as an expense.

Emerging growth companies like Ellex Medical Lasers involve high *individual company risk* - so it is important to hold a wide spread of shares in an investment portfolio to diversify away these individual risks. Emerging growth companies can also yield far above average investment returns.

At 26 cents the shares trade on a very low Price/Sales ratio of 0.35 and just 18 times profits (excluding one-off tax benefits). While it is difficult to pick the bottom of a decline, the market has been very harsh on Ellex Medical Lasers' shares over the last year. In a merger with an international competitor - allowing the consolidation of the market to reduce competition and build market share - we would expect the company to be worth a P/S ratio around 1.0-1.5 or 75-110 cents per share. The company has little cash, so aggressive expansion is not an option, but neither does it appear to be anyway close to financial failure. Better inventory control will release cash, while improved margins would return the company to operating cash surpluses - so continued steady growth through new product development and new market development should be possible.

So although we cannot pick the bottom of the share price decline with any certainty, we may continue picking up a few more Ellex Medical Lasers shares for our investment portfolio.

Ellex Medical Lasers



Fiducian Portfolio Services reported its profit result last month, but its more detailed report shows the cash operating surplus 4% lower at $6.0 million. The business is debt free, with $10.9 million (33.4 cents per share) in cash. Funds under management fell 6.6% to $1,195 million owing to the decline in the valuation of investments.

Housewares International has reported a 14.1% lift in revenues to $425.3 million for the year to 30 June, with profits improving 24.0% to $20,894,000 (16.1 cents per share). A 2.0 cents final dividend will make 10.5 cents for the year (nil in 2007).

The net operating cash surplus improved 2½-fold to $31.4 million.

Iluka Resources reports first half revenues 8.4% higher at $458.1 million while profits fell 62.9% to $15,600,000 (4.1 cents per share) - *after* including the $30 million gain on the sale of its *Narama Coal* interest. No dividend will be paid.

The net operating cash surplus, however, rose 5.1% to $64.1 million.

Iluka Resources has been approached by parties interested in purchasing the iron oxide bi-product of its mineral sands processing. The company produces 300,000 tonnes of iron oxide annually in a fine powder with 60-66% iron. It has 4 million tonnes in tailing dams. Sale of this waste would provide an additional revenue stream and ultimately reduce site rehabilitation costs. The company once investigated building a pig iron plant to process this material but abandoned those plans following escalations in the initial $250 million capital costs.

Integrated Research has suffered a poor second half, suffering from a slowdown in revenues during that period and the strong appreciation of Australian exchange rate which depressed the value of its international revenues and profits.

For the full year to June 2008, revenues were up just 2.8% to $37.4 million and profits ahead 6.3% at $5,776,000 (3.5 cents per share). A final 1.5 cents dividend will make a steady 3.0 cents for the year.

The cash operating surplus was down 22% at $5.9 million.

First half revenues were up 25% to $20.1 million, so came in at just $17.3 million for the second half. Similarly, the first half profit rose 121% to $4.2 million, leaving the company to earn only $1.6 million in the second half. The strong Australian dollar, however, took $3.9 million off revenues and $1.8 million from reported profits. That accounts for much of the second half downturn in revenues and profits which are reported in Australian dollars, but the company has probably also suffered from the general economic downturn. With stable exchange rates, revenues would have been up 14% at $41.3 million and profits up 39% to $7.6 million.

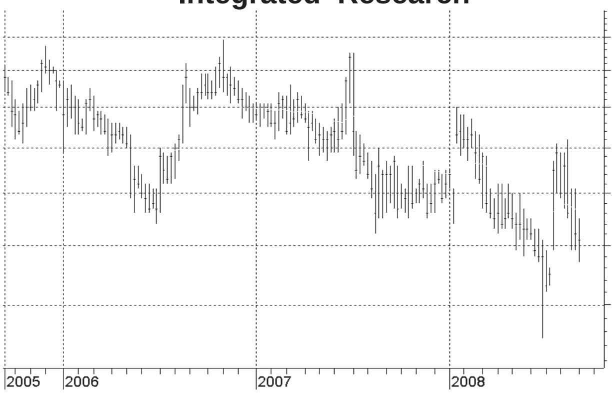
On the positive side, the A$/US$ exchange rate has improved from 0.9612 at the end of June to around 0.8108 today. That is an 18½% improvement which should significantly improve the current year's result.

Over the last year, Integrated Research spent $10.1 million on Research & Development and new product development, of which $8.7 million was expensed.

Non-Stop revenues (in A$ terms) fell 12% to $22.6 million. IP Telephony revenues failed to match their historical rapid growth and slipped 6% to $7.3 million - but this is still seen as an area with strong growth potential. Windows/Unix/Linux revenues rose 59% to $5.5 million.

At 36 cents, Integrated Research shares trade on a Price/Sales ratio of 1.58 (which is low for a software business), just 10 times last year's profits (which were depressed owing to exchange rate movements) and a Dividend Yield of 8.5%. Continued growth in international revenues - and a lower Australian dollar *this* year - could see a strong jump in profitability. So from the current low valuation, profit growth and some re-rating *could* see the shares trading at a significantly higher price in a year's time. Buy.

Integrated Research



International All Sports reported a 7.5% increase in wagering to $1,329.2 million with revenues unchanged at $45.3 million for the year to June 2008. The company suffered a net *loss* of $2,653,000 (*minus* 4.0 cents per share) which is an improvement on the 2007 loss of $5.5 million. No dividend will be paid.

There was a net operating cash surplus of $2.5 million.

The overall result hides widely different performances by different parts of the business. IASbet, the Australian operations, lifted revenues 25% to $33.7 million and earnings 57% to $12.3 million. Canbet, the European and Asian operations including poker and casino, suffered a 58% drop in revenues to $1.2 million and a 41% greater loss of $7.7 million for the year. Proprietary Trading also suffered a 60% drop in revenue to $2.7 million and a *loss* of $3.7 million compared with earnings of $0.6 million in 2007.

So there *could* be considerable value in the Australian business which is not apparent owing to losses in other parts of the business.

M2 Telecommunications lifted revenues 149.4% to $109.2 million over the year to June 2008, with profits up 114% to $5,157,000. Some of that growth came from acquisitions which were partially funded by the issue of new shares. Overall, however, the issued capital increased only 31.1% to 78,884,000 shares, so earnings per share were ahead 63% to 6.5 cents. A 3.0 cents final dividend will raise the annual dividend rate 66.7% to 5.0 cents.

The net operating cash surplus was up 124% to $7.3 million.

As if all that growth isn't enough to satisfy capital appreciation seeking investors, the company has announced forecasts of 35-50% revenue growth and 38-54% profit growth over the current year to June 2009.

The Retail business recorded a 56% growth in revenues to $51.9 million and 53% rise in earnings, but the real growth has been in the Wholesale division where revenues are up 5½-fold to $57.4 million and earnings up 8-fold to $2.7 million.

At 66 cents, M2 Telecommunications shares trade on an attractive valuation, with a P/S ratio of 0.48, a P/E ratio of 10 and a Yield of 7.6%. Achieving its growth forecast for the next year would improve the P/S to 0.32-0.36 and the P/E to around 6½-7¼. Low valuations and high growth are a combination that equals more *Market Analysis* subscriber millionaires in the years ahead! The shares are also showing signs of recovery and a new uptrend - so this could be a good time to "Buy"!

M2 Telecommunications

Mercury Brands (formerly Austin Group) reports a 20.7% drop in revenues to $43.0 million over the year to 30 June 2008. The company also *lost* $7,848,000 (*minus* 12.6 cents per share). No dividend will be paid. There was a cash operating *deficit* of $2.3 million.

The balance sheet now shows Shareholders Equity of just $977,000 (1.6 cents per share) with the business effectively financed by the $6.0 million of convertible notes.

The value of the shares, however, will depend upon the company's ability (or otherwise) to earn profits from this point onwards. A business *(Continued on Page 10)*

Recommended Investments

(Continued from Page 9)

like this does not need large quantities of capital, but success distributing the right stock at appropriate profit margins.

The company says "we have successfully transformed the business, taking the actions needed to ensure rapid growth" and "have now successfully built a business model that will take us forward".

Mercury Mobility reported revenues 4.3% lower at $6.5 million and a virtually unchanged *loss* of $1,628,129 (*minus* 1.5 cents per share) for the year to June 2008. There was a small cash operating *deficit* of $128,735.

As a possible emerging growth company, Mercury Mobility needs to *significantly* grow its revenues and become cashflow positive and profitable. The June quarter, however, has seen the company complete its IT systems for delivering entertainment to customers over various 3G mobile phone networks. Staff numbers have been reduced 35% to 33 as this development phase ends (and related expenses should decline). The company believes it often takes "greater than 12 months" to establish major telecommunications accounts, but has recently signed up two major new customers.

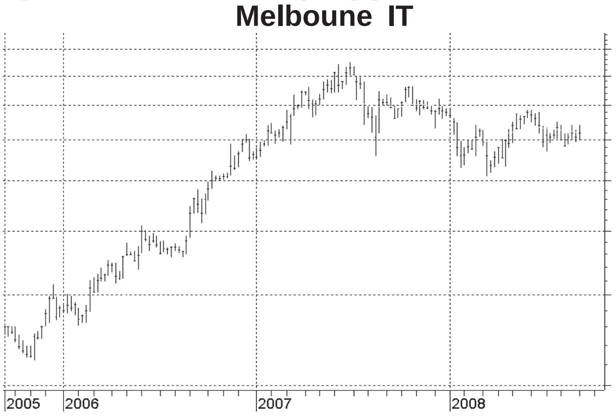
Future success will depend upon rapidly growing revenues (and profits) from both existing and new customers.

Melbourne IT lifted revenues 12.2% to $86.8 million for the six months to 30 June 2008 and profits grew 19.9% to $7,812,000 (10.1 cents per share). The interim dividend will be raised 16.7% to 7.0 cents.

This business generates strong recurring cashflows and the cash operating surplus for the period was 12% higher at $13.7 million.

The company expects the second half to "outperform" the first half, but with recent acquisitions Digital Brands breaking even (after amortisation, integration and interest costs) and 50% owned Advantate losing another $1 million. Both businesses, however, are expected to make a positive contribution to group profits in 2009.

Melboune IT



M.Y.O.B. recorded a 6.6% increase in revenues from continuing operations for the half year to June 2008. Profits from continuing operations were 27.2% higher at $9,797,000 (2.5 cents per share), although there were accounting losses on the sale of its UK businesses. The company does not pay interim dividends.

The net operating cash surplus was down 23% but still a very healthy $24.4 million.

The company recently distributed $80 million (20.8 cents per share) to shareholders and now proposes to distribute a further $50 million (12.9 cents per share). This will be in the form of a capital reduction (12.5 cents per share) and a special fully franked dividend of 0.4 cents - subject to a favourable ruling from the Australian Tax Office and approval by shareholders. The shares will trade ex-entitlement from 12 November with payment on 19 November.

MYOB entered the webhosting business earlier this year with the acquisition of **Ilisys** and has now spent $7.0 million to acquire **Smarthost**. This business currently hosts 40,000 websites, generating $3 million in revenues and over $1 million in earnings, but MYOB sees potential to expand its business management software to help smaller and medium sized companies move business processes to the internet.

Probiotec grew revenues 21.9% to $65.8 million over the year to 30 June with profits up 26.8% to $6,309,098 (13.5 cents per share). A final 1.5 cents dividend makes 2.5 cents for the year (nil in 2007).

The net operating cash surplus almost *doubled* to $8.5 million.

This result is *after* writing off $3,238,000 of Research & Development but $1,868,000 of New Product Development costs were capitalised.

Higher margin, own branded products revenues increased by 86.8%, from 40.2% of total 2007 revenues to 60.8% of 2008 revenues. The company has export markets in New Zealand, Europe and Asia and will seek to further develop these markets to improve sales and profits from its own branded products.

Despite failing to meet last year's profit forecast for 30% growth, the directors are predicting 20% growth this financial year.

At 135 cents, Probiotec shares trade on a Price/Sales ratio of 0.96, a Price/Earnings ratio of 10 and a Dividend Yield of 1.9%. The P/S and P/E indicate good value for a company seeking to develop its own products to build growth, while the low yield simply reflects that most profits are being re-invested within the business. "Buy" for growth.

Ross Human Directions recorded a 14.8% increase in revenues to $406.5 million for the year to June 2008. Earnings were also higher, but increased interest costs on higher borrowings resulted in a 20.0% drop in net profits to $4,006,000 (4.8 cents per share). A final dividend of 1.5 cents will make a 12.5% lower annual dividend rate of 3.5 cents.

There was a net operating cash *deficit* of $1.7 million (a $1.8 million surplus in 2007) owing to an $11.0 million increase in Receivables to $69.4 million.

Skilled Group's revenues for the June 2008 year were 39.3% higher at $1,929.5 million. Profits were 35.7% higher at $39,328,000 while earnings per share (after a share placement during the year) were 16.2% higher at 32.2 cents. A steady 14.0 cents final dividend will result in the annual payout being 4.5% higher at 23.0 cents.

The net operating cash surplus was 66% lower at $14.7 million - depressed by a $46.2 million increase in Receivables (mainly owing to businesses acquired) and a $32.5 million (up $18.5 million) payment of income tax.

A new, back office IT platform will be rolled out across the group this financial year and should improve operational efficiencies and improve service to clients and employees.

The company is "conservative" in forecasting a net profit of $39-46 million (up 0-17%) for the year to June 2009.

The shares have been marked down significantly over the last year, but have recently recovered from a sharp sell-off in July. At 300 cents the shares look to offer good value with a P/S ratio of 0.19, a P/E of 9½ and a Yield of 7.7%.

Skilled Group

<u>Technology One</u> has acquired a Brisbane based business, **OutcomeManager**, for $500,000 in cash plus up to a further $500,000 based upon future earnings. The company provides a web-enabled strategic planning and corporate performance management solution that Technology One has been selling for three years. Technology One will take ownership of this software and expand its development team to "rapidly extend the capabilities" of the program and better combine it with its existing budgeting and business intelligence products.

<u>TFS Corporation</u>'s report to the end of June 2008 shows total revenues up 51.7% to $68.4 million with profits 43.8% higher at $27,580,685. Earnings per share were 24.6% higher at 14.7 cents. A final dividend of 3.0 cents, lifts the annual dividend rate 17.6% to 4.0 cents.

The net operating cash surplus was 10¾-fold higher at $27.1 million.

The only area <u>not</u> to grow rapidly was the appreciation in the value of the company's own plantation investment units. These increased $2.1 million over the year, but down on the previous year's growth of $4.0 million.

The company plans to develop and sell "over 900 hectares" (up at least 10.6%) this year, but with its "extensive land bank, expansion of the nursery infrastructure and human resources capabilities, TFS is in a strong position to significantly increase sales and plantations in future years".

For the year ahead, TFS Corporation will seek to form "further alliances with major global fragrance houses", increase Research & Development aimed at expanding the Sandalwood bi-product market and seek to market its Managed Investment Scheme units to global institutional investor/growers.

<u>The Reject Shop</u> lifted revenues 25.8% to $353.3 million for the year to June 2008, while profits rose 35.6% to $16,671,000 (64.8 cents per share). A final dividend of 19.0 cents will make 48.0 cents for the year - up 54.8%.

The cash operating surplus was 26% higher at $19.0 million. The period did benefit slightly by including 53 weeks in the June 2008 financial year.

Same store sales increased by a record 8.7%, while 21 new stores (i.e. 16.2% more) gave the company 151 stores by the end of June. During the year, 5 stores were relocated or upsized and 16 stores refurbished. The company has since opened a further 5 stores and plans to open another 15 stores this financial year, including its first store in Tasmania. <u>The company plans to open around 20 stores annually . . . and currently sees the potential to expand to around 400 stores (i.e. over 2½-fold) over the next ten years! Growth in store numbers is one of the key drivers of growth</u>.

Like Michael Hill International, The Reject Shop is financing <u>all</u> of its steady growth from operating cashflows (and moderate debt levels), so all of the benefits flow to existing shareholders with no dilution in earnings per share growth owing to increases in the issued capital.

The company will also seek to further improve efficiency. Volume items will be replenished at the rate of sale, it will carry more brands, freight will be consolidated overseas and the Melbourne Airport Distribution centre upgraded. A second 25,000m^2 Distribution Centre is planned for Ipswich, Queensland, with construction to begin in March 2009 and completion scheduled for July 2010. This will enable the company to better service its Queensland stores and "facilitate expansion from Rockhampton to Cairns".

The company is forecasting a profit of $18.6-18.8 million (72-73 cents) for the current financial year. As the Australian dollar appreciated over recent years the company passed on the savings to its customers, so the falling dollar will put pressure on sales prices.

At 1159 cents, The Reject Shop shares trade on a Price/Earnings ratio of 18 and a Dividend Yield of 4.1%. Many other shares in our portfolio trade on half that valuation. Nevertheless, The Reject Shop and Michael Hill International have proven business models, fine tuning their marketing to changing conditions and steady store growth towards long term growth goals. Investors *could* try to *trade* every up and down in the share price (and invariably get it wrong) or stick with a good easy-to-understand growth company and hold for the medium to long term. Year in and year out, steady growth from this type of investment can compound into significant growth in Shareholder wealth!

The Reject Shop

Share Recommendations: Sell Computershare

SELL Computershare (code CPU). Computershare has been a very successful investment for us - up over 5-fold in just over five years - but we believe the time may be right to realise our investment in this company and look for new investments that offer better returns over the *next* five years.

Computershare is a very good company, but profit growth is slowing, debt levels are rising which could also help slow future growth, recent acquisitions do not look as attractive as earlier acquisitions and *insiders* have also been cashing in a few profits lately.

Computershare lifted revenues 11.2% to US$1,571.6 million for the year to 30 June, while profits were 20.6% higher at US$281,971,000 (50.75 US cents per share). A final A$0.11 dividend will lift the annual payout to a 23.5% higher A$0.21.

The business generated an operating cash surplus of US$347.3 million - up 8.2%. Those figures, of course, would not look as good if Computershare reported in Australian dollars like CPT Global or Integrated Research. The company seeks to grow earnings per share by 20% annually, but expects just 10% during the current year to June 2009.

Over recent years debt levels have increased significantly as the company made large acquisitions and also re-purchased its own shares on-market. Over the last year Computershare spent US$308.3 million on acquisitions and US$306.8 million to buy back shares. Interest bearing debts increased US$437.8 million to US$1,068.5 million.

In July the company raised a further US$235 million which will largely be used to finance the acquisition of UK based **Busy Bees Childcare Vouchers Ltd** for total cost of £90 million (about US$175 million). This business deals with 12,000 organisations and provides 100,000 working parents with childcare vouchers.

We are not suggesting that the company has too much debt or financial problems. It has a market capitalisation of A$5,023 million so could easily raise a *billion* or two through a share placement or cash issue. Rising debt levels, however, limit the potential for *further* borrowing to grow the company through acquisition.

Acquisitions also only increase Shareholder wealth if they (1) are cheap enough or (2) offer synergies and cost savings or (3) offer organic growth potential.

Georgeson Shareholder Communications - bought for US$115 million in October 2003, at about a Price/Sales ratio of 1.0 and "bottom of cycle" valuation - and **EquiServe** - bought for US$292 million in October 2004, at a P/S of under 1.0 and with the potential for massive synergies and cost savings - were outstanding acquisitions that have significantly added to the value of Computershare shares.

Recent acquisitions may be fine businesses but despite the depressed state of financial markets are being bought at higher valuations and lack the strategic value of the 2003 and 2004 acquisitions.

Insider buying helped us time our near perfect entry into Computershare in 2003. Recently these *insiders* have been selling some shares (although, of course, still retain very large holdings in the company).

CJ Morris made three sells in December 2007 totalling 501,890 shares at prices around $10.26-$10.34 and realising $5.2 million. When the price dipped in January he *bought* 250,000 shares at $8.04 and a further 100,000 shares at $7.96 in February, re-investing $2.8 million. Mr Morris then sold 101,216 shares at $9.13 in March and sold 98,784 shares at $9.09 in April. Recently he made a large $5.5 million sale (i.e. 612,468 shares at $8.99) in August and another $5.5 million sale last week (i.e. 612,627 shares at $9.03). This still leaves him with 54.1 million shares worth $489 million.

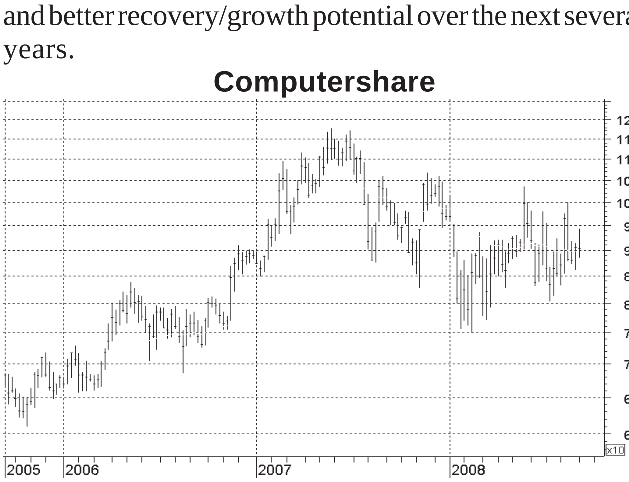
A second director, AN Wales, sold 1,000,000 shares in April at $8.73 (while retaining 29,092,384 shares) and a third director, PJ Maclagan, sold 100,000 shares in August at $9.04 (but still has a 15,900,000 share holding).

Summary and Recommendation

Computershare is an excellent company, but future growth may *slow* and the shares look *fairly* valued in a market where most shares are looking very *undervalued*. Prices paid on recent acquisitions also look a little high - given the depressed valuations in many sectors - and *insiders* are currently cashing in some of their very large investments in the company.

We therefore feel that now may be a good time to realise our investment in Computershare and, as this has been a very successful investment and grown 5-fold in value, this will realise a significant amount of cash which we can look to re-invest in other shares. In the current depressed stockmarket we believe we can find other shares which offer both significantly lower valuations and better recovery/growth potential over the next several years.

Computershare



Sell Keycorp

SELL Keycorp (code KYC).
We are recommending the sale of shares in Keycorp. Unfortunately, this company has failed to recover or to successfully restructure to become profitable, but has steadily downsized and lost shareholder value. This investment just didn't work out - so we will sell to realise what little value remains.

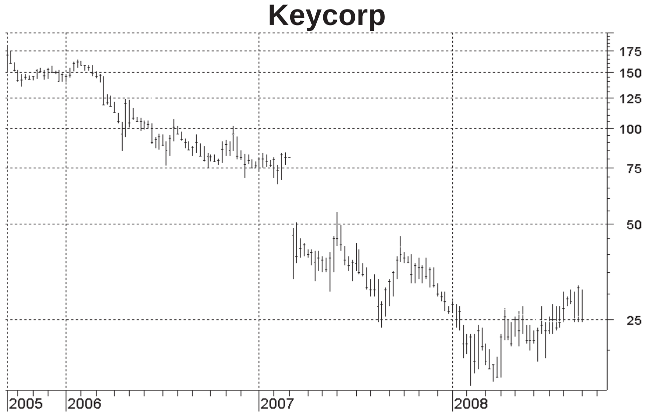
This newsletter avoided buying inflated Technology shares during the late 1990's Technology boom and, in fact, cashed in some significant gains at that time. In the following bust, when these shares were out of favour and depressed we invested in a number of technology related companies. Overall this has been very successful but, as one would expect, there have been some unprofitable investments as well.

We broke even on our investment in **Volante Group** and ultimately lost money on **Commander Communications** and **Keycorp**. We realised a good short term gain when **Health Communication Network** was taken over, **Solution 6** (which merged to become **MYOB**) and **Technology One** have both been sound performers. **Computershare** and **Melbourne IT** have been the outstanding investments in our portfolio from this sector.

When we bought into Keycorp it had experienced losses but had just recovered to a small profit and was generating large operating cash surpluses. We saw growth potential from the roll out of the new EMV credit card standard. Things just haven't worked out. Keycorp sold off several divisions. It started up a Managed Services business in Australia, but was unsuccessful at expanding that into Canada. Recently it sold the Canadian operation and bought some smartcard operations to focus on this sector of its business. Now the company is selling all of its smartcard businesses for $25.3 million. This will at least give the company a cash balance of $16 million (19.7 cents per share) which should help to support the shares around 25-30 cents.

For the year to June 2008, the company has reported a 10.1% decline in revenues to $37.2 million, with a *loss* from continuing businesses of $4,288,000 (*minus* 5.3 cents per share).

The market in Keycorp shares is quite *thin* at the present time, with only small volumes of shares trading. So selling shares quickly may be difficult. We believe that the cash from the smartcard sale should justify a value in the high 20's - so would suggest investors sell at prices around 25-30 cents over the next few months, if those prices are available.



Buy Prophecy International

BUY Prophecy International (code PRO).
We reviewed these shares in October 2007 (*Market Analysis* issue 424) owing to *Insider* buying. Several factors have improved over the last year and now justify upgrading the shares to a formal “Buy”: The company has completed its first major US software installation ahead of schedule and 25% below budget. The company maintained profitability for the year to June 2008, increased its dividend and has recently won another large US contract and a UK contract which should maintain revenues and profits into the future. Despite this success the share price has weakened 35% to around 26 cents - which is a valuation just too low to ignore!!

This is a very small company - so in the past the volume of shares available to purchase on-market was limited. That has improved significantly over recent months following the **Opes Prime** collapse, with **ANZ Bank** taking 4,000,000 Prophecy International shares held as security for margin loans and now actively selling those shares on-market.

Being a small business, company specific risk is high - although this can be managed through good portfolio diversification.

Company History

This software business was formed in 1980 and listed on the Australian stockmarket in April 1998 following a small share float at 50 cents. *(Continued on Page 13)*

BUY Prophecy International

(Continued from Page 13)

During the Technology boom the shares rose to a peak of 530 cents at which stage the company made an institutional share placement of 3,000,000 shares at $4.00 to raise $12.0 million to finance expansion.

During the Technology boom Prophecy International was also successful at finding major international partners and selling its software. In the resulting bust early this decade the revenues declined and the company became unprofitable. As a result, the company has significant tax losses which can be offset against current and future profits.

The company has three main products: *Basis2* (a Revenue Management, Utilities Customer Information and Billing system which is sold through a worldwide partner network), *E-Foundation* (an enterprise package of Financials, Procurement, Distribution and Asset Management) and *Vellate* (a rapid application development environment for *Java* based applications).

Recent Results

The business was profitable in the year to June 1999, earning a profit of $3.3 million on revenues of $13.2 million and paying a dividend of 5.5 cents, made a small loss in 2000, *big* losses in 2001, 2002 and 2003, small losses again in 2004, 2005 and 2006 . . . and has finally re-invented its business and returned to profitability.

Revenues grew 57.3% to $5.3 million for the year to June 2007, with the company becoming profitable, earning $2,038,341 (4.6 cents per share). Annual dividends totalling 3.5 cents were paid. The cash operating surplus was $2.1 million - up from a *deficit* of $509,000 in 2006 - which helped lift the company's cash holding 31% to $5.0 million (11.3 cents per share).

For the year to June 2008, revenues rose 11.2% to $5.9 million while profits slipped just 3.9% to $1,959,760 (4.3 cents per share). A final dividend of 2.0 cents (ex-entitlement on 8 September, payable 3 October) lifted the annual dividend 14.3% to 4.0 cents. The net operating cash surplus was 4% lower at $2.0 million. This increased the company's cash holding to $5,295,343 (11.7 cents per share).

Prophecy International has unused tax losses (not shown in its balance sheet) of $11.2 million, so at current profit levels will not need to pay income tax for 5-6 years. The company has also used up all of its franking credits so future dividends will be unfranked.

New Business

In April 2005, the company and its UK partner **IMASS** won a contract worth A$6.6 million over five years (of which Prophecy International will receive around $2 million) with **South East Water**, the fifth largest utility in the UK. The contract covered the *basis2* billing, customer information and customer contact management systems.

In December 2005 - after having previously spent "millions of dollars" on four previous unsuccessful projects to update its 30 year old billing system for around 600,000 customers - the **City of Philadelphia** selected Prophecy International's *basis2* for its water and waste water billing system. This project was the company's first major contract in the United States and estimated to be worth A$5 million over three years from licence fees, project implementation and maintenance fees. The project was successfully completed in January 2008 - one month ahead of the initial target date and 25% below budget! The total implementation costs were around *half* of the industry estimates. The success of this large project has showcased Prophecy International's system in the United States and generated interest from other utilities.

In February, Prophecy International and its UK partner **IMASS** won a competitive tender to provide the *basis2* to manage the 250,000 water customers of **Mid Kent Water**. Prophecy International's share of revenue on this contract was "over A$1 million" which was recorded in the result to June 2008. The group now has 27 UK water company customers.

In July 2008, the company announced a contract to install is *basis2* revenue management system for the **Texas Commission of Environment Quality**. Prophecy International will partner with **Applications Software Technology Corporation** for the installation of this system which will manage billing and collections for around 165,000 accounts.

Investment Criteria

At 26 cents, Prophecy International shares trade on a Price/Sales ratio of 2.00, a low Price/Earnings ratio of 6 and offer a Dividend Yield of 15.4%. Those low valuation statistics tell only half the story as the company has no interest bearing debts but $5.3 million (11.7 cents per share) of surplus cash sitting in the bank.

The shares are now ex-entitlement to a 2.0 cents dividend, leaving perhaps 10 cents per share of cash in the business. So at 26 cents per share the market is valuing Prophecy International at its cash holding of 10 cents plus just 16 cents (i.e. 3¾ times earnings or four times dividends).

The $5.3 million in cash (and borrowing capacity) *could* be used to finance a suitable acquisition which would provide a significant improvement on the $300,000 interest return currently being earned. Shareholders

Equity is shown at $5.6 million (12.4 cents per share), with no value recorded for its Intellectual Property (which the directors value at "tens of millions of dollars") or the value of its $11.2 million of tax losses (i.e. worth around $3.36 million at the Australian 30% company tax rate) which will be realised over the next 5-6 years if the company remains profitable.

The company re-invests about 8-8½% of revenues in Research & Development, which is written off each year as an expense. Last year it spent $505,579 - up 21% on the previous year.

The market for Revenue Management and Billing software is around US$5 *billion* annually and fragmented with many smaller solution providers. There is significant *potential* for Prophecy International to gain market share and building relationships with large global partners is an important step in achieving this growth. Software is an economies-of-scale business where success in winning sales will boost revenues with little increase in operating expenses - so profits have the *potential* to rise significantly.

The issued capital consists of 45,116,955 shares, giving the company a market capitalisation of just $11.7 million. That makes Prophecy International a *micro-cap* company. Such small companies can involve high company risk, but can also offer the very highest investment returns. Micro-cap shares are often inactively traded, but **ANZ Bank** acquired 4,000,000 shares held as security for margin loans when **Opes Prime** failed in April. Since then they have steadily sold 1,295,091 shares on-market - which has no doubt helped to depress the share price. ANZ is continuing to sell down its remaining 2,704,909 shares on-market over the next 4-6 months. Investors should therefore be able to build up shareholdings in this company over the next few months without bidding the shares up in value.

The directors and management have significant investments in Prophecy International shares and have made five additional *insider* buys on-market over the last year. The Chairman E Reynolds bought 150,000 shares at 38 cents and 50,000 shares at 38-39 cents in December 2007, plus 100,000 shares at 40-41 cents in February, lifting his holding to 6,600,000 shares or 14.6% of the company. Director AP Weber bought 50,000 shares on-market at 40 cents in December 2007 and 45,000 shares at 41-42 cents in February, increasing his holding to 700,000 shares. The Managing Director owns 443,937 and the senior US exective has 536,203 shares.

The shares are *neglected* by institutions and brokers. There are no institutional investors - except ANZ which took control of shares pledged as security for margin loans and which is it now actively selling - no brokers follow the company closely enough to publish profit forecasts. Shares neglected by institutional investors and brokers tend to be under-valued relative to widely owned and widely followed shares.

Technically, the shares are still in a downtrend but performing about average relative to the general market. The Relative Strength rating is -12.3%, ranked 47 (on a scale of 0-99), so right in the middle of the market.

Summary and Recommendation

This is a *micro-cap* company so involves high risks. The business is also reliant on one or two new major contacts each year to provide a substantial amount of its revenues. In contrast to those risks, the company has no interest bearing debt and $5.3 million (11.7 cents per share or almost half of the share value) in cash. Software is also an attractive economies of scale business, so if the company can win more US utility contracts following the completion of its first major installation, then revenues could grow strongly and profits would soar! So although *company risk* is high, there is also significant potential for investment gains!

The shares currently trade at a very low valuation: just over double its cash in the bank, a Price/Earnings ratio of 6 and a Dividend Yield of 15.4%. This low valuation obviously reflects the depressed state of the stockmarket, but an investor lost 4,000,000 shares (8.9% of the company) to a margin lender who is actively selling the shares on-market which has helped to further depress the share price.

As this is a small company, investors will need to build up shareholdings steadily over the next few months as the ANZ continues to sell down the 2.7 million shares to recover its margin loans.

We recommend buying Prophecy International shares for both capital appreciation and (with a yield of 15.4%) current income.

Prophecy International

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

For an explanation of this table see the *Share Selection Methods* report sent to all new subscribers or available from our website. 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 Current	STRENGTH RATING 4-Wk Chg.	STRENGTH RATING Rank 0-99	Insider Buy-Sell	Brokers Following	Price to NTA	Return on Equity	Vola-tility	Price Earn. Ratio	Divi-dend Yield	Price Sales Ratio	Market Cap'n
UNDER-VALUED SHARES: Lowest Price/Sales, Yld>0, Rel Strength>0													
Zintel Comm.	27	+0.0	+7.4	16	2-0	-	1.3	22	1.9	6	12.4	0.37	14
Skellerup Hold.	100	+2.2	+1.3	11	6-0	2	2.8	2	1.2	183	4.5	0.60	132
PGG Wrightsons	272	+16.1	+1.0	5	12-0	4	1.6	15	0.7	11	8.8	0.65	787
Mainfreight Grp	700	+1.4	-0.6	13	3-5	4	2.7	16	0.6	16	3.8	0.72	676
Tower Limited	210	+0.4	+0.1	14	2-0	5	1.5	13	0.9	11	4.3	0.78	398
Livestock Imp.	315	+28.6	-1.0	1	2-0	-	0.6	10	0.6	7	11.8	0.78	105
BEST PERFORMING SHARES: Strongest Shares, P/E<20, P/S<1.0													
Livestock Imp.	315	+28.6	-1.0	1	2-0	-	0.6	10	0.5	7	11.8	0.78	105
Media Tech.	4	+18.7	-22.0	3	0-0	-	14.3	-	2.9	4	Nil	0.63	3
PGG Wrightsons	272	+16.1	+1.0	5	12-0	4	1.6	15	0.6	11	8.8	0.65	787
Mainfreight Grp	700	+1.4	-0.6	13	3-5	4	2.7	16	0.5	16	3.8	0.72	676
Tower Limited	210	+0.4	+0.1	14	2-0	5	1.5	13	0.8	11	4.3	0.78	398
Zintel Comm.	27	+0.0	+7.4	16	2-0	-	1.3	22	1.5	6	12.4	0.37	14
INCOME SHARES: Highest Yields, Capitalisation>NZ$100 million													
Hallenstein G.	300	-14.8	+1.3	78	4-1	5	2.7	32	0.4	8	17.4	0.89	179
Telecom Corp	315	-8.8	-2.8	55	8-23	11	2.1	26	0.6	8	13.7	1.01	5,751
ING Property	75	-10.2	-1.8	65	4-0	3	0.6	10	0.6	5	13.1	3.73	386
F&P Appliance	180	-17.2	-1.3	83	2-0	6	0.8	8	0.8	9	13.1	0.36	512
Briscoe Group	93	-14.4	+0.2	76	3-0	4	1.7	19	0.6	9	12.8	0.48	197
Tourism Hold.	136	-15.6	-0.4	79	2-0	4	0.7	4	0.7	16	12.1	0.88	134
Livestock Imp.	315	+28.6	-1.0	1	2-0	-	0.6	10	0.4	7	11.8	0.78	105
Air New Zealand	114	-13.9	+3.5	76	10-3	2	0.8	14	0.7	6	11.1	0.26	1,205
Methven Limited	165	-3.9	+1.7	31	4-1	3	2.0	18	0.8	11	10.6	0.96	110
Turners & Grow.	208	-2.4	-1.3	24	0-1	2	0.7	6	0.5	11	10.0	0.35	192
INSIDER BUYING: Most Insider Buying, Relative Strength>0													
PGG Wrightsons	272	+16.1	+1.0	5	12-0	4	1.6	15	0.5	11	8.8	0.65	787
NZ Farming Sys.	160	+7.6	-7.5	7	10-0	-	1.7	-	0.6	NE	Nil	N/A	391
Skellerup Hold.	100	+2.2	+1.3	11	6-0	2	2.8	2	0.8	183	4.5	0.60	132
Xero Ltd	88	+4.6	-0.3	8	5-0	-	4.3	-	0.9	NE	Nil	N/A	48
Affco Holdings	57	+25.4	+6.3	1	3-0	-	1.1	0	0.7	238	Nil	0.30	288
Port Tauranga	700	+1.6	+0.8	12	2-0	4	1.5	7	0.4	22	5.3	6.30	938
Zintel Comm.	27	+0.0	+7.4	16	2-0	-	1.3	22	1.2	6	12.4	0.37	14
Pike River Coal	185	+32.5	-12.1	0	2-0	4	2.3	-	0.8	NE	Nil	N/A	486
Livestock Imp.	315	+28.6	-1.0	1	2-0	-	0.6	10	0.4	7	11.8	0.78	105
Windflow Tech.	325	+9.4	+2.2	6	2-0	-	4.7	-	0.3	NE	Nil	8.00	27
OVER-VALUED SHARES: Highest Price/Sales Ratios, Relative Strength<0													
Blis Technology	6	-5.9	+0.4	42	0-0	-	3.7	-	1.7	NE	Nil	8.96	8
Goodman Prop.	112	-9.0	-2.1	57	0-1	4	0.9	9	0.5	9	8.8	7.93	934
Property F Ind.	113	-5.9	-0.6	43	0-0	4	0.8	6	0.5	13	7.8	7.65	238
Akd Int Airport	202	-10.8	+0.9	68	2-1	8	1.3	6	0.6	22	6.1	7.03	2,469
Metro. LifeCare	440	-11.6	+2.1	71	0-0	1	0.7	-	0.2	NE	4.3	6.61	385
ING Med. Prop.	110	-3.8	-1.4	30	5-0	4	0.9	5	0.5	18	8.9	6.33	154
AMP Onyx Mgmt	105	-5.1	-2.5	38	2-0	4	0.7	12	0.4	6	8.0	5.99	722
A2 Corporation	11	-22.0	-1.4	88	0-0	-	-	-	1.7	NE	Nil	5.95	29
Kiwi Property	113	-7.2	-1.3	47	3-0	4	0.8	11	0.5	8	8.1	5.45	940
NZ Exchange Ltd	692	-6.1	-2.4	44	0-0	2	5.8	30	0.6	19	4.5	5.34	168
NZ Refining Co	714	-5.2	-2.6	40	1-0	2	2.8	18	0.4	15	9.4	5.07	1,714
Burger Fuel	45	-12.5	-5.5	72	0-0	-	5.1	-	0.8	NE	Nil	5.06	24
Sealegs Corp	39	-9.5	-1.7	59	0-1	-	15.4	-	1.3	NE	Nil	4.91	29
F&P Health.	324	-3.2	+6.6	28	2-9	6	8.4	18	0.4	47	5.1	4.61	1,651
Kermadec Prop.	61	-10.1	-1.4	64	2-0	-	0.6	7	0.7	8	14.2	4.34	47
Plus SMS Hold.	6	-18.9	-8.6	84	4-1	-	3.1	-	2.5	NE	Nil	4.17	23
WORST PERFORMING SHARES: Weakest Shares, P/S Ratio>0.25, Yield<Twice Average													
Charlie's Group	13	-58.3	+0.0	98	1-0	-	2.5	-	1.3	NE	Nil	1.26	38
ICP Biotech.	2	-28.5	+3.9	92	0-0	-	-	-	3.0	NE	Nil	N/A	8
Inv Research Gr	7	-27.6	+0.4	91	0-0	-	1.0	-	1.7	NE	Nil	2.69	5
Wool Equities	26	-23.9	+2.0	90	0-0	-	0.5	-	0.7	NE	Nil	0.29	6
NZ Finance Hold	33	-22.2	+0.1	88	2-0	-	1.1	16	0.6	7	4.5	0.95	25
A2 Corporation	11	-22.0	-1.4	88	0-0	-	-	-	1.6	NE	Nil	5.95	29
Widespread Port	40	-20.2	-5.4	86	0-0	-	23.3	-	1.5	NE	Nil	N/A	8
Warehouse Group	322	-19.9	-4.6	86	0-1	9	2.9	34	0.5	9	8.1	0.57	1,001
Plus SMS Hold.	6	-18.9	-8.6	84	4-1	-	3.1	-	2.4	NE	Nil	4.17	23
Heritage Gold	2	-17.1	-4.3	82	0-0	-	0.5	-	2.9	NE	Nil	N/A	6
Mowbray Collect	90	-17.0	-4.6	82	0-4	-	2.3	5	0.3	42	Nil	2.05	10
Pumpkin Patch	155	-16.2	+2.5	80	5-5	5	2.3	25	0.6	9	8.7	0.71	259
Fletcher Build.	755	-15.7	+2.0	80	1-3	6	1.4	17	0.5	8	9.5	0.54	3,800
Guoco Leisure	68	-13.7	+1.4	75	5-0	-	0.6	1	0.6	53	7.7	1.43	930
Burger Fuel	45	-12.5	-5.5	72	0-0	-	5.1	-	0.8	NE	Nil	5.06	24
Metro. LifeCare	440	-11.6	+2.1	71	0-0	1	0.7	-	0.2	NE	4.3	6.61	385
Pac Edge Bio.	9	-11.3	-2.6	70	0-0	-	3.6	-	1.2	NE	Nil	N/A	10
INSIDER SELLING: Most Insider Selling, Relative Strength<0													
Telecom Corp	315	-8.8	-2.8	55	8-23	11	2.1	26	0.5	8	13.7	1.01	5,751
Michael Hill	84	-7.7	+2.1	49	1-9	4	3.5	28	0.4	13	5.7	0.85	321
F&P Health.	324	-3.2	+6.6	28	2-9	6	8.4	18	0.4	47	5.1	4.61	1,651
Mowbray Collect	90	-17.0	-4.6	82	0-4	-	2.3	5	0.3	42	Nil	2.05	10
Sky City Ltd	377	-10.1	+1.7	63	2-6	9	3.8	23	0.6	16	8.5	2.01	1,777
TrustPower Ltd	790	-2.3	-1.6	22	0-2	4	2.0	8	0.5	25	5.3	3.66	2,492
Salvus Strat.	91	-3.0	-1.9	26	0-2	-	0.7	30	0.6	2	9.0	2.12	18
Fletcher Build.	755	-15.7	+2.0	80	1-3	6	1.4	17	0.5	8	9.5	0.54	3,800
Rakon Ltd	288	-9.5	-0.5	60	0-1	2	2.7	8	0.8	32	Nil	2.02	352
Turners & Grow.	208	-2.4	-1.3	24	0-1	2	0.7	6	0.4	11	10.0	0.35	192

Hellaby Holdings

Methven

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

For an explanation of this table see the *Share Selection Methods* report sent to all new subscribers or available from our website. 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.

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

Company	Share Price	STRENGTH RATING Current	STRENGTH RATING 4-Wk Chg.	Rank 0-99	Insider Buy-Sell	Brokers Following	Price to NTA	Return on Equity	Vola-tility	Price Earn. Ratio	Divi-dend Yield	Price Sales Ratio	Market Cap'n
Metals Aust.	2	-32.0	-7.3	91	1-1	-	-	-	3.1	NE	Nil	N/A	13
Solbec Pharm.	2	-23.7	+5.5	79	0-0	-	1.8	-	2.5	NE	Nil	%10.00	5
IM Medical Ltd	1	-28.3	-10.6	86	2-2	-	-	-	3.6	NE	Nil	%10.00	11
Energy Resource	1850	-0.4	-5.3	17	0-0	9	5.9	13	0.5	46	1.1	9.74	3,529
PPK Group Ltd	70	-7.2	-1.2	32	1-0	-	1.0	1	0.4	68	9.3	9.71	41
Aim Resources	3	-39.6	-7.2	97	1-0	-	-	-	2.3	NE	Nil	9.64	21
Contango Cap P.	52	-12.4	-0.9	48	10-0	-	0.7	-	0.7	NE	6.3	9.54	52
Adavale Res.	4	-15.3	-7.5	57	4-0	-	4.0	-	2.2	NE	Nil	9.52	7
Connxion Ltd	11	-3.4	+0.1	21	0-0	-	11.0	-	1.3	NE	Nil	9.48	14
Austin Explor.	21	-15.7	-10.3	58	0-0	-	-	-	1.2	NE	Nil	9.46	24
Aevum Ltd	189	-13.2	-0.1	50	4-0	3	0.9	11	0.4	8	4.8	9.46	234
MMC Contrarian	62	-10.1	+3.5	40	2-0	-	0.9	-	0.4	NE	Nil	9.43	151
Neuren Pharm.	8	-22.9	+0.2	77	0-0	-	-	-	1.4	NE	Nil	9.40	11
Aust Enh Income	766	-4.7	+0.2	24	1-0	-	1.0	-	0.3	NE	9.1	9.38	25
CFS Retail Prop	221	-4.0	+1.3	22	0-0	7	1.0	13	0.5	7	5.4	9.33	5,012
ASX Limited	3350	-11.2	+2.8	44	0-2	12	12.6	80	0.4	16	5.7	9.33	5,733
Pelican Res.	8	-31.8	-4.9	91	0-0	-	-	-	1.8	45	Nil	9.31	8
Clime Capital	85	-10.1	+1.7	40	1-2	-	0.8	-	0.4	NE	Nil	9.29	32
Blina Diamonds	5	-24.6	-2.0	81	0-0	-	-	-	1.9	NE	Nil	9.26	9
Clean Seas Tuna	80	-22.7	-5.9	77	1-0	-	2.2	-	0.5	NE	Nil	9.23	124
Magellan Fin Gp	58	-25.5	+0.2	82	2-0	-	-	-	0.7	13	Nil	9.19	84
Optiscan Image	23	-8.2	+0.5	35	2-0	-	3.8	-	0.8	NE	Nil	9.18	26
TZ Limited	367	-8.0	-6.8	34	2-0	-	-	-	0.9	NE	Nil	8.96	142
Golden Cross	2	-19.1	-12.2	68	0-0	-	-	-	2.7	20	Nil	8.89	9
Saracen Mineral	10	-34.2	-3.6	94	2-1	-	-	-	1.4	NE	Nil	8.88	14
Metabolic Phar.	4	-14.7	-1.8	55	1-0	-	0.6	-	1.8	NE	Nil	8.81	11
Bunnings W/hse	188	-6.5	+0.6	30	0-0	4	0.9	0	0.3	817	7.1	8.64	567
ING Office Fund	150	-2.2	+2.7	19	1-0	7	0.8	11	0.4	8	7.2	8.62	1,889
Adv Share Reg.	31	-15.2	-4.8	56	0-0	-	-	-	1.0	19	4.8	8.59	13
Pioneer Nickel	7	-22.6	-0.8	76	1-0	-	-	-	1.3	NE	Nil	8.57	6
Monto Minerals	6	-35.2	-6.3	94	0-0	-	-	-	1.3	NE	Nil	8.57	19
Occupational Md	35	-13.5	+6.8	51	0-1	-	35.0	-	0.8	NE	Nil	8.54	14
Excalibur Min.	2	-21.0	-7.2	72	1-0	-	-	-	2.9	NE	Nil	8.42	9
Bonaparte Diam.	9	-2.4	+1.3	20	1-0	-	-	-	1.2	NE	Nil	8.38	14
Hyperion Flag.	129	-10.1	-1.9	40	5-0	-	0.9	8	0.3	11	6.6	8.26	35
Metals X Ltd	29	-6.1	-11.4	29	0-0	1	-	-	1.0	NE	Nil	8.24	279
Wotif.com Hold.	372	-16.0	+0.7	59	6-0	8	-	-	0.4	22	4.0	8.24	774
Biodiem Ltd	12	-21.6	-0.9	74	0-0	-	1.2	-	1.1	NE	Nil	8.16	9
Pryme Oil & Gas	16	-16.4	-7.5	60	3-0	-	0.7	-	1.0	NE	Nil	8.16	14
Brain Resource	40	-5.9	+2.4	28	0-0	-	13.2	-	0.8	NE	Nil	8.14	36
Labtech Systems	19	-3.8	-3.8	22	4-3	-	6.2	24	1.1	25	Nil	8.08	18
Seek Ltd	587	-10.9	+1.8	43	1-1	14	16.3	74	0.4	22	3.2	8.05	1,691
Carindale Prop	378	-8.2	+0.2	35	0-0	1	-	-	0.3	6	6.8	8.03	265
Prime Retire Pr	48	-15.9	+0.9	58	3-0	-	0.5	10	0.7	5	17.7	8.03	272
CO2 Group Ltd	35	-16.7	-0.1	61	0-3	-	7.0	11	0.9	61	Nil	8.01	97
First Aust Res.	7	-15.7	-5.5	58	0-1	-	-	-	1.6	NE	Nil	7.85	30
Ozgrowth Ltd	16	-8.7	-1.6	36	0-0	-	-	-	1.2	14	1.3	7.84	64
Sipa Resources	4	-24.2	-4.0	80	0-0	-	-	-	2.0	NE	Nil	7.84	12
Spark Infrastru	164	-6.0	-0.7	28	0-0	6	-	-	0.5	64	9.3	7.70	1,654
Gateway Mining	10	-4.2	+0.5	23	1-0	-	-	-	1.1	167	Nil	7.69	10

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

Company	Share Price	STRENGTH RATING Current	STRENGTH RATING 4-Wk Chg.	Rank 0-99	Insider Buy-Sell	Brokers Following	Price to NTA	Return on Equity	Vola-tility	Price Earn. Ratio	Divi-dend Yield	Price Sales Ratio	Market Cap'n
Repcol Ltd	2	-46.1	-4.8	98	0-0	-	-	-	2.1	4	Nil	2.33	13
Sthn Pacific	1	-46.1	-15.2	98	0-0	-	-	-	2.7	NE	Nil	N/A	6
MIL Resources	4	-45.5	+1.7	98	1-0	-	0.9	-	1.8	NE	Nil	N/A	6
Agenix Limited	2	-45.5	-5.8	98	5-2	-	0.9	-	2.4	NE	Nil	5.86	7
Destra Corp Ltd	3	-41.2	-1.6	97	4-0	-	-	-	1.9	NE	Nil	0.81	16
Carnavale Res.	15	-40.0	+2.2	97	3-0	-	-	-	1.3	NE	Nil	N/A	8
TNG Limited	6	-39.8	+0.3	97	0-5	-	-	-	1.5	NE	Nil	N/A	18
Aim Resources	3	-39.6	-7.2	97	1-0	-	-	-	2.1	NE	Nil	9.64	21
Datasquirt Ltd	26	-39.5	-1.2	97	2-0	-	1.1	-	0.8	NE	Nil	6.02	7
E.R.G.	2	-39.5	-1.1	97	1-0	-	-	-	2.3	NE	Nil	3.75	15
Antares Energy	7	-39.5	-2.1	96	3-0	-	-	-	1.2	NE	Nil	3.01	11
Tamaya Res.	3	-39.4	-6.9	96	6-0	-	0.2	4	2.4	4	Nil	0.58	27
Perilya Mines	41	-39.1	-0.2	96	0-0	5	0.5	-	1.0	NE	2.5	0.29	79
Luminus Systems	0	-38.1	-10.4	96	0-2	-	-	-	7.9	1	Nil	0.56	7
CBH Resources	9	-37.9	-5.7	96	1-1	2	0.4	-	1.5	NE	Nil	0.41	75
Life Therapeut.	7	-37.3	+2.0	96	0-0	-	0.5	-	1.4	NE	Nil	N/A	9
Early Learning	14	-37.1	-0.9	95	0-0	-	-	-	1.1	NE	Nil	1.85	6
Engin Ltd	2	-37.0	+0.9	95	0-0	-	1.0	-	2.5	NE	Nil	0.63	13
Axiom Property	8	-36.0	-2.8	95	3-0	2	1.0	15	1.0	6	Nil	1.24	26
ST Synergy Ltd	12	-35.9	-3.6	95	0-0	-	12.0	-	0.9	NE	Nil	N/A	11
Dioro Explor.	40	-35.8	-6.0	95	1-0	-	0.4	-	0.8	NE	Nil	N/A	27
Apollo Life Sci	4	-35.4	+3.6	94	0-0	-	4.0	-	1.5	NE	Nil	N/A	8
Monto Minerals	6	-35.2	-6.3	94	0-0	-	-	-	1.2	NE	Nil	8.57	19
Advance Energy	8	-35.1	+2.0	94	1-0	-	-	-	1.4	NE	Nil	1.53	10
Viento Group	15	-35.0	-4.1	94	1-0	-	0.7	-	0.9	NE	Nil	0.94	8
St Barbara Ltd	20	-35.0	-7.8	94	3-3	3	1.1	-	1.3	NE	Nil	1.58	226
Port Bouvard	44	-34.9	-1.1	94	3-0	-	0.4	2	0.6	18	Nil	2.42	57
Karmelsonix Ltd	4	-34.7	-6.5	94	6-0	-	3.8	-	1.8	NE	Nil	N/A	14
Style Limited	10	-34.5	-0.7	94	13-1	-	1.4	-	1.1	NE	Nil	0.88	9
Regis Resources	18	-34.3	-1.3	94	3-0	-	-	-	1.2	NE	Nil	N/A	22
Saracen Mineral	10	-34.2	-3.6	94	2-1	-	-	-	1.3	NE	Nil	8.88	14
Ansearch Ltd	2	-33.9	+0.3	93	3-1	-	1.6	-	2.7	NE	Nil	0.82	10
BQT Solutions	17	-33.8	-1.0	93	1-0	-	17.0	-	0.8	NE	Nil	2.41	10
Crescent Gold	10	-33.8	-6.4	93	2-0	-	0.4	-	1.2	NE	Nil	N/A	58
Pacrim Energy	1	-33.6	-10.9	93	1-0	-	-	-	3.4	NE	Nil	N/A	8
900 Degrees Ltd	1	-33.4	+2.8	93	2-0	-	-	-	3.1	8	Nil	1.90	7
Prime Minerals	24	-33.4	-3.8	93	0-0	-	-	-	0.7	NE	Nil	N/A	8
Mintails Ltd	19	-33.4	-6.6	93	6-0	-	0.6	-	1.5	NE	Nil	5.57	94
African Energy	10	-33.4	-1.8	93	2-0	-	-	-	1.2	NE	Nil	N/A	15
FCPB Invest.	2	-33.2	-2.1	93	2-0	-	0.9	-	2.7	NE	Nil	5.63	38
Austock Group	52	-33.1	+1.7	93	0-0	-	1.4	0	0.7	520	5.8	0.84	65
Uranex NL	23	-33.0	-3.7	92	0-0	-	-	-	1.4	NE	Nil	N/A	19
Mt Burgess Min.	2	-32.9	-2.8	92	3-0	-	-	-	2.4	NE	Nil	N/A	6
Progen Pharm.	70	-32.8	-3.4	92	1-0	-	0.5	-	0.8	NE	Nil	5.39	42
Macmin Silver	6	-32.7	-1.7	92	1-4	-	-	-	1.3	NE	Nil	N/A	27
Energy Ventures	4	-32.7	-3.9	92	2-0	-	0.6	-	2.2	NE	Nil	N/A	8
Q Ltd	1	-32.7	-0.6	92	1-0	-	1.4	7	2.8	20	Nil	0.46	12
ABM Resources	3	-32.6	-4.0	92	0-0	-	-	-	2.2	NE	Nil	N/A	13
Agri Energy Ltd	3	-32.6	+3.8	92	0-0	-	0.1	-	2.0	NE	Nil	N/A	6
Entellect Soln	1	-32.4	+1.5	92	1-0	-	-	-	3.7	NE	Nil	4.67	8

INSIDER SELLING: Most Insider Selling, Relative Strength < 0

Company	Share Price	STRENGTH RATING Current	STRENGTH RATING 4-Wk Chg.	Rank 0-99	Insider Buy-Sell	Brokers Following	Price to NTA	Return on Equity	Vola-tility	Price Earn. Ratio	Divi-dend Yield	Price Sales Ratio	Market Cap'n
ABC Learning	54	-43.8	-2.2	98	1-10	4	-	-	0.5	2	31.5	0.15	253
Roc Oil Company	109	-24.1	-9.0	80	2-10	6	-	-	0.7	3	Nil	1.37	326
Fleetwood Corp	900	-2.8	-1.9	21	0-7	5	4.9	29	0.2	17	2.6	1.45	450
Computershare	904	-1.6	-1.3	18	2-9	12	-	-	0.3	17	2.3	3.07	5,023
Ausenco Ltd	1340	-1.3	-4.9	18	0-6	6	-	-	0.3	27	2.3	3.00	1,106
Hunter Hall Int	875	-14.9	-2.7	55	5-11	-	4.7	35	0.3	13	8.8	4.39	223
Atlas SS Pearl	35	-6.2	-4.7	29	0-5	-	-	-	0.5	4	11.6	1.47	31
TNG Limited	6	-39.8	+0.3	97	0-5	-	-	-	1.4	NE	Nil	N/A	18
CGA Mining Ltd	138	-3.5	-7.6	22	0-5	-	-	-	0.5	NE	Nil	N/A	223
Straits Res.	445	-8.7	-9.1	36	0-4	1	-	-	0.6	23	2.2	0.83	801
AED Oil Ltd	182	-19.1	-2.6	68	0-4	2	0.5	6	0.6	8	Nil	1.94	280
Southern Gold	12	-26.7	-4.1	84	0-3	-	-	-	1.1	NE	Nil	N/A	9
Aequs Capital	21	-16.2	+0.1	59	0-3	-	1.3	13	0.7	10	7.3	0.93	7
PMP Limited	126	-14.1	+6.4	53	0-3	7	1.4	12	0.5	12	3.6	0.31	428
Tap Oil	102	-14.6	-9.2	55	0-3	7	0.9	-	0.6	NE	Nil	1.87	159
Lifestyle Com.	10	-15.9	-1.7	58	0-3	-	-	-	1.3	22	Nil	3.43	30
Invocare Ltd	530	-8.0	-3.5	34	0-3	9	14.3	75	0.3	19	4.2	2.33	531
Jupiter Mines	18	-2.8	-20.2	21	0-3	-	-	-	0.9	NE	Nil	N/A	23
CO2 Group Ltd	35	-16.7	-0.1	61	0-3	-	7.0	11	0.8	61	Nil	8.01	97
Vision Group	185	-14.5	+1.1	54	1-4	5	-	-	0.4	7	7.0	1.12	124
Hydromet Corp.	8	-20.2	-1.9	70	1-4	-	1.6	18	1.2	9	2.5	0.68	27
Macmin Silver	6	-32.7	-1.7	92	1-4	-	-	-	1.3	NE	Nil	N/A	27
Data 3 Ltd	654	-1.7	+1.9	18	2-5	3	7.0	63	0.3	11	7.0	0.28	101
Harvey Norman	348	-15.5	+2.7	57	3-6	11	1.9	18	0.4	10	4.0	2.59	3,697
ASX Limited	3350	-11.2	+2.8	44	0-2	12	12.6	80	0.4	16	5.7	9.33	5,733

"Neglect" Ratings of NZ Shares

"Neglected" Shares = 1-2 Brokers, "Moderately Followed" Shares = 3-4 Brokers, "Widely Followed" Shares = 5 or more Brokers.

Company	No. of Brokers Following Company	Market Capital-isation (NZ$ Mill.)	Company	No. of Brokers Following Company	Market Capital-isation (NZ$ Mill.)	Company	No. of Brokers Following Company	Market Capital-isation (NZ$ Mill.)	Company	No. of Brokers Following Company	Market Capital-isation (NZ$ Mill.)
AMP Onyx Mgmt	4	722	Freightways Ltd	4	437	Michael Hill	4	321	Sanford Limited	3	580
Abano Health.	1	124	Goodman Prop.	4	934	NZ Exchange Ltd	2	168	Scott Tech. Ltd	1	32
Air New Zealand	2	1,205	Guinness Peat	3	1,746	NZ Refining Co	2	1,714	Skellerup Hold.	2	132
Akd Int Airport	8	2,469	Hallenstein G.	5	179	Nat Property Tr	2	97	Sky Network TV	6	1,872
Allied Work.	1	17	Hellaby Hold.	2	103	Nuplex Indust	5	512	Sky City Ltd	9	1,777
Briscoe Group	4	197	Horizon Energy	1	87	PGG Wrightsons	4	787	South Port NZ	1	63
Cavalier Corp	4	201	ING Property	3	386	Pike River Coal	4	486	Steel & Tube	6	331
Cavotec MSL	5	261	ING Med. Prop.	4	154	Port Tauranga	4	938	Telecom Corp	11	5,751
Col Motor Co	1	89	Infratil NZ	2	1,185	Property F Ind.	4	238	Tenon Ltd	2	49
Contact Energy	6	4,822	Just Water Int.	1	35	Provenco Cadmus	1	39	Tourism Hold.	4	134
Delegat's Group	3	241	Kiwi Property	4	940	Pumpkin Patch	5	259	Tower Limited	5	398
Ebos Group Ltd	2	233	Lyttelton Port	3	240	Pyne Gould Corp	1	365	TrustPower Ltd	4	2,492
F&P Appliance	6	512	Mainfreight Grp	4	676	Rakon Ltd	2	352	Turners & Grow.	2	192
F&P Health.	6	1,651	Methven Limited	3	110	Restaurant Brds	3	68	Vector Ltd	4	2,250
Fletcher Build.	6	3,800	Metro. LifeCare	1	385	Ryman Health.	3	846	Wakefield Hlth	1	130
									Warehouse Group	9	1,001

"Neglect" Ratings of Australian Shares

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

Company	No. of Brokers Following Company	Market Capital-isation (NZ$ Mill.)	Company	No. of Brokers Following Company	Market Capital-isation (NZ$ Mill.)	Company	No. of Brokers Following Company	Market Capital-isation (NZ$ Mill.)	Company	No. of Brokers Following Company	Market Capital-isation (NZ$ Mill.)
A.P. Eagers	1	295	Anzon Australia	3	343	Beach Petroleum	6	943	Chandler McLeod	1	34
ABB Grain Ltd	7	1,231	Aristocrat Leis	10	2,939	Becton Prop Grp	5	129	Charter Hall GR	5	389
ABC Learning	4	253	Arrow Energy	4	1,646	Bendigo Bank	13	3,005	ChemGenex Pharm	1	174
AED Oil Ltd	2	280	Aspen Group Ltd	3	314	Berkeley Res.	1	61	Clarius Group	6	83
AGL Energy Ltd	10	6,486	Atlas Iron Ltd	2	418	Billabong Int'l	10	2,748	Clinuvel Pharm.	1	86
AJ Lucas	5	364	Ausdrill Ltd	2	430	Blackmores Ltd	3	291	Clive Peeters	3	58
AMP Ltd	11	13,105	Ausenco Ltd	6	1,106	Bluescope Steel	12	6,209	Clough Limited	3	511
ANZ Bank	17	30,320	Australand Prop	4	1,085	Boom Logistics	7	170	Coal & Allied	3	10,305
APA Group	8	1,681	Aust Wealth Mgt	9	833	Bradken Ltd	8	1,153	CocaCola Amatil	11	6,570
APN Property	1	74	Aust Pharm. Ind	9	167	Brambles Ltd	11	10,930	Cochlear Ltd	11	2,997
APN News Media	10	1,565	Austal Limited	3	438	Bravura Sol.	2	114	Codan Ltd	1	130
APN/UKA Euro Pr	3	133	Austar United	9	1,463	Brickworks Ltd	3	1,619	Coffey Int'l	4	315
ARB Corporation	2	256	Aust Education	5	77	Bunnings W/hse	4	567	Collection Hse	1	58
ASG Group Ltd	2	111	Austereo Group	10	605	C'wth Prop Off.	7	2,133	Com'wealth Bank	17	54,822
ASX Limited	12	5,733	Aust W'wide Exp	8	1,367	C.S.R. Ltd	11	2,300	Computershare	12	5,023
AWB Limited	9	1,053	Austbrokers	4	201	CBH Resources	2	75	Connect East Grp	7	1,297
AXA Asia Pac	13	9,327	Aust Agricult.	2	693	CFS Retail Prop	7	5,012	Cons Rutile	1	125
Abacus Property	6	771	Aust Vintage	4	130	CPI Group	2	16	Cooper Energy	1	107
Acrux Ltd	3	175	Austin Eng.	2	127	CSG Ltd	4	183	Copper Co Ltd	1	135
Adcorp Aust.	1	29	Automotive Hold	2	378	CSL Limited	11	21,702	Corp Express	8	913
Adelaide Bright	9	1,868	Avexa Limited	2	116	Cabcharge Ltd	10	844	Count Financial	5	404
Aditya Birla	3	451	Avoca Resources	5	343	Caltex Austrlia	9	2,994	Coventry Group	1	77
Aevum Ltd	3	234	Axiom Property	2	26	Campbell Bros	6	1,885	Crane Group	9	869
Albidon Ltd	3	223	B&B Infrastr.	4	1,057	Cardno Ltd	4	387	Credit Corp	5	34
Ale Property	1	257	B&B Wind Part	4	831	Carindale Prop	1	265	Cromwell Group	2	521
Alesco Corp Ltd	8	641	B&B Power	5	113	Cathrx Ltd	1	34	DKN Financial	1	115
Allco Finance	1	103	B&B Capital Ltd	2	495	Centro Property	2	131	DUET Group	8	1,906
Altium Limited	1	51	B&B Japan Prop.	4	407	Centro Retail	5	549	DWS Adv Bus Sol	6	153
Alumina Ltd	13	4,155	B&B Res Land	1	42	Centrebet Int'l	4	141	Dark Blue Sea	2	25
Amadeus Energy	1	100	BHP Billiton	7	%124,175	Centennial Coal	10	1,746	Data 3 Ltd	3	101
Amcom Telecom.	2	92	BSA Ltd	1	42	Chal Financial	11	1,664	David Jones	11	1,903
Amcor Ltd	11	4,554	Babcock & Brown	6	634	Chal Infra Fund	4	941	Devine	1	261
Ansell Ltd	9	1,620	Bank of Q'land	14	1,687	Chal Div Prop	4	339	Dexion Ltd	3	62

Company	No. of Brokers Following Company	Market Capital-isation (NZ$ Mill.)	Company	No. of Brokers Following Company	Market Capital-isation (NZ$ Mill.)	Company	No. of Brokers Following Company	Market Capital-isation (NZ$ Mill.)	Company	No. of Brokers Following Company	Market Capital-isation (NZ$ Mill.)
DexusProperty	8	4,469	JumbuckEnter.	2	24	OriginEnergy	9	13,784	Slater&Gordon	2	155
Domino'sPizza	7	202	JustGroupLtd	8	695	OrotonGroup	1	150	SnowballGroup	1	91
DominionMining	2	240	K&SCorporation	2	207	OverFiftyGrp	1	55	SonicHealth	13	4,742
DownerEDILtd	8	2,458	KagaraLtd	5	645	PMPLimited	7	428	SparkInfrastru	6	1,654
EmecoHoldings	7	679	KorvestLtd	1	41	PacificBrands	8	1,085	SpecFashion	5	148
EnergyResource	9	3,529	LeightonHold	8	13,065	PanaustLtd	7	975	SpotlessGroup	8	801
EnergyDevelop.	4	444	LendLeaseCorp	8	3,761	PanoramicRes.	5	320	StBarbaraLtd	3	226
Envestra	5	620	LihirGoldLtd	13	3,657	PaperlinXLtd	11	893	StGeorgeBank	12	16,217
EquityTrustees	3	200	LindsayAust	1	24	PattiesFoods	1	167	Stockland	8	8,069
EverestBabcock	1	103	LycopodiumLtd	4	176	PeetLtd	3	549	StraitsRes.	1	801
FKPLimited	6	1,184	LynasCorpLtd	2	472	PenriceSoda	1	80	StructuralSyst	2	113
FairfaxMedia	11	4,162	M.Y.O.B.Ltd	7	439	PerilyaMines	5	79	Suncorp-Metway	13	10,167
FantasticHold.	7	239	MacServices	7	376	PerpetualLtd	10	1,909	SunlandGroup	4	792
FelixResources	8	3,601	MacMahonHold	8	964	PetsecEnergy	2	64	SunshineGas	2	717
FleetwoodCorp	5	450	MacarthurCoal	1	2,414	PharmaxisLtd	4	451	SuperCheapAuto	6	310
FlexicorpLtd	4	110	MacarthurCook	11	21	PhotonGroup	6	231	SwickMinServ	1	204
FlightCentre	6	1,911	MacquarieDDR	8	358	PipeNetworks	4	201	Talent2Int'l	3	196
ForestEntAust	1	217	MacquarieMedia	5	731	PlatinumAsset	5	2,048	TanamiGoldNL	1	22
FortescueMetal	6	17,882	MacquarieOff.	7	2,155	PortmanLimited	1	3,131	TapOil	7	159
Foster'sGroup	12	10,630	MacquarieAir.	6	5,311	PrimeMediaGrp	7	299	TassalGroup	5	330
FuntasticLtd	3	70	MacquarieInfra	6	5,433	PrimaryHealth	14	1,956	TattsGroupLtd	9	3,328
FuturisCorp.	8	1,163	MacquarieGroup	10	11,532	ProMaintenance	9	351	TechnologyOne	3	259
G.R.D.NL	1	144	MacquarieC'Wde	7	1,493	ProMedicusLtd	1	113	Telstra	12	53,132
G.U.D.Holdings	8	382	MacqaurieCapA	1	829	Q.B.E.Insur.	13	19,052	TenNetwork	11	1,466
GBSTHoldings	2	75	MacquariesC&I	3	1,611	QantasAirways	11	6,820	TerraminAust	2	156
GEOProperty	1	117	MacquarieLeis.	8	450	QueenslandGas	3	3,030	ThakralHolding	1	438
GPTGroup	9	3,654	Marybor'ghSuga	1	76	RCRTomlinson	4	141	TheRejectShop	7	298
GWAInternat'l	5	838	MatrixMetals	1	25	RPDataLtd	2	155	Timbercorp	4	261
GalePacific	1	19	MaxiTRANS	4	78	RRAustralia	2	90	TishmanSpeyer	7	406
GalileoJapan	3	134	McMillanShake.	2	180	RamsayHealth	14	1,795	TollHoldings	10	4,628
GeodynamicsLtd	1	358	McPherson'sLtd	4	192	Realestate.com	3	688	TowerAustralia	4	684
GindalbieMet.	2	368	MelbourneIT	5	238	RecksonNYProp	4	59	ToxFreeSol.	2	122
GlobeInt'lLtd	1	21	MermaidMarine	6	293	ReckonLimited	3	155	TrafalgarCorp.	1	81
GloucesterCoal	7	846	MesoblastLtd	1	135	RedflexHolding	5	240	TransurbanGrp	11	6,091
GoodmanFielder	8	1,901	MetalsXLtd	1	279	ReefCasinoTrt	1	125	TransPacificIn	11	1,995
GoodmanGroup	8	5,033	MetcashLtd	12	3,113	RegionalExp.	1	132	TransfieldSIn	4	369
Graincorp	7	506	MidwestCorp	2	1,354	ResoluteMining	2	390	TransfieldServ	7	1,634
GreatSouthern	2	178	MinaraResource	4	561	RetailFoodGrp	2	143	TreasuryGroup	4	188
GunnsLtd	7	968	MincorResource	5	295	ReverseCorp	3	158	TrinityGroup	3	185
HFAHoldings	4	391	MineralRes.	3	872	RidleyCorp.	5	338	TrustCompany	2	247
HarveyNorman	11	3,697	MineralDeposit	2	242	RioTintoLtd	5	50,286	TuttBryantGrp	1	190
HastieGroup	3	450	MirabelaNickel	2	574	RivercityM'way	2	197	UXCLimited	2	200
HastDivUtil	3	441	MirvacREIT	1	361	RiversdaleMin.	1	1,638	Un.Biosensors	1	101
Healthscope	12	1,062	MirvacIndTrt	1	94	RocOilCompany	6	326	UnitedGroup	9	2,336
HeartwareLtd	1	149	MirvacGroup	9	2,908	RossHumanDir.	1	32	VDMGroupLtd	2	177
HendersonGroup	7	5,460	MitchellComm.	3	199	RubiconEurope	2	18	ValadProperty	6	796
HillsIndust.	4	828	MolyMinesLtd	2	120	RubiconAmerica	1	21	VentracorLtd	1	60
HorizonOilLtd	3	264	MonadelphousGr	10	1,328	RuralcoHold.	2	201	VirginBlue	5	594
HousewaresInt.	5	164	MortgageChoice	6	126	SAIGlobalLtd	9	417	ViridisCleanE	4	135
HutchisonTel.	7	87	MtGibsonIron	7	1,672	SDILimited	1	28	VisionGroup	5	124
IBAHealthGrp	4	567	MurchisonMetal	4	692	SMSMgmt&Tech	10	259	W'boolCheese	3	199
IMDGroup	6	331	Nat'lAustBank	17	37,366	SPAusnet	9	2,312	WDSLimited	2	232
INGIndustTrt	5	1,771	NationalHire	2	326	SPTelemedia	1	71	WHKGroupLtd	6	302
INGOfficeFund	7	1,889	NavitasLtd	3	823	STWCommGroup	7	248	WatpacLtd	1	263
INGRealEstate	3	163	NeptuneMarine	2	115	SalmatLtd	6	494	WattylLtd	8	115
IOOFHoldings	8	374	NewHopeCorp.	3	3,444	SantosLtd	10	10,450	WellcomGroup	3	85
IiNet	5	243	NewcrestMining	14	9,868	SchafferCorp	1	99	WesfarmersLtd	12	24,703
IlukaResources	12	1,009	NewsCorp.	5	49,948	SedgmanLtd	3	450	WesternAreas	6	1,476
IncitecPivot	11	6,712	NexusEnergy	2	629	SeekLtd	14	1,691	WestfieldGroup	10	30,614
Independ.Group	6	341	NickScaliLtd	2	62	Selectharvest	3	220	WestAustNews	12	1,890
IndophilRes.	2	287	NufarmLimited	10	2,737	ServiceStream	1	176	WestpacBanking	16	43,211
InnamminckaPet.	1	75	OZMineralsLtd	14	2,098	ServcorpLtd	2	297	WideBayAust.	1	272
InsuranceAust.	13	7,831	OaksHotel	2	161	SevenNetwork	10	1,630	WindimurraVan.	1	214
IntResearch	1	59	OaktonLimited	9	362	SigmaPharm.	11	1,160	WoodsidePetrol	11	37,320
InvocareLtd	9	531	OilSearchLtd	10	5,834	SimsGroupLtd	11	5,726	WoolworthsLtd	12	33,228
IressMktTech	12	713	OnesteelLtd	12	5,327	SinoGoldMin.	6	590	WorleyGroup	10	7,930
JBHi-FiLtd	13	1,395	OrchardIndust.	2	126	SirtexMedical	1	123	Wotif.comHold.	8	774
JamesHardie	9	2,126	OricaLtd	11	8,175	SkilledGroup	4	366			

D i v i d e n d $

Company	Cents per Share	Ex-Date	Pay-able	Tax Credit
Air New Zealand	3.50	09-09	19-09	Full
Allied Workforce	3.00	09-07	23-09	Full
AMP Property	2.045	02-09	09-09	0.139
Auckland Int'l Airport	2.45	17-10	24-10	Full
Cavalier Corporation	11.00	26-09	03-10	Full
Colonial Motor Company	12.00	22-10	03-11	Full
Contact Energy	17.00	09-09	23-09	Full
Delegat's Group	6.00	10-10	24-10	Full
Ebos Group	13.50	12-09	10-10	-
Fletcher Building	24.50	26-09	16-10	Full
Freightways	9.25	12-09	30-09	Full
Goodman Property Trust	2.5625	04-09	18-09	small
Hellaby Holdings	6.00	24-10	31-10	Full
ING Medical Properties	2.21	25-08	01-09	0.24
Lyttelton Port Company	3.60	31-10	12-11	Full
MetLifeCare	8.00	12-09	19-09	Nil
Michael Hill International	2.00	03-10	13-10	Full
Nuplex Industries	23.00	03-10	17-10	Nil
PGG Wrightsons	11.00	05-09	03-10	Full
Port of Tauranga	16.00	19-09	03-10	Full
Pyne Gould Corporation	13.00	-	03-10	Full
Renaissance Corporation	3.00	26-09	08-10	Full
Sky City Group	10.50	12-09	10-10	Full
Sky Network TV	7.00	05-09	12-09	Full
TeamTalk	10.00	10-10	17-10	Full
Telecom NZ	8.00	29-08	12-09	Full
Tourism Holdings	6.00	17-10	24-10	Full
Steel & Tube Holdings	10.00	19-09	30-09	Full
South Port NZ	6.75	26-09	03-11	Full
Taylors Group	6.00	19-09	03-10	Full
Vector	6.75	11-09	18-09	Full

Australian Shares

AJ Lucas Group	4.50	29-08	29-09
Clarius Group	7.00	10-09	30-09
CPT Global	1.75	28-10	14-11
Devine	4.00	18-09	17-10
Fiducian Portfolio Serv	6.50	21-08	17-09
Housewares International	2.00	15-09	09-10
Integrated Research	1.50	25-08	12-09
M2 Telecommunications	3.00	09-10	31-10
Melbourne IT	7.00	15-09	17-10
M.Y.O.B. repayment	12.50	12-11	19-11
M.Y.O.B. special	0.40	12-11	19-11
Probiotec	1.50	28-08	20-11
Ross Human Directions	1.50	15-09	10-10
Skilled Group	14.00	16-09	14-10
TFS Corporation	3.00	10-11	28-11
The Reject Shop	19.00	23-09	13-10

Total Return Index for All Listed Shares

Aug 11	1810.53	Aug 18	1768.72
Aug 12	1792.78	Aug 19	1768.35
Aug 13	1793.91	Aug 20	1768.23
Aug 14	1789.33	Aug 21	1767.33
Aug 15	1788.67	Aug 22	1748.04
Aug 25	1737.99	Sep 1	1742.59
Aug 26	1729.90	Sep 2	1746.92
Aug 27	1785.40	Sep 3	1751.77
Aug 28	1738.03	Sep 4	1727.25
Aug 29	1730.19	Sep 5	1727.25

Next Issue:

The next issue of *Market Analysis* will be emailed in five weeks time on Monday October 13, 2008.
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.