Information and Advice on the NZ Sharemarket from Securities Research Company's . . .

Market Analysis

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Inside Market Analysis

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Summary and Recommended Investment Strategy.

Our forecasts for the New Zealand and Australian stockmarkets have declined slightly, but we still recommend being fully invested in shares. Under-valued shares of smaller companies with niche markets and growth potential can yield substantial investment returns even when the overall stockmarket is rising only slowly in value.

The US Federal Reserve's moderate interest rate increases (back towards pre-October 1998 crisis level) is favourable for the global economy and provides a favourable environment for stockmarkets.

Investment Outlook.

Our **Primary Trend Model** forecast of the trend in the NZ stockmarket over the next 12 months has slipped slightly to **69%** - although that is still a **Bullish** (i.e. favourable) forecast.

The Economy is showing further signs of recovery, with Gross Domestic Product up 1.5% over the last year, although depressed Industrial Production (down 4.1%) and booming Retail Sales (up 4.1%) give conflicting indications of economic activity! Moderate economic growth *together* with favourable monetary conditions can have a very significant impact on share valuations (e.g. the Korean stockmarket's 299% rise in value over the last year). Unfortunately, monetary conditions are *starting* to tighten, although currently still rated as favourable. Real Money Supply is *contracting* at 0.3% per annum, while both short term interest rates and long term interest rates have started to rise slightly. In conflict to the monetary tightening, the NZ dollar has fallen in value - particularly against the Australian dollar which is an important market for most NZ exporters. A 7% drop in the exchange rate won't have the same impact as the 30-50% devaluation in Asian currencies in 1997 but at least the exchange rate is moving in the right *direction* to boost economic activity and help constrain a growing Current Account deficit.

Our **Short Term Trend Model** of the NZ stockmarket is **Bullish** at **88%**.

"International Investor" predicts a **Neutral** to **slightly Bullish 60%** chance that the Australian stockmarket will rise over the next year. Economic and monetary conditions in Australia are very similar to NZ (although the economy has been growing strongly) except for a strong appreciation in the Australian dollar over the last year. While a weak NZ dollar will help our economy, strength in the Australian dollar will probably slow down that economy.

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.

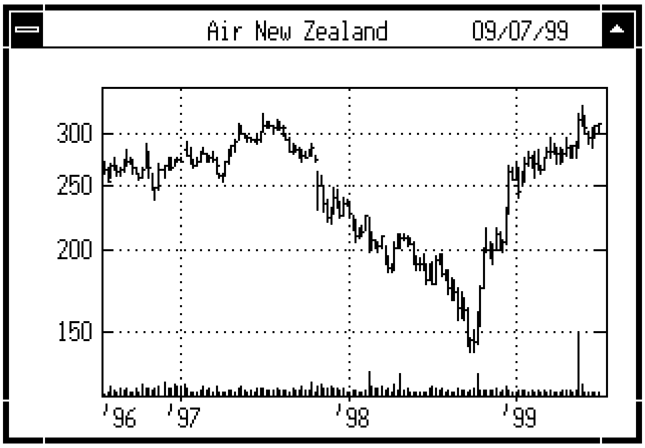
	Performance Forecast	Price	Price/Sales Ratio	P/E Ratio	Gross Yield
A. Barnett Ltd	B	120	0.58	NE	3.7
AMP Limited	B	2120	0.76	19	1.0
AMP NZ Office	D	100	6.49	44	6.7
Advantage HDS	B	290	1.85	NE	Nil
Affco Holdings	E	23	0.05	NE	Nil
Air New Zealand	C	310	0.57	12	6.4
Akd Int Airport	C	298	8.10	30	2.5
Apple Fields	D	11	1.53	NE	Nil
Aquaria 21	E	15	N/A	NE	Nil
Baycorp Hold	A	535	9.49	37	3.8
Brierley Invest	D	53	0.55	NE	8.5
Broadway Ind	E	31	0.07	NE	Nil
CDL Hotel NZ	C	37	0.62	19	3.0
CDL Investments	E	25	1.75	11	11.9
Cap Properties	D	54	6.82	6	20.4
Carter Holt	A	269	1.62	90	3.0
Cavalier Corp	B	352	0.65	13	10.6
Cedenco Foods	B	80	1.89	9	Nil
Ceramco Corp	A	142	0.66	19	5.3
Col FS Property	C	95	N/A	14	7.2
Col Motor Co	B	240	0.24	10	8.4
Colonial Ltd	C	680	0.85	17	0.9
Contact Energy	B	308	N/A	29	4.2
Corp Invest Ltd	D	82	0.91	17	5.5
Cue Energy Ltd *	N/R	7.0	2.27	NE	Nil
DB Group	D	233	0.35	10	10.2
Dairy Brands	D	28	1.28	NE	Nil
Damba Hold Ltd	C	45	0.53	NE	Nil
Design Textiles	B	32	0.26	8	14.0
Donaghys Ind	D	126	0.35	NE	8.3
Dorchester Pac	A	84	0.64	8	8.0
East'n Equities	C	60	0.20	NE	7.5
Ebos Dental & S	A	235	0.68	15	17.1
Eldercare NZ	E	60	0.45	NE	Nil
Ernest Adams	D	185	0.46	NE	Nil
Evergreen	E	46	N/A	NE	Nil
FC - Paper	C	155	0.40	NE	2.9
FC - Forests	D	114	2.04	NE	Nil
FC - Energy	A	580	2.11	19	4.1
FC - Building	C	308	0.38	9	6.8
Fernz Corp Ltd	C	512	0.54	15	5.2
Fisher & Paykel	D	600	0.91	20	4.5
Force Corp.	C	60	2.80	13	10.0
Fruitfed Supp	A	110	0.23	13	9.5
Goodman Fielder	B	189	0.65	15	4.7
Grocorp Pacific	D	16	0.83	NE	Nil
Guiness Peat	C	160	1.56	12	1.2
Habitat Group	D	8.0	N/A	NE	Nil
Hallenstein G.	C	240	0.91	15	10.0
Hellaby Hold.	C	195	0.71	7	10.7
Heritage Mining*	N/R	5.0	N/A	NE	Nil
Horizon Energy	C	670	2.16	24	5.1
IT Capital Ltd	C	16	N/A	NE	Nil
Ind Newspapers	B	745	0.95	19	4.6
Infratil NZ	B	142	8.49	10	6.0
Infratil Aust.	D	98	N/A	62	2.2
Infratil Int'l	D	37	N/A	31	Nil
JF China Region*	N/R	90	N/A	NE	1.4
Kingsgate Int'l	D	20	0.88	14	Nil
Kiwi Property	C	102	7.01	11	10.1
Kiwi Developmnt	E	145	N/A	NE	Nil
LWR Industries	C	102	0.31	9	16.1
Lion Nathan Ltd	D	464	1.41	19	4.0
Lyttelton Port	D	165	3.16	13	5.7
Mainfreight Grp	B	160	0.40	17	5.1
Manor Inns Grp	C	14	0.29	NE	Nil
Max Resources*	N/R	13	N/A	NE	Nil
Metro. LifeCare	B	188	1.83	17	4.8
Michael Hill	B	308	0.84	17	4.6
Mid-Cap Index*	N/R	193	N/A	NE	Nil
Mr Chips Hold	C	64	0.58	19	9.3
NZ Experience	D	11	0.83	NE	Nil
NZ Invest Trust*	N/R	460	N/A	NE	1.8
NZ Oil and Gas *	N/R	33	1.43	9	7.6
NZ Refining Co	B	1465	1.44	15	6.8
NZ Salmon Co	C	36	N/A	NE	Nil
Nat Property Tr	C	99	6.23	12	10.1
National Mutual	C	300	3.34	15	3.6
Natural Gas	C	197	2.26	15	8.3
Newmarket Prop.	E	57	3.93	NE	16.7
Nobilo Wines	C	78	N/A	14	5.7
Northland Port	C	110	0.93	14	8.8
Nuhaka Forestry	D	1125	N/A	NE	Nil
Nuplex Indust	B	308	0.96	24	5.1
Opio Forestry	D	55	N/A	NE	Nil
Otter Gold Mine*	N/R	80	0.51	4	Nil
Owens Investmts	C	133	0.19	19	11.2
Ozzy (Tortis)*	N/R	226	N/A	NE	Nil
PDL Holdings	C	485	0.21	38	6.2
Pacific Retail	B	205	N/A	16	2.2
Paynter Hold	E	14	0.20	NE	Nil
Port Tauranga	B	570	9.43	37	3.4
Ports Auckland	C	505	4.00	17	5.3
Progressive Ent	A	295	0.30	35	2.5
Property F Ind.	D	75	5.87	14	8.6
Pure NZ Limited	D	16	N/A	NE	Nil
Radio Pacific	A	720	1.98	16	3.1
Radio Otago Ltd	A	535	1.76	20	3.9
Reid Farmers	D	55	0.42	9	10.9
Renaissance	A	44	0.09	12	Nil
Restaurant Brds	B	153	0.62	16	5.9
Revesco Ltd*	N/R	24	N/A	NE	Nil
Richina Pacific	E	64	0.09	NE	Nil
Roller Int'l *	N/R	120	0.62	NE	Nil
Ryman Health.	E	143	N/A	NE	Nil
SE Utilities	C	88	1.49	9	13.6
Sanford Limited	B	448	1.33	20	4.0
Savoy Equities	C	7.4	2.34	NE	Nil
Scott Tech. Ltd	B	265	2.15	19	5.6
Seafresh Fish.	D	10	0.32	NE	Nil
Shortland Prop.	D	61	5.89	11	10.3
Shotover Jet	D	75	0.94	48	Nil
Sky City Ltd	B	755	3.09	23	5.7
Sky Network TV	E	337	5.87	NE	Nil
Southern Cap	C	92	6.77	14	Nil
South Port NZ	C	85	0.84	10	9.2
Spectrum Res.*	N/R	2.5	N/A	NE	Nil
St. Lukes Group	C	180	3.06	8	9.2
Steel & Tube	C	165	0.37	12	12.7
Strathmore Grp	C	43	9.21	NE	Nil
Summit Gold Ltd*	N/R	10	N/A	60	Nil
Tag Pacific Ltd	D	13	0.29	10	5.4
Tasman Agric.	B	80	2.64	9	4.2
Taylors Grp Ltd	B	120	1.53	30	5.0
TeNZ *	N/R	104	N/A	NE	Nil
Telecom Corp	C	810	4.13	17	8.5
Tourism Hold.	B	265	1.17	33	Nil
Trans Alta NZ	C	218	1.07	16	6.6
Trans-Tasman	E	33	1.11	NE	Nil
Tranz Rail Hold	C	343	0.72	9	7.4
Trust Power Ltd	B	420	3.34	37	5.7
United Networks	C	650	2.20	24	6.9
Warehouse Group	C	749	1.42	27	2.8
Waste Mgmt NZ	B	940	4.79	35	1.7
Williams Kettle	B	200	0.30	27	9.0
World Index Fd *	N/R	176	N/A	NE	Nil
Wrightsons Ltd	C	35	0.08	7	14.1
Ave of 137 Coys	C	226	0.53	22	4.5

A.G.L.	C	940	2.27	14	4.4
AAPT	D	477	2.44	NE	Nil
AMP Ltd	D	1675	0.70	17	1.1
AMP Office Trt	E	123	N/A	NE	Nil
AMP Shop Centre	E	123	N/A	NE	Nil
ANZ Bank	B	1134	1.46	15	4.6
APN News Media	A	287	2.07	20	3.7
Advance Prop	C	141	7.04	12	8.2
Amcor Ltd	B	856	0.91	22	4.4
Amway Asia Pac	D	1800	N/A	NE	Nil
Aristocrat	A	1130	2.88	42	1.2
Aust Stock Exch	C	1050	N/A	NE	Nil
Austrim Ltd	C	303	8.59	66	3.8
BRL Hardy Ltd	B	642	1.82	23	2.0
BTR "A"	D	508	N/A	NE	Nil
Bank of W.Aust	B	340	4.85	14	4.9
Biota Holdings	C	715	N/A	NE	Nil
Boral Ltd	B	264	0.61	35	2.8
Brambles Ind.	B	3930	2.16	36	1.9
C & W Optus	C	347	5.23	NE	Nil
C'wth Prop Off.	E	95	N/A	NE	Nil
C.S.R. Ltd	A	455	0.69	13	5.1
CSL Limited	B	1340	4.80	39	1.3
Cadbury Sch.	D	999	N/A	NE	3.4
Centro Prop.	C	263	4.82	12	8.1
Challenger Int.	B	797	N/A	NE	Nil
Coal & Allied	A	1510	1.63	11	6.6
Coca-Cola Bev.	E	306	N/A	NE	Nil
CocaCola Amatil	C	660	1.78	36	2.9
Cochlear Ltd	A	1209	6.51	45	1.3
Coles Myer	C	885	0.48	26	2.7
Colonial Ltd	C	534	1.00	20	2.8
Com'wealth Bank	B	2428	2.95	21	4.3
Com. Inv. Trust	E	94	N/A	NE	Nil
Computer Share	A	1900	N/A	NE	0.2
Crown Ltd	B	90	0.70	14	Nil
David Jones	C	149	0.40	19	4.7
E.R.G.	A	280	2.46	39	0.4
Ecorp Limited	D	260	2.24	NE	Nil
Email Ltd	B	295	0.35	17	4.7
Fairfax (John)	B	487	3.33	NE	2.0
Faulding (F.H.)	B	925	0.72	20	2.2
Flight Centre	B	734	0.38	33	1.5
Foodland Assoc	C	940	0.23	18	4.9
Foster's Brewin	B	425	3.18	33	2.6
Futuris Corp.	B	240	0.40	10	3.1
GIO Australia	E	365	0.81	NE	6.0
GWA Internat'l	B	280	1.45	19	3.9
Gandel Retail T	C	113	N/A	15	7.2
General Prop Tr	C	258	9.52	14	7.4
Ges Internat'l	A	163	1.08	67	0.6
Goodman Fielder	C	137	0.56	12	5.5
Guinness Peat	C	120	2.38	10	0.5
HIH Insurance	C	202	0.28	11	7.9
Hardie (James)	C	410	1.17	NE	3.7
Harvey Norman	C	1388	N/A	77	0.4
Hills Motorway	D	440	9.67	NE	Nil
Hoyts Cinemas	C	202	1.19	15	2.0
Incitec	B	570	0.70	19	3.7
Infrastructure	C	149	6.65	8	6.7
Jupiters	A	347	1.42	22	3.7
Lang Corporatio	D	502	1.76	NE	Nil
Leighton Hold	C	571	0.49	15	4.6
Lend Lease Corp	B	2014	1.47	14	5.3
Macquarie Bank	A	2028	3.93	20	3.4
Mayne Nickless	C	549	0.60	17	5.5
Mirvac Property	C	178	9.75	15	6.4
Mirvac Ltd	B	250	0.97	13	4.0
Mobile Com.	C	1300	N/A	NE	Nil
Nat'l Foods	C	269	0.70	17	3.9
Nat'l Mut. Prop	C	118	N/A	16	6.4
Nat'l Mutual	D	225	2.98	19	3.9
Nat'l Aust Bank	B	2508	1.44	18	4.1
News Corporatio	B	1351	5.18	NE	0.2
One Tel Ltd	B	102	5.78	NE	2.0
Orica Ltd	C	826	0.66	19	6.1
Orogen Minerals	C	185	3.35	14	3.5
PBL	B	985	4.34	11	4.9
PMP Communicat.	A	315	0.70	14	6.5
Pacific Dunlop	C	223	0.33	13	6.3
Pacific Group	B	637	1.42	41	2.5
Perp Trust Aust	A	2425	6.21	33	2.1
Pioneer Int'l	B	405	0.96	20	4.7
Prime Indust.	C	70	8.40	9	8.9
Property Income	C	115	7.73	12	9.0
Q.B.E. Insur.	C	590	0.82	23	4.4
Q.C.T. Resource	C	98	0.67	14	7.1
Qantas	B	503	0.72	19	2.7
Rio Tinto Ltd	B	2580	1.69	14	2.2
Rothmans Hold	B	1420	0.57	15	6.0
Rural Press Ltd	A	510	1.24	13	2.4
Schroder Prop.	C	239	8.32	14	7.6
Seven Network	C	439	1.73	70	4.7
Simsmetal Ltd	A	700	0.39	13	5.1
Smith (Howard)	B	1180	0.88	34	3.4
Smorgon Steel	D	228	N/A	NE	Nil
Sonic Health	A	424	3.56	46	2.1
Southcorp Ltd	B	599	1.35	23	3.0
Spotless Group	B	408	0.56	23	3.3
St George Bank	B	1048	1.44	28	5.0
Star City Hold.	C	148	1.01	34	Nil
Stockland Trust	D	346	5.99	14	7.1
Suncorp-Metway	B	888	0.69	16	5.0
TAB Ltd	C	310	2.42	32	Nil
Tabcorp Holding	B	1039	3.31	26	3.7
Telstra	B	875	5.03	29	1.6
Ten Network	C	217	0.83	74	13.8
Transurban Grp	D	170000	N/A	NE	Nil
Tyndall Aust.	A	276	5.63	21	2.2
United Energy	C	240	1.47	66	7.2
Village Road.	C	275	1.01	14	3.6
Wesfarmers Ltd	C	1365	1.21	19	4.8
West Aust News	A	557	3.53	16	6.5
Westfield Amer.	D	149	3.61	15	6.2
Westfield Trust	C	313	9.74	18	6.6
Westfield Hold.	C	929	7.26	45	1.1
Weston (George)	C	681	0.54	19	2.8
Westpac Banking	C	990	1.72	15	4.3
Westpac Prop Tr	C	160	6.50	9	8.0
Wills (WD & HO)	A	602	0.44	18	5.0
Woolworths Ltd	C	512	0.18	21	3.3
Ave of 1238 Coys	C	308	0.37	22	2.4

Recommended Investments

Air New Zealand's talks to acquire full ownership of **Ansett Australia** and/or to bring **Singapore Airlines** in as a shareholder in Air New Zealand appear to have stalled before takeoff. Air New Zealand has also indicated that its profit for the year just ended (on June 30) will be "around the upper end" of the $172-208 million being forecast by brokers and that the final dividend will be at least 6.0 cents as previously indicated.

Reports in March this year that **Apple Fields** had *sold* its **Styx Mill** land for $21 million were a little misleading! The transfer was not made under the original contracts, but the mortgagee took possession of the land (in full settlement of $21 million in debts owed by Apple Fields) and then on-sold it to the purchasers who had been negotiating with Apple Fields. This "transaction" therefore *did* reduce debt levels by $21 million as the company previously reported



(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+	Air New Zealand "A"	AIRVA	08/10/96	257*	C	566.8	0.9	0.57	12	6.4	310	54.0	+42%
HOLD	Apple Fields Limited	APF	10/03/92	237	D	29.2	2.5	1.53	NE	Nil	11	10.0	-91%
BUY	CDL Investments Ltd	CDI	12/01/99	25	E	169.5	2.0	1.75	11	11.9	25	2.0	+8%
BUY	Cavalier Corporation	CAV	05/12/95	312	B	36.0	0.9	0.65	13	10.6	352	79.0	+38%
BUY	Colonial Motor Company	CMO	10/11/92	150	B	30.9	0.8	0.24	10	8.4	240	179.8	+180%
HOLD+	Designer Textiles Ltd	DTL	12/01/99	47	B	29.7	2.0	0.26	8	14.0	32	1.0	-30%
BUY	Fernz Corporation Ltd	FER	11/02/97	505	C	145.7	0.9	0.54	15	5.2	512	42.0	+10%
HOLD+	Fruitfed Supplies Ltd	FSL	09/02/93	210	A	12.1	1.1	0.23	13	9.5	110	72.0	-13%
HOLD	Michael Hill Int'l Ltd	MHI	11/06/91	46*	B	38.6	0.8	0.84	17	4.6	308	45.5	+668%
HOLD+	Nuplex Industries Ltd	NPX	11/02/97	350	B	54.6	1.0	0.96	24	5.1	308	16.0	-7%
HOLD+	Owens Group Limited	OWN	12/03/91	47*	C	56.3	1.1	0.19	19	11.2	133	71.3	+335%
HOLD+	PDL Holdings Ltd	PDL	13/02/96	810	C	13.6	0.9	0.21	38	6.2	485	113.0	-26%
HOLD	Radio Otago Limited	ROT	12/03/91	111*	A	4.4	0.4	1.76	20	3.9	535	74.0	+449%
HOLD	Radio Pacific Limited	RPA	08/12/92	205	A	8.7	0.6	1.98	16	3.1	720	105.0	+302%
HOLD	Renaissance Corp	RNS	13/08/96	96	A	23.5	1.9	0.09	12	Nil	44	5.0	-49%
HOLD	Richina Pacific	RCH	03/11/95	119*	E	72.2	1.5	0.09	NE	Nil	64	11.9	-36%
HOLD	South Port New Zealand	SPN	13/02/96	120	C	32.4	1.1	0.84	10	9.2	85	29.8	-4%
HOLD+	Tourism Holdings Ltd	THL	14/07/92	179*	B	56.6	0.9	1.17	33	Nil	265	51.7	+77%
HOLD	Wrightson Limited	WRI	13/01/98	83	C	139.7	1.8	0.08	7	14.1	35	6.3	-50%
	Australian Shares (in Aust cents)												
BUY	Abigroup Limited	ABG	09/03/99	265	B	47.2	0.5	0.20	7	5.1	237	6.0	-8%
HOLD+	Atlas Pacific Ltd (1)	ATP	14/05/96	73	D	49.4	1.7	9.62	NE	Nil	20	Nil	-73%
HOLD+	Biron Corporation Ltd	BIC	12/04/94	178	B	21.6	1.8	0.85	11	10.5	19	9.0	-84%
BUY	Central Equity Ltd	CEQ	09/02/94	154	B	81.7	0.5	0.77	8	6.8	190	55.0	+59%
BUY	Data#3 Limited	DTL	09/02/99	285	A	13.4	1.0	0.38	13	4.4	260	5.5	-7%
BUY	E.R.G. Limited	ERG	10/10/95	152*	A	201.1	0.4	2.46	39	0.4	280	6.0	+88%
HOLD+	Flight Centre	FLT	11/08/98	308	B	80.9	0.3	0.38	33	1.5	734	13.0	+143%
HOLD	Hancock & Gore	HNG	15/07/97	125*	C	46.5	0.6	0.58	10	5.7	135	7.8	+14%
BUY	PMP Communications	PMP	09/02/99	309	A	253.0	0.4	0.70	14	6.5	315	10.4	+5%
BUY	Thakral Holdings	THG	10/11/98	65	C	489.6	0.9	1.53	11	8.3	63	2.6	+1%
BUY	Toll Holdings	TOL	08/09/98	240	B	47.5	0.3	0.30	19	2.4	577	18.0	+148%
BUY	Vision Systems	VSS	10/11/98	685*	B	12.4	0.3	0.74	7	3.7	700	13.9	+4%

The average Total Return (i.e. both Capital Gains/Losses plus Dividends received) of all current investments from initial recommendation is +67.4%. This is equal to an average annual rate of +26.1%, based upon the length of time each position has been held.

The average annual rate of gain of ALL recommendations (both the 31 current and 99 closed out) is +34.8%, compared with a market gain of +15.5% (by the SRC Total Return Index).

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

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

(1) Atlas Pacific notes (ATPG) last traded at 22 cents

Recommended Investments *(Continued from Page 3)*

Two directors of **Colonial Motor Company**, PC Gibbons and RC Gibbons, have recently purchased a total of 532,000 shares (at a cost of $1.2 million) and increased their holdings to 10.65% and 5.13%, respectively, in the company.

Peter Lynch ("One Up on Wall Street", Page 121) had never heard of **Designer Textiles** when he wrote *If its a choice between owning a fine company with excellent management in a complex industry, or a humdrum company with mediocre management in a simple-minded industry, I'd take the latter. When someone says "Any idiot could run this joint" that's a plus as far as I'm concerned, because sooner or later any idiot probably is going to be running it.* So what is the relevance of those comments to Designer Textiles?

Designer Textiles has produced a 10-page report seeking shareholder approval for its planned acquisition of **Moller Textiles** which we had *expected* would contain further financial information on Moller Textiles. In fact, the directors' 10-page report can be summarised in just two words: "Trust us". Shareholders are given no information (other than Moller's employs 120 people and was started in 1972) on which to judge this acquisition!

Designer Textiles is also changing the terms of its convertible note issue (again subject to shareholder approval). Every four notes were to convert to three shares, but noteholders will have the option of extending the term of the notes. The new notes pay interest of 5.696 cents (equal to 4.272 cents per ordinary share) and convert to either ordinary shares (in the ratio of 3 shares for 4 notes) or 64 cents cash (equal to 48 cents per ordinary share). Noteholders who *extend* their investment in the notes will therefore receive a 13.3% return (based on the value of the ordinary shares they were due to receive) *and* a capital gain of at least 50%. The company plans to pay ordinary shareholders a 3.0 cents dividend for the current June 1999 year and 5.0 cents in June 2000. That would offer ordinary shareholders a gross Dividend Yield of 14.0% this year, 22.3% next year and should see the share price re-rated and a substantial capital gain.

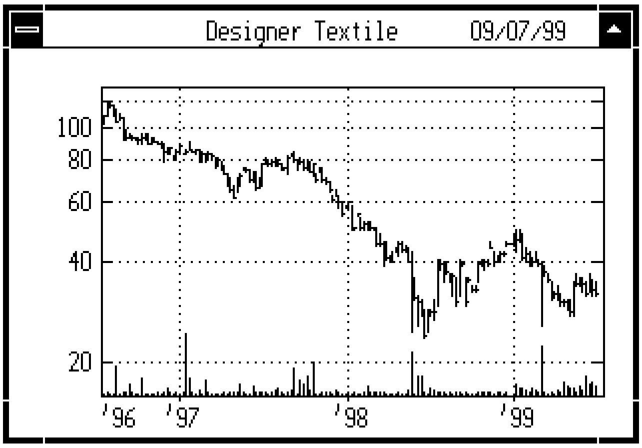
The important difference, however, is that one class of investor (noteholders who sold businesses to the company in 1996, i.e. "insiders") are being offered a guaranteed high yield and guaranteed minimum capital gain, while potential returns to the ordinary shareholders (i.e. the public investors) are subject to normal commercial risks (i.e. that the company achieves its profit recovery forecasts and that the share price recovers). If Designer Textiles performs poorly then the noteholders (who extended their investment) will still receive their high income and 50% capital gain - while ordinary shareholders would see their dividends cut and the share price decline further in value.

49.8% of the noteholders have elected to extend their investment, while the other 50.2% will take ordinary shares now. The directors believe that this is evidence that the extension is "fair" - but it probably just shows that 49.8% of investors are "idiots" and can't recognise a risk-free high yield and risk-free capital gain when it is staring them in the face!

The directors of Designer Textiles believe that the company's shares are worth 45-60 cents and suggest the following reasons for the market price being below this range: "Overhang from the convertible note issue, insufficient broker coverage, a lack of liquidity in the shares, perceptions of the company and its industry, and the company's recent profit history". We would suggest that the poor rating of Designer Textiles shares has more to do with *inadequate disclosure* and the *unequal treatment of shareholders* which has the potential to disadvantage the ordinary public investors.

Just as Lynch was prepared to invest in a company run by "any idiot", investors should not avoid Designer Textiles owing to its current poor management in the area of disclosure and corporate governance. In fact, quite the contrary - investors should seek out such companies that have failed to communicate adequately with the financial markets, that are *neglected* by brokers and institutions, and whose shares are *out of favour* with investors and therefore under-valued. Who knows, sooner or later the board of directors may eventually implement their plan to "increase communication with the market"! Perhaps they will even start treating all shareholders equally.

At present the the company's "communication with the market" appears to be limited to publishing overly optimistic profit results - and then regularly downgrading them. The profit forecast for the year just ended (on June 30) has recently been lowered from $1,750,000 to $1,550,000 - and blamed on customers deferring purchases until after the June 30 balance date.



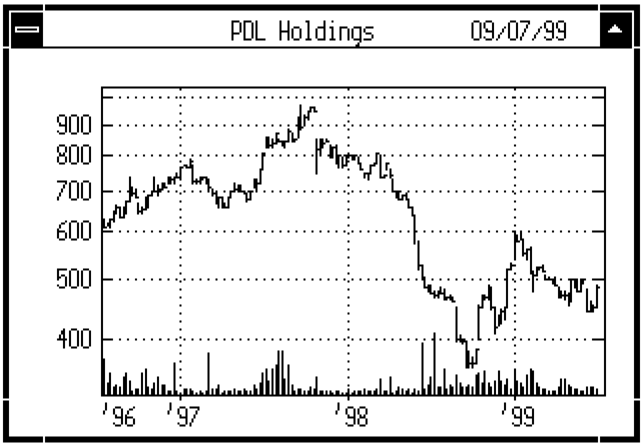
We believe that Designer Textiles shares are under-valued and hold strong recovery potential over the next 2-5 years, but are likely to remain depressed in the short term (owing to the profit downgrade and former convertible note holders selling the new ordinary shares) so continue to rate them a "Hold+".

Nuplex Industries is to purchase the **Dulux Resins** business from **Orica Australia** (formerly ICI Australia) for A$13.7 million plus stock at valuation. Dulux Resins manufactures polyester Resins and gel coats to the fibre reinforced plastics industry for use in boats, swimming pools, sanitary ware, building components and agricultural equipment.

PDL Holdings has reported a 49.6% drop in trading profits to $4,908,000 (36.1 cents per share) from revenue down 2.7% to $319.9 million. No final dividend will be paid, so the annual dividend will remain at the 20.0 cents (plus full imputation tax credits) paid at the half year (i.e. down 50% on last year). In addition, there were restructuring costs of $6,092,000 (after tax), resulting in an overall loss of $1,184,000.

Even with the lower trading profit and dividend payout, PDL Holdings shares traded at a moderate Price/Earnings ratio of 13.4 and a high gross Dividend Yield of 6.2%. The Price/Sales ratio is very low at 0.21.

Despite the lack of profitability from foreign operations over the last year, PDL Holdings generates 33.6% of its revenue from exports (11.0%) or foreign subsidiaries (22.6%) so the recent weakening of the NZ dollar (particularly against the Australian dollar) will make the company's products more price competitive - and boost profit margins - in the current period!



Radio Otago's and **Radio Pacific**'s merger documents predict that profits of the combined company will rise 24% next year, 18% in 2000 and 9% in 2001.

When the companies announced the terms of the merger in May, we predicted that these shares would be "re-rated upwards and outperform the NZ stockmarket over the next several months". The shares are up 33-34% since we published that prediction.

We also suggested that "the merger could generate institutional interest and share buying" as there would be a more active market for the shares in a larger radio company. Over the last two months at least one institutional investor has purchased 360,000 Radio Otago shares. Institutional investors manage such large quantities of (other people's) money, that their buying can significantly inflate the price of a company's shares.

Valuations on Radio Otago and Radio Pacific still look reasonable and further institutional buying could see their share price rise considerably - so let profits "run" (i.e. hold your shares). At some stage this year, however, we shall probably realise at least some of our considerable profits on these long term shareholdings, as combining these two companies into one will make it our largest single investment!

South Port has sold its remaining shares in **Clifton Wool Scour**, and South Port's shares in **Allied Farmers** have been re-purchased by that company. These two transactions involve deferred payment, but will realise $12.5 million in cash (38.6 cents per share) and are the last of the company's rural investments. South Port will now "focus on opportunities available in its core business" (i.e. port and warehousing) - although shareholders may receive a further special dividend or a capital repayment.

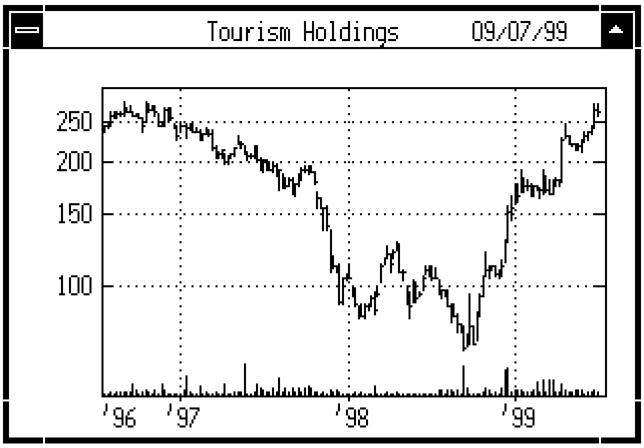
$4.2 million of the cash will be used to purchase the tug **Awanui** (which is likely to renamed) from **Northland Port**, with delivery in January 2000. This tug, with a maximum bollard pull capacity of 35 tonnes, will be fitted out as a full salvage vessel and will replace the 14 tonnes bollard pull **Hauroko** which the company will seek to sell over the next six months. South Port also operates the 30 tonnes bollard pull vessel **Monowai**.

Tourism Holdings and **Trojan Holdings** are to end their joint venture. Tourism Holdings will retain the **Red Boats** on Milford Sound, an additional vessel *The Lady of the South Pacific*, the Milford Sound ground operations and receive $20 million in cash, while Trojan will acquire Mt Cook Hotels and Milford Track & Alpine Guides Ltd.

Several other smaller South Island interests will also be sold off.

Tourism Holdings is to expand its **Maui Rental** campervan and car hire business. $19 million will be invested buying 360 new campervans and disposing of 260 older vehicles, to expand its NZ and Australian fleet to 1400 at the peak of the season. Tourism Holdings owns **CI Munro** which builds the campervans, and is to open a retail yard in Otahuhu (Auckland) that will "provide more flexible fleet management" and "improve profitability of the campervan division". Maui's campervan and car rental depot at Queenstown Airport, which previously operated only in the winter, will now operate all year. To increase its exposure and market share in the international tourist market, the company has acquired the German based **Sixt Rent a Car** franchise for NZ. Lease agreements with two car manufacturers will increase the group's core rental fleet to around 740 cars, expanding to 950 cars at the peak of the season.

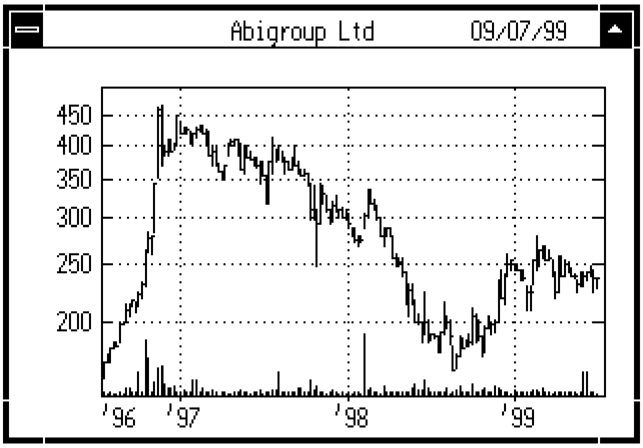
Tourism Holdings recent restructuring and asset sales have resulted in debt levels dropping from $85 million to $50 million.



Australian Shares

Abigroup holds substantial cash reserves - A$67.1 million (A$1.43 per share) at December 1998 - as well as **Hills Motorway** shares worth A$66 million (A$1.40 per Abigroup share), making this an *asset rich* company. In addition, Abigroup operates *(Continued on Page 6)*

Recommended Investments *(Continued from Page 5)*
a profitable construction business. Current proposals to extend the Hills M2 Motorway would generate A$500 million of work for the Abigroup consortium that built the original motorway. We continue to rate these shares a "Buy".

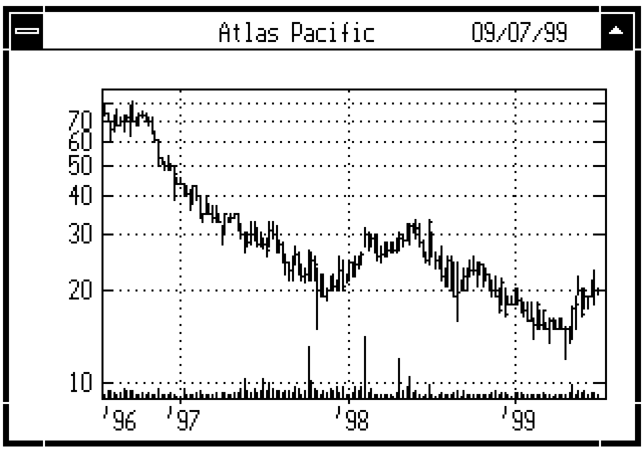


Atlas Pacific reports a "very successful first spawning" at its new Waigeo hatchery, but "disappointing" results from Kupang (i.e. all of the oysters died). Other pearl farms at Kupang suffered the same experience, so it is likely that environmental factors are responsible.

27,000 oysters were nucleated at Waigeo during March and April, half by experienced technicians from **Arrow Group** and half by Atlas Pacific's six trainees, with a mortality rate of only 2.5%.

As reported in May, the company had harvested 6,000 saleable pearls and intended harvesting a further 17,000 oysters (expected to yield a further 12-13,000 saleable pearls). 37% of the initial harvest consists of "gold" pearls which command premium prices. A by-product of the harvest - the accumulating oyster shell - is being sold as mother of pearl.

Atlas Pacific is to move its Perth head office into premises that it will share with **Biron Corporation** after its existing lease expired and the rental increased considerably. Biron's premises have high level security (for storing its created emeralds and Atlas Pacific's pearls), as well as high quality laboratory facilities.



Data #3 has won a major contract taking over all of the Information Technology systems operated by the **Bank of Queensland**. This out-sourcing contract was won against competition from **IBM**, **Digital** and **CITIC**.

Nortel Networks has awarded Data #3 its highest level of certification naming the company as an *Enterprise Solutions Partner*. This will expand the range of networking services that Data #3 can offer to its customers.

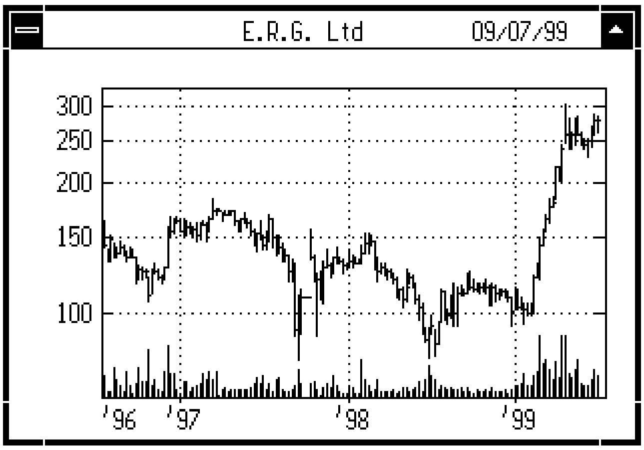
ERG continues to make strong progress - winning further international contracts and with **Westpac** adopting ERG's smart card technology.

ERG and **Motorola** have won *another* Automated Fare Collection (AFC) project - this one for an A$10 million field trial of an integrated smart card AFC system. The 24-month trial will begin in the second half of next year on about 80 buses in Groningen, the Netherlands. The **Ministry of Transport, Public Works & Water Management** is funding this trial as the first stage in upgrading the ticketing system for all public transport within the Netherlands.

ERG and Motorola have now been *formally* awarded the Rome/Lazio AFC project. ERG will be the prime contractor, installing the system and operating it for nine years with a further five year option. A small sub-set of the system will be installed within eight months, full implementation in Rome will be completed within one year and expanded to the surrounding areas during the following year. The system will cover all public transport, including 5,000 buses, three light rail lines and 76 rail stations in Rome and Lazio.

ERG has recently installed new ticketing machines on 245 buses operated by **Cardiff Bus** (Wales). The machines will issue paper tickets, but are smart card ready - allowing the bus company to introduce contactless smart card technology in the near future.

ERG and **Westpac** have formed a strategic alliance and will work together to integrate smart card based transit ticketing with the general payments system. Westpac will become the principal EFTPOS transaction processor for ERG's "e-purse" ticketing products, will directly support ERG (and its partners) in bids for Australian smart card systems and Westpac will market a *single* smart card combining debit, credit, e-purse and transit applications. Westpac will upgrade all of its EFTPOS retail terminals to support the ERG smart card technology.

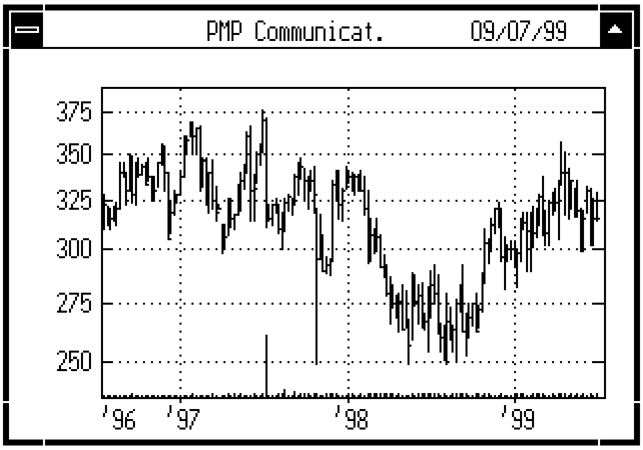


ERG's success over recent months considerably improves its future prospects. Every major AFC (i.e. Hong Kong, Rome, San Fransisco) becomes a showcase for the company's world leading AFC technology and improves its chances of winning contracts for other cities. Every major contract that is won can lead to on-going revenue from operating the system (i.e. Rome, San Francisco) or from expansion to include new transport operators or new services (e.g. use of the smart card to pay for parking or retail purchases), from maintenance and from technology upgrades in the future. Every field trial (i.e. Berlin, the Netherlands) positions ERG as the preferred supplier for the major AFC contract that is to follow. ERG's smart card technology is now being adapted and integrated into the banking payments system.

<u>With all of this success we are upgrading ERG shares to a "Buy"</u>.

<u>Hancock & Gore</u> has extended its on-market share buy-back (that was due to end on July 9) until January 11. The maximum number of shares that can be bought has also been increased from 3.57 million (7.7% of the capital) to 3.75 million - although the company re-purchased only 386,914 shares during the earlier six month period.

<u>PMP Communications</u> is to purchase the Australian businesses of **Gordon & Gotch** from NZ based **Independent Newspapers** (which will retain the NZ businesses of Gordon & Gotch) for an undisclosed cash sum estimated to be at least A$60 million. Gordon & Gotch distributes around 3,000 magazine titles in Australia, to 8,000 news agents, employs 600 people and generates annual revenues of about A$450 million. Gordon & Gotch will retain its existing management and operate as a separate division of PMP Communications.



PMP Communications' magazine publishing division, **Pacific Publications**, has increased its ownership of *That's Life!* - the third highest circulating weekly magazine in Australia - from 50% to 100%. *That's Life!* has been published as a joint venture with **Attic Futura** since May 1994, with the joint venture agreement giving Pacific Publications the option to buy out its partner after five years.

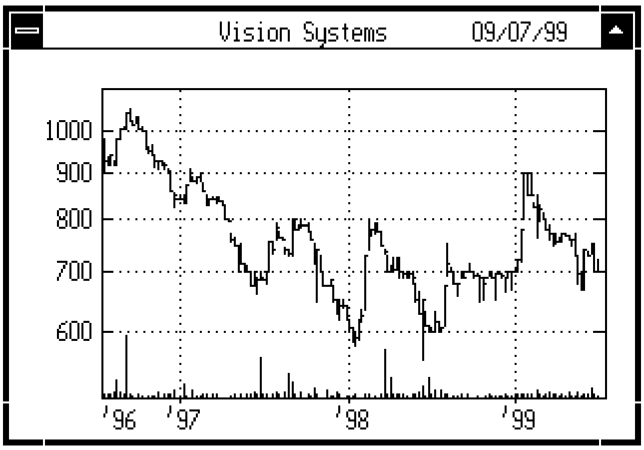
Pacific Publications has formed a new 50/50 joint venture with **Hachette Filipacchi Media** which will initially publish *ELLE* and *ELLE CUISINE* in Australia, but hopes to introduce other Hachette Filipacchi magazines to the competitive Australian market. Hachette Filipacchi is the world's largest consumer magazine publisher with more than 200 titles in 34 markets, and launched *ELLE* in the Australian market two years ago.

<u>Vision Systems</u> has announced a 1 for 10 cash issue at a price of A$6.75 per share. The shares have traded ex-entitlement to the issue since July 1, "rights" trading will continue until July 28 and application money must be received by the company by August 5. The cash issue will raise A$8.3 million in new equity.

This is a small cash issue and priced only slightly below the current share price of A$7.25, so there is not much value in the "rights". If you want to increase your holding in Vision Systems then taking up your entitlement may be worthwhile - but (unless the share price increases during the period of "rights" trading) small investors may find that selling the "rights" would not cover the brokerage cost or that bank fees on an Australian dollar bank draft could add up to 5% to the cost of the new shares (perhaps making them more expensive than existing shares trading on the market).

Vision System's offer to re-purchase its Converting Preference shares resulted in 57.6% of these investors continuing with the existing preference shares, 10.7% converting to a total of 477,609 ordinary shares and 31.7% taking the new Medium Term Unsecured Notes (with A$7,357,182 repayable in June 2004 and A$3,862,022 in December 2005). The original Converting Preference shares are effectively a fixed income investment, but repayable with A$33.3 million worth of ordinary shares in June 2001. Directors were concerned that many of these preference shareholders would sell those ordinary shares - so offered them the opportunity to convert to ordinary shares immediately (and benefit from any increase in the share price) or to convert to a straight fixed interest investment (repayable in cash).

Vision Systems subsidiary, **Vision Instruments**, has entered into a strategic alliance with **Bayer Diagnostics** (a subsidiary of German based **Bayer Group**). Under the agreement Vision Instruments will develop and manufacture a *Random Access Clinical Chemistry Analyser* (which will analyse components in blood and body fluids) which Bayer will market and distribute worldwide. Vision Systems expects this product to have "a significant impact on revenue" estimated to be around A$47 million (over an unspecified period of time) and this type of "high value" automated laboratory instrument designed and manufactured by Vision also generates high margins!!



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

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

UNDER-VALUED SHARES: Lowest Price/Sales, Yld > 0, Rel Strength > 0

Company	Share Price	STRENGTH RATING Current	STRENGTH RATING 4-Wk Chg.	STRENGTH RATING Rank 0-99	Brokers Following	Price to NTA	Return on Equity	Volatility	Price Earn. Ratio	Dividend Yield	Price Sales Ratio	Market Cap'n
Owens Investmts	133	+0.7	+1.8	52	7	2.2	12	1.1	19	11.2	0.19	75
Fruitfed Supp	110	+10.3	+1.7	18	-	1.9	15	1.1	13	9.5	0.23	13
Col Motor Co	240	+6.4	-0.7	28	1	1.0	10	0.8	10	8.4	0.24	74
Progressive Ent	295	+17.0	+1.3	11	6	3.0	9	0.9	35	2.5	0.30	549
Williams Kettle	200	+10.4	+2.3	17	-	0.8	3	0.8	27	9.0	0.30	29
Donaghys Ind	126	+2.7	+0.1	42	2	0.7	1	0.9	103	8.3	0.35	38
FC - Building	308	+1.3	+2.8	48	8	1.2	14	1.0	9	6.8	0.38	1,153
FC - Paper	155	+2.5	+3.8	43	10	0.6	-	1.4	NE	2.9	0.40	1,151
Mainfreight Grp	160	+6.1	+0.9	29	6	2.6	15	1.1	17	5.1	0.40	12
Fernz Corp Ltd	512	+1.4	-1.4	47	8	2.0	13	0.9	15	5.2	0.54	746
Air New Zealand	310	+12.5	-1.3	13	10	0.9	7	0.9	12	6.4	0.57	1,757
A. Barnett Ltd	120	+0.0	-0.0	54	-	0.6	-	1.0	NE	3.7	0.58	17
CDL Hotel NZ	37	+5.4	+2.1	34	6	0.6	3	1.9	19	3.0	0.62	129
Restaurant Brds	153	+6.8	-0.8	26	6	5.7	36	1.1	16	5.9	0.62	130
Dorchester Pac	84	+9.2	+4.2	21	-	1.3	17	1.3	8	8.0	0.64	14
Cavalier Corp	352	+4.7	-0.8	37	4	1.8	14	0.9	13	10.6	0.65	127
Ceramco Corp	142	+11.3	+5.7	16	5	1.1	6	1.1	19	5.3	0.66	59
Ebos Dental & S	235	+4.8	+3.2	35	-	1.7	11	0.7	15	17.1	0.68	55
Michael Hill	308	+8.3	-3.4	23	3	3.7	22	0.9	17	4.6	0.84	119
Colonial Ltd	680	+1.0	-2.9	48	-	1.4	8	0.9	17	0.9	0.85	6,237

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

Company	Share Price	STRENGTH RATING Current	STRENGTH RATING 4-Wk Chg.	STRENGTH RATING Rank 0-99	Brokers Following	Price to NTA	Return on Equity	Volatility	Price Earn. Ratio	Dividend Yield	Price Sales Ratio	Market Cap'n
Renaissance	44	+22.9	+8.2	3	-	1.2	10	1.5	12	Nil	0.09	10
Air New Zealand	310	+12.5	-1.3	13	10	0.9	7	0.7	12	6.4	0.57	1,757
Ceramco Corp	142	+11.3	+5.7	16	5	1.1	6	0.9	19	5.3	0.66	59
Fruitfed Supp	110	+10.3	+1.7	18	-	1.9	15	0.9	13	9.5	0.23	13
Dorchester Pac	84	+9.2	+4.2	21	-	1.3	17	1.0	8	8.0	0.64	14
Michael Hill	308	+8.3	-3.4	23	3	3.7	22	0.7	17	4.6	0.84	119
Restaurant Brds	153	+6.8	-0.8	26	6	5.7	36	0.9	16	5.9	0.62	130
Col Motor Co	240	+6.4	-0.7	28	1	1.0	10	0.7	10	8.4	0.24	74
Mainfreight Grp	160	+6.1	+0.9	29	6	2.6	15	0.9	17	5.1	0.40	12
Hallenstein G.	240	+5.9	-5.7	30	6	4.2	29	0.9	15	10.0	0.91	139
CDL Hotel NZ	37	+5.4	+2.1	34	6	0.6	3	1.6	19	3.0	0.62	129
Ebos Dental & S	235	+4.8	+3.2	35	-	1.7	11	0.5	15	17.1	0.68	55
Cavalier Corp	352	+4.7	-0.8	37	4	1.8	14	0.8	13	10.6	0.65	127
Kingsgate Int'l	20	+3.9	+1.8	40	-	0.6	4	1.7	14	Nil	0.88	77
Fernz Corp Ltd	512	+1.4	-1.4	47	8	2.0	13	0.8	15	5.2	0.54	746
FC - Building	308	+1.3	+2.8	48	8	1.2	14	0.9	9	6.8	0.38	1,153
Colonial Ltd	680	+1.0	-2.9	48	-	1.4	8	0.8	17	0.9	0.85	6,237
Owens Investmts	133	+0.7	+1.8	52	7	2.2	12	0.9	19	11.2	0.19	75

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

Company	Share Price	STRENGTH RATING Current	STRENGTH RATING 4-Wk Chg.	STRENGTH RATING Rank 0-99	Brokers Following	Price to NTA	Return on Equity	Volatility	Price Earn. Ratio	Dividend Yield	Price Sales Ratio	Market Cap'n
Steel & Tube	165	-0.9	+1.0	58	7	1.2	10	0.9	12	12.7	0.37	145
Cavalier Corp	352	+4.7	-0.8	37	4	1.8	14	0.8	13	10.6	0.65	127
DB Group	233	-7.0	-0.2	90	8	1.0	11	0.7	10	10.2	0.35	235
Hallenstein G.	240	+5.9	-5.7	30	6	4.2	29	0.8	15	10.0	0.91	139
Brierley Invest	53	-2.1	+3.5	65	7	0.6	-	0.9	NE	8.5	0.55	1,582
Telecom Corp	810	-1.5	-2.8	63	12	13.1	76	0.7	17	8.5	4.13	14,198
Natural Gas	197	-2.1	+3.9	66	7	1.6	11	0.8	15	8.3	2.26	777
Tranz Rail Hold	343	-9.9	-1.2	97	8	1.0	12	0.7	9	7.4	0.72	414
United Networks	650	+4.0	-0.9	39	2	1.4	6	0.5	24	6.9	2.20	985
NZ Refining Co	1465	-4.3	-0.5	79	4	2.4	16	0.4	15	6.8	1.44	352

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

Company	Share Price	STRENGTH RATING Current	STRENGTH RATING 4-Wk Chg.	STRENGTH RATING Rank 0-99	Brokers Following	Price to NTA	Return on Equity	Volatility	Price Earn. Ratio	Dividend Yield	Price Sales Ratio	Market Cap'n
Telecom Corp	810	-1.5	-2.8	63	12	13.1	76	0.6	17	8.5	4.13	14,198
Ports Auckland	505	-6.8	-2.6	90	7	3.1	19	0.6	17	5.3	4.00	669
National Mutual	300	-5.8	-0.6	86	-	1.0	7	0.8	15	3.6	3.34	5,216
Force Corp.	60	-2.1	+0.4	64	4	1.6	13	1.2	13	10.0	2.80	93
Cue Energy Ltd	7	-5.4	+4.5	82	-	0.4	-	2.7	NE	Nil	2.27	20
Natural Gas	197	-2.1	+3.9	66	7	1.6	11	0.8	15	8.3	2.26	777
Apple Fields	11	-9.3	+5.2	96	-	0.2	-	1.3	NE	Nil	1.53	3

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

Company	Share Price	STRENGTH RATING Current	STRENGTH RATING 4-Wk Chg.	STRENGTH RATING Rank 0-99	Brokers Following	Price to NTA	Return on Equity	Volatility	Price Earn. Ratio	Dividend Yield	Price Sales Ratio	Market Cap'n
Spectrum Res.	3	-48.7	-0.0	98	-	0.5	-	2.9	NE	Nil	N/A	1
Damba Hold Ltd	45	-14.5	-4.9	98	-	0.5	-	0.6	NE	Nil	0.53	8
Tranz Rail Hold	343	-9.9	-1.2	97	8	1.0	12	0.7	9	7.4	0.72	414
Apple Fields	11	-9.3	+5.2	96	-	0.2	-	1.1	NE	Nil	1.53	3
Nobilo Wines	78	-8.8	-0.2	95	1	7.9	55	0.9	14	5.7	N/A	34
Otter Gold Mine	80	-8.4	-0.2	94	-	0.6	17	0.8	4	Nil	0.51	37
Metro. LifeCare	188	-7.6	-1.6	93	2	1.6	9	1.0	17	4.8	1.83	116
Goodman Fielder	189	-7.4	-0.1	92	-	1.5	10	0.5	15	4.7	0.65	2,393
Ernest Adams	185	-7.2	+0.7	91	-	1.5	-	0.6	NE	Nil	0.46	30
Ports Auckland	505	-6.8	-2.6	90	7	3.1	19	0.6	17	5.3	4.00	669
Trans-Tasman	33	-6.8	+1.7	89	6	0.3	-	1.4	NE	Nil	1.11	120
Tag Pacific Ltd	13	-6.5	+0.7	88	-	0.4	4	1.5	10	5.4	0.29	6
Eldercare NZ	60	-6.2	+3.0	87	-	3.5	-	1.3	NE	Nil	0.45	18
National Mutual	300	-5.8	-0.6	86	-	1.0	7	0.8	15	3.6	3.34	5,216
Summit Gold Ltd	10	-5.7	+3.5	85	-	1.5	3	1.9	60	Nil	N/A	9
Kiwi Developmnt	145	-5.7	+7.6	84	-	1.9	-	0.8	NE	Nil	N/A	70
AMP Limited	2120	-5.4	+0.7	82	-	2.2	12	0.7	19	1.0	0.76	22,823
Cue Energy Ltd	7	-5.4	+4.5	82	-	0.4	-	2.5	NE	Nil	2.27	20
Max Resources	13	-5.0	+1.0	80	-	0.4	-	1.5	NE	Nil	N/A	5
Aquaria 21	15	-4.8	+1.0	79	-	1.4	-	1.8	NE	Nil	N/A	39

Company Review: Shortland Properties

Over recent months we have pointed out that listed property investment companies offer an alternative to fixed interest bank deposits. Fixed interest investments with Banks and large Finance companies offer yields of up to 5½% to 7%, while listed Property shares offer yields of 9-11% - plus the prospect of 1-3% per annum income and capital growth over the medium to long term.

Property shares are relatively low risk investments but can, of course, fluctuate in value over the short to medium term. That, however, is not necessarily a *risk* factor - especially if investors are buying when prices are low. Shortland Properties shares, for example, are trading near the lower end of their historical valuation range - suggesting that the share price could fluctuate *upwards* in value by about 50% over the next 2-3 years to return to a "fair" valuation.

Company History

In late 1986 - at the height of the NZ property investment boom - **Shortland Properties** was listed on the NZ Stock Exchange under its original name of **Mainzeal Properties** by **Mainzeal Group** (which has since become **Richina Pacific**). Unlike most property investment companies at that time which used high debt levels to maximise capital appreciation from rapidly appreciating property values, Shortland Properties had relatively low debt levels - and consequently was one of the few property investment companies not placed in receivership after the property bubble burst in October 1987. **Todd Corporation** acquired a controlling shareholding in the company in 1989.

Current Business

Shortland Properties is mainly involved in the ownership of high quality, central business district commercial properties (e.g. office buildings and office towers, associated retail space, and car parking buildings), but over the last year has diversified with investments in two high quality industrial properties. The company will engage in property development to improve the return from its investments (for example, adding additional floors to existing office/car park buildings).

Some of the company's major buildings in Auckland include **City Tower**, the **IBM Building**, the **Shortland Centre Tower 2**, the **National Bank Centre** and in Wellington it owns the **Todd Building** and the northern tower of the **Kirkcaldie & Stains Building**.

In the early 1990's Shortland Properties diversified into Australia, buying a small holding in **Property Trust of Australia**. This increased from 26.2% of the trust to 37.8% when Shortland Properties underwrote a cash issue in November 1995, and doubled to 75.6% in 1997 when it bought out the unitholding of **Superannuation Funds Management Corporation of South Australia**. Property Trust of Australia is involved in property development and investment in Australia. Shortland Properties also made a very small investment in a residential property development venture in Australia.

Profit Results

Shortland Properties' profits have grown steadily over the years - from $7,912,000 in 1995, to $12,296,000 in 1996, $10,702,000 in 1997 and $16,264,000 in 1998 - but most of that "growth" has been financed by expanding the company and raising new capital from the issue of additional shares. So *earnings per share* has remained relatively stable at 5.3 cents in 1995, 5.6 cents in 1996, 5.4 cents in 1997 and 5.4 cents in 1998. Dividends have also been stable at 5.0 cents (plus about 30-40% of full imputation tax credits), rising to 5.1 cents (plus 1.18 cents of imputation tax credits) for the year to 1998.

Investment Criteria

Property *investment* is not a high *growth* business but one which offers high *income* at relatively low risk. Profits are relatively stable, with revenue generated from rental income (mainly from long term leases), less the interest expense of borrowings and other smaller operating costs and overheads. Companies can distribute most or all of their net profits as dividends - giving investors a substantially higher income yield than is currently available on fixed interest investments.

Property investment companies should also be able to generate medium to long term income and capital growth - probably averaging around 1-3% per annum. So investors can expect their income and capital will maintain its *real* value (compared with a fixed income investment that offers no protection against inflation).

As with any type of stockmarket investment, investors can improve their medium to long term returns by taking into account fluctuations in share values. In the case of property investment companies this would mean buying when the shares are trading at a substantial discount to net asset value and/or when property values are depressed - and selling when a share trades close to net assets (or at a premium) and/or when the property market is bouyant.

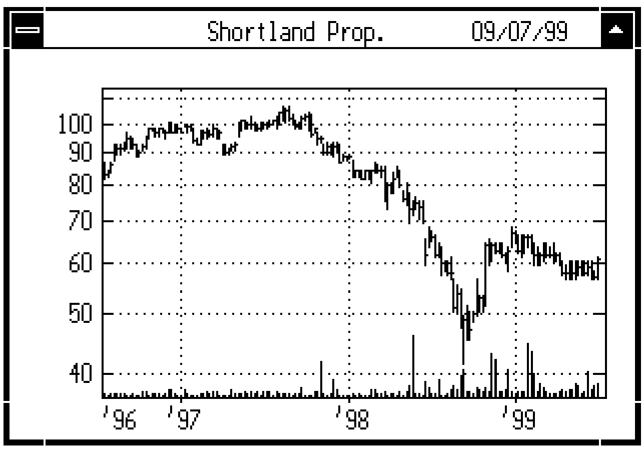
For example, Shortland Properties shares have historically traded between a 45% *discount* to net asset value through to a 20% *premium* to net assets. Back in March 1993, *Market Analysis* formally recommended Shortland Properties shares for investment at 50 cents (a 40% discount to net assets and offering a gross yield of 7.0%). Although we intended that as a long term investment the share price rose to 75 cents by August, so we sold for a 50% short term gain. Over the next year the share price rose to around 100-110 cents - so, in retrospect, we probably took our profits too early!

At 61 cents, Shortland Properties shares are again trading at a substantial 31% discount to net asset value and the shares currently offer a gross Dividend Yield of 10.3%. That is a very attractive income yield, plus the potential for a 50% appreciation in the share price over the next couple of years as we believe the shares will return to around net asset value.

Net asset values could also rise from the appreciation in property values - which have generally been declining over the last decade! Net profits (and the potential for capital appreciation) could also be increased by raising the company's low level of borrowings. Shortland Properties has historically maintained conservative debt levels, but in the current period of low interest rates the company could improve shareholder returns by borrowing at 6-7% and to buy quality industrial properties yielding 9%. Shortland Properties has Shareholders' Equity of $277.5 million but interest bearing debts of just $84.5 million. The company *could* borrow up to 35% of its total assets and still be conservatively funded. So the company could easily borrow an additional $65 million for investment in new properties - adding about $1.3-2.0 million to pre-tax profits (or 0.3-0.5 cents to profits and dividends).

Summary & Recommendation

While we are not formally recommending Shortland Properties shares at this time, we do believe that this is a very attractive, low risk investment offering a high 10.3% income yield and with the potential to increase in value by 50% over the next 2-3 years.



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

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

Company	Share Price	STRENGTH RATING Cur-rent	4-Wk Chg.	Rank 0-99	Insider Buy-Sell	Brokers Following	Price to NTA	Return on Equity	Vola-til-ity	Price Earn. Ratio	Divi-dend Yield	Price Sales Ratio	Market Cap'n
OVER-VALUED SHARES: Highest Price/Sales Ratios, Relative Strength < 0													
Atlas Pacific	20	-3.8	+5.4	65	3-0	-	1.4	-	1.4	NE	Nil	9.62	10
Bougainville Co	21	-8.6	+4.4	78	0-0	-	-	-	1.4	14	Nil	8.94	84
Austrim Ltd	303	-0.5	-1.3	51	0-0	4	5.2	8	0.7	66	3.8	8.59	670
Petroz NL	53	-11.3	+0.6	83	2-0	8	1.1	2	1.0	44	Nil	8.36	104
Lion Selection	70	-1.3	-0.2	54	0-0	-	0.7	-	1.0	NE	Nil	8.06	70
Quantum Res.	14	-25.7	-1.6	97	1-0	-	-	-	1.6	NE	Nil	7.93	24
Strategic Poole	19	-6.7	-7.9	74	0-0	-	0.5	-	1.4	NE	Nil	7.92	14
Zylotech	12	-2.3	+2.1	59	0-0	-	6.0	-	1.7	NE	Nil	7.55	5
Geo2 Limited	19	-6.1	+0.8	72	0-0	-	9.5	-	1.4	NE	Nil	6.93	21
Infrastructure	149	-1.1	-3.3	53	0-0	2	1.1	15	0.8	8	6.7	6.65	833
Aust Tourism	65	-0.1	+0.0	47	0-0	-	0.9	6	1.0	15	10.8	6.07	136
Sea World PT	80	-5.0	-0.7	69	0-0	2	0.7	7	0.9	10	9.0	5.92	166
Sydney Aquarium	405	-0.4	-1.1	49	0-0	6	5.5	27	0.7	20	4.9	5.74	88
Innerhadden	37	-5.1	-0.5	70	0-0	-	0.6	-	1.2	NE	Nil	5.26	15
Climax Mining	15	-17.2	-3.2	93	0-0	-	-	-	1.6	NE	Nil	5.16	13
Peptide Tech.	49	-4.3	-2.2	67	0-0	1	9.8	-	1.1	NE	Nil	5.08	68
Medical Innovat	20	-9.8	-2.4	80	0-0	-	-	-	1.4	9	Nil	4.62	6
Illuka Resource	335	-4.9	-0.9	69	4-0	9	8.6	25	0.7	34	5.4	4.14	746
Carillon Dev.	140	-4.1	-2.5	66	0-0	-	0.5	4	0.8	12	5.0	4.10	34
Lihir Gold	130	-14.1	-0.4	89	0-0	14	-	-	0.8	181	Nil	4.09	1,224
Tectonic Res.	7	-14.4	-1.3	90	0-0	-	-	-	2.0	NE	Nil	3.94	9
Oil Coy of Aust	202	-2.0	-4.3	58	0-0	-	-	-	0.8	16	2.5	3.84	238
Adsteam Marine	275	-1.5	+0.5	56	0-0	7	8.3	64	0.7	13	4.7	3.74	220
Micromedical	21	-3.2	-0.1	64	1-0	1	6.8	-	1.4	NE	Nil	3.70	18
Charter Towers	11	-13.2	-2.2	87	0-0	-	-	-	1.7	2	Nil	3.63	27
Tap Oil	73	-8.0	+1.3	77	0-0	5	-	-	1.0	19	Nil	3.61	96
Cinema Plus	93	-18.0	-0.5	94	0-0	4	2.5	25	0.9	10	4.1	3.53	70
Bligh Ventures	85	-11.5	-4.3	83	0-0	-	0.7	4	0.9	16	Nil	3.43	6
Orogen Minerals	185	-2.3	+2.9	59	0-0	4	-	-	0.8	14	3.5	3.35	594
Gold Mines Sard	46	-1.9	-5.2	58	0-0	-	3.5	-	1.1	NE	Nil	3.17	90
Magellan Petrol	180	-4.4	-0.2	67	0-0	-	-	-	0.8	16	5.6	3.12	44
Ross Mining NL	69	-3.9	-3.5	66	1-1	11	-	-	1.0	NE	2.9	3.12	145
China Cons	23	-6.2	+5.1	72	0-0	-	0.5	13	1.3	4	Nil	3.06	119
Metals Explor.	45	-2.3	+3.7	59	1-0	-	7.5	-	1.1	NE	Nil	3.05	7
Energy Equity	31	-10.0	+0.4	81	0-0	3	0.6	2	1.2	31	Nil	2.98	98
Nat'l Mutual	225	-7.6	-1.5	76	0-0	12	1.2	6	0.8	19	3.9	2.98	3,965
Newhaven Park	120	-0.8	+0.2	52	0-0	-	1.5	7	0.9	22	3.3	2.94	52
Delta Gold NL	232	-2.1	-0.0	58	0-0	15	-	-	0.8	12	1.5	2.73	498
Formida Holding	110	-31.2	+1.6	98	0-0	-	-	-	0.9	NE	Nil	2.66	11
Envestra	87	-5.9	+0.3	72	1-0	5	3.8	-	0.9	NE	8.9	2.63	305
Ammtec Ltd	82	-3.7	-0.8	65	0-0	1	3.3	28	0.9	12	10.4	2.51	15
Aplha Sensors	11	-13.5	-0.4	88	0-0	-	2.8	-	1.7	NE	Nil	2.43	12
Bass Strait Oil	325	-4.2	-0.4	67	0-0	-	0.8	8	0.7	9	8.1	2.43	143
Guinness Peat	120	-2.4	-3.8	60	0-0	-	-	-	0.9	10	0.5	2.38	559
Orbital Engine	44	-16.9	+2.8	93	3-1	2	-	-	1.1	NE	Nil	2.29	143
A.G.L.	940	-6.5	-2.3	73	0-0	14	3.5	25	0.6	14	4.4	2.27	3,091
Bligh Oil & Min	13	-17.3	-2.8	94	0-0	-	-	-	1.6	NE	Nil	2.24	17
Normandy NFM	340	-5.6	+0.8	71	1-0	12	-	-	0.7	7	7.4	1.98	259
Select harvest	105	-4.8	-1.3	68	0-0	-	1.4	21	0.9	7	5.7	1.98	34
Gowing Brothers	204	-6.1	+1.3	72	0-0	-	0.9	3	0.8	30	1.7	1.97	98
WORST PERFORMING SHARES: Weakest Shares, P/S Ratio > 0.25, Yield < Twice Average													
Liberty One	91	-35.4	-2.3	99	0-0	1	6.1	-	0.9	NE	Nil	N/A	196
Petsec Energy	46	-32.6	+2.5	98	0-0	3	-	-	1.0	NE	Nil	0.27	49
Formida Holding	110	-31.2	+1.6	98	0-0	-	-	-	0.8	NE	Nil	2.66	11
Ballarat Gold	6	-29.2	-1.0	98	0-0	-	-	-	2.1	NE	Nil	N/A	5
Aust Authorised	21	-28.4	-2.8	98	0-0	-	1.3	-	1.3	NE	Nil	1.82	6

Company	Share Price	STRENGTH RATING Cur-rent	4-Wk Chg.	Rank 0-99	Insider Buy-Sell	Brokers Following	Price to NTA	Return on Equity	Vola-til-ity	Price Earn. Ratio	Divi-dend Yield	Price Sales Ratio	Market Cap'n
Astro Mining NL	30	-26.2	-3.2	97	0-0	-	-	-	1.2	NE	Nil	N/A	21
Quantum Res.	14	-25.7	-1.6	97	1-0	-	-	-	1.5	NE	Nil	7.93	24
Diamond Rose	8	-25.3	-9.8	97	0-0	-	-	-	1.8	NE	Nil	N/A	11
Axiom Property	5	-23.3	-0.1	97	0-0	-	0.3	-	2.2	NE	Nil	0.35	8
Werrie Gold Ltd	45	-22.7	-2.8	97	0-1	-	-	-	1.0	NE	Nil	N/A	28
City View	52	-22.6	+1.2	97	0-0	-	-	-	1.0	NE	Nil	N/A	7
Tourism Leisure	36	-22.4	-0.5	96	0-0	-	0.7	-	1.1	NE	Nil	N/A	7
AMX Resources	11	-22.1	-5.1	96	2-1	-	-	-	1.6	NE	Nil	N/A	9
Perseverance	12	-21.9	-4.6	96	0-0	2	-	-	1.6	17	Nil	0.71	6
Menzies Gold NL	6	-20.3	-2.1	96	0-0	-	-	-	2.0	NE	Nil	N/A	7
Pacific Matrix	2	-20.2	+2.5	96	0-0	-	0.3	-	3.3	NE	Nil	N/A	7
Cardia Tech.	17	-19.8	-0.9	95	0-1	-	-	-	1.4	NE	Nil	N/A	7
Formulab Neuro.	2	-19.0	+2.4	95	0-0	-	1.9	-	3.4	NE	Nil	0.36	7
Paladin Res.	6	-18.7	-2.6	95	2-0	-	-	-	2.0	NE	Nil	N/A	6
Sydney Oil Co	3	-18.1	+0.7	94	0-0	-	-	-	2.6	NE	Nil	N/A	7
Cinema Plus	93	-18.0	-0.5	94	0-0	4	2.5	25	0.9	10	4.1	3.53	70
Churchill Res	7	-17.7	+2.4	94	0-0	-	-	-	1.9	NE	Nil	N/A	6
Bligh Oil & Min	13	-17.3	-2.8	94	0-0	-	-	-	1.5	NE	Nil	2.24	17
Viagold Capital	17	-17.2	-2.1	93	0-0	-	2.4	-	1.4	1	Nil	N/A	21
Climax Mining	15	-17.2	-3.2	93	0-0	-	-	-	1.5	NE	Nil	5.16	13
Orbital Engine	44	-16.9	+2.8	93	3-1	2	-	-	1.0	NE	Nil	2.29	143
Sthn Star	90	-16.9	-5.2	93	0-0	3	4.1	25	0.9	16	3.9	0.61	89
Aust Min Proc.	7	-16.5	-1.2	93	0-0	-	2.3	-	1.9	NE	Nil	1.22	10
Pan Australian	8	-16.0	-1.7	92	0-0	-	-	-	1.8	NE	Nil	N/A	7
Sipa Resources	5	-15.9	-0.6	92	1-0	-	-	-	2.2	NE	Nil	N/A	9
Mineral Commod.	10	-15.9	-1.1	92	0-0	-	-	-	1.7	NE	Nil	N/A	7
Preston Resourc	92	-15.7	+3.9	92	1-0	1	-	-	0.9	NE	Nil	N/A	60
Pharm. Holdings	11	-15.5	-1.6	91	0-0	-	3.7	1	1.6	550	Nil	0.31	6
Tooth & Company	15	-15.5	-2.4	91	0-0	-	-	-	1.4	5	Nil	N/A	19
CDS Tech	112	-15.5	-1.4	91	0-0	-	-	-	0.8	NE	Nil	N/A	30
Equinox Resourc	8	-15.4	-0.1	91	0-0	-	-	-	1.9	NE	Nil	N/A	6
Mosaic Oil NL	19	-15.3	-0.2	91	0-0	-	-	-	1.3	NE	Nil	N/A	40
Cadbury Sch.	999	-15.1	-9.5	91	0-0	-	-	-	0.6	NE	3.4	N/A	20,424
Vos Industries	23	-15.1	-1.8	91	0-2	-	3.8	-	1.3	NE	Nil	N/A	20
Amrad Corp.	88	-14.7	-4.0	90	1-0	3	1.4	-	0.9	NE	Nil	0.62	103
Continental Gol	7	-14.7	-1.0	90	0-0	-	0.2	-	1.9	NE	Nil	0.41	5
Centaur Mining	27	-14.6	+0.2	90	0-0	9	-	-	1.2	NE	Nil	1.12	119
Amity Oil NL	29	-14.5	-1.3	90	0-0	-	-	-	1.2	NE	Nil	N/A	26
Alkane Explor.	17	-14.5	-3.9	90	0-0	-	-	-	1.4	NE	Nil	N/A	14
Tectonic Res.	7	-14.4	-1.3	90	0-0	-	-	-	1.9	NE	Nil	3.94	9
Argosy Minerals	18	-14.4	+1.1	90	0-0	-	3.6	-	1.4	NE	Nil	N/A	16
Overseas & Gen.	2	-14.4	+3.6	89	0-0	-	0.2	-	3.2	NE	Nil	0.30	6
Grenfell Res.	7	-14.3	-2.6	89	0-0	-	-	-	2.0	NE	Nil	N/A	5
Metex Resources	10	-14.2	+0.4	89	0-4	-	0.5	-	1.7	NE	Nil	N/A	7
Lihir Gold	130	-14.1	-0.4	89	0-0	14	-	-	0.8	181	Nil	4.09	1,224
INSIDER SELLING: Most Insider Selling, Relative Strength < 0													
Metex Resources	10	-14.2	+0.4	89	0-4	-	0.5	-	1.6	NE	Nil	N/A	7
Buderim Ginger	82	-5.5	-1.4	71	0-3	-	1.0	4	0.9	24	4.9	0.66	17
Atkins Carlyle	350	-3.9	-0.5	66	2-5	11	1.5	13	0.7	12	6.6	0.26	116
Ranger Minerals	243	-13.1	-4.4	87	2-5	9	-	-	0.7	NE	Nil	N/A	164
MacMahon Hold	35	-10.9	+0.5	82	0-2	7	0.6	10	1.1	6	10.1	0.11	54
Vos Industries	23	-15.1	-1.8	91	0-2	-	3.8	-	1.2	NE	Nil	N/A	20
Macmin NL	3	-18.7	-1.9	95	0-2	-	-	-	2.5	NE	Nil	N/A	4
Montague Gold	3	-17.8	-3.1	94	0-2	-	-	-	2.5	NE	Nil	N/A	4
Eastern Gold	9	-6.1	+1.7	72	0-2	-	-	-	1.6	5	Nil	N/A	5
Aust Resources	23	-2.2	+0.5	58	0-2	4	-	-	1.2	9	Nil	0.34	69
Plaspak Group	44	-5.2	-2.8	70	0-2	-	0.9	13	1.0	7	10.2	0.36	23

Australian Company Analysis: A.I. Engineering

In March this year when **AI Engineering** announced it was to invest in an internet company we were more than a little wary - "Just another struggling company buying an e-commerce business to boost its share price" was our first thought. However, AI Engineering has also acquired an engineering company, a small automotive business and substantial property investments. Furthermore, it has been successful at winning some major new contracts for these newly acquired businesses which could lead to significant profit growth. The time has arrived to take a serious look at this company . . .

Company History

AI Engineering was formed, and listed on the Australian Stock Exchange in 1985. Its **Weldtronics** subsidiary operates a patented "hard-facing" technology that uses an automated alloy welding system for lining steel pipes and fittings to resist abrasion and corrosion.

Another subsidiary, **Rankin Industries Inc** (based in San Diego, California, USA) manufactures and markets hard-facing alloy supplies. However, the company's financial position has always been (to use the company's own word) “precarious”.

In 1987 AI Engineering acquired **Vida-Weld Group** - a company involved in hard-facing, reclamation and wear resistant engineering - for A$7.5 million. That led to the appointment of a Receiver/Manager in December 1988 by **NZI Corporation** (and suspension of the shares in January 1989) over an A$4.0 million loan. The shares remained suspended until November 1993.

The NZI Corporation loan was partially settled with NZI taking ownership of land and buildings in New South Wales and A$200,000 in cash in September 1991. Vida-Weld Group was finally sold in June 1992 with proceeds used to repay the remaining NZI debt.

In March 1994, AI Engineering acquired **TVT Engineering** (a specialist steel fabrication company) for A$2.0 million and in June of that year purchased **Timcast** (a major non-ferrous foundry) for A$3.0 million.

Recent Results

AI Engineering's 1994 expansions finally started to return meaningful profits in the year to June 1998: Revenues rose 32.5% to A$27.0 million, with profits up 249.3% to A$2,225,000 (3.0 cents per share) and a maiden dividend of 1.0 cent was paid.

However, the company's financial position may still have been “precarious” as the half year profit to December 1998 showed revenues down 0.7% to A$12.0 million but profits 73.1% lower at just A$163,000.

Recent Acquisitions

In the middle of March 1999, AI Engineering announced that it was to acquire 51% of **Kiam Corporation** for A$1.53 million in cash (being the net asset value of the shares being acquired). Ownership is likely to increase to 100% within three years with the remaining 49% shareholding costing around A$3.7 million. Kiam is involved in structural & mechanical design & fabrication, plant optimisation programs, mechanical installations, continuous planned maintenance programs, shutdown maintenance programs and civil, mechanical & structural engineering work. Its main customers are mining, oil & gas, petrochemical and power companies, mainly in Western Australia. This business provides synergies with AI Engineering's existing business operations.

The main attraction of this acquisition is that AI Engineering is purchasing the business relatively cheaply. Kiam Corporation generates annual revenues of A$23 million and net profits (before tax) in excess of A$1.5 million. That means that AI Engineering is acquiring this 51% shareholding at a Price/Sales ratio of just 0.13 and a Price/Earnings ratio of 3.0. Kiam Corporation will therefore add around A$750,000 to AI Engineering's earnings, less the A$140,000 annual interest for funding this investment with new borrowings.

Increasing that to 100% ownership in three years would make AI Engineering's *total* cost for all of Kiam Corporation about A$5.25 million - or a Price/Sales ratio of 0.23 and a Price/Earnings ratio of about 5.2. Another way to look at this is that the total interest cost to acquire Kiam Corporation will be about A$500,000 per year for a business generating earnings (before interest and tax) in excess of A$1.5 million.

AI Engineering also announced in March that it was acquiring a 33.3% shareholding in **Eclipse Group** by subscribing A$1.0 million for new shares. Eclipse will use this A$1.0 million of new cash to expand its business which designs and produces websites and multimedia CD-Roms. AI Engineering raised this A$1.0 million in cash through the placement of 6,666,666 new shares at 15 cents.

Eclipse Group was established in May 1993 with four staff in Perth, and has expanded to employ 85 people in locations in Perth, Melbourne and Sydney. The company intends to further expand its workforce “to accommodate the growing demand for its products”. An unusual feature of this “e-commerce” company is that it has consistently produced an operating profit. Revenue for the year to December 1999 is forecast at A$8 million and (depending upon which of the media releases you choose to believe) a pre-tax profit of between A$800,000 and “over A$1 million”. Eclipse Group has also announced its *intention* (but no timetable) to list on the Australian Stock Exchange and raise additional capital for further expansion (i.e. the usual e-commerce growth story).

In May, AI Engineering announced the acquisition of the *trading assets* and *property* of Australian listed **Bliss Corporation**. Bliss Corporation shares were suspended in December 1998 after the company announced restructuring plans (i.e. to sell its existing Australian assets and invest in a joint venture manufacturing chocolate in China).

The net cost of acquiring the Bliss Corporation assets (including advisory and legal fees, providing A$1.5 million in additional working capital and selling off a few surplus assets) will be about A$20.5 million. An A$500,000 deposit was raised through the issue of convertible notes (which will be exchanged for ordinary shares at 85% of the market price within three months) and AI Engineering is hoping to fund the balance of this acquisition through additional borrowing plus the A$2.3 million that will be raised in October this year from the exercise of 11,616,665 options at A$0.20.

The main asset being acquired is the **South Australian Manufacturing Park** (A$14 million), a 23 hectare industrial park located between Port Adelaide and the city centre. Bliss Automotive (also being acquired) occupies 30,000m^2 of warehouse and office space, other tenants occupy 50,000m^2, but there is 17,000m^2 of vacant warehousing and 8,000m^2 of vacant office space. There is also surplus land for the development of a further 20-30,000m^2 of lettable space. Gross rental income from existing tenants is A$2.8 million per year (giving a 20% return on cost), and fully developed and leased the site would generate gross rental income of around A$6 million. AI Engineering is engaging in an aggressive marketing plan to lease the currently vacant space.

Bliss Automotive, which is being acquired at a cost of about A$3 million, is the largest independent metal stamping company in the Southern Hemisphere. The company operates 50 metal stamping presses (from 75-1000 tonnes) in five major press lines and many sub-assembly lines. *(Continued on Page 12)*

AI Engineering

(Continued from Page 11)

The existing business is under-utilised with a one-shift operation that produces spare part car panels for Holden/General Motors and (to a lesser extent) Toyota and Mitsubishi.

Since acquiring this business, AI Engineering has signed a six-year, A$178 million agreement with **Holden/General Motors** to supply replacement panels for Holden vehicles. Bliss Automotive is to establish a new A$7 million Electro-Coat painting facility for the electrical paint deposition on these panels. This contract and new facility will "enhance the profitability of Bliss Automotive".

Bliss Presses will also be acquired (for about A$500,000), which provides maintenance to third parties that operate about 4000 smaller Bliss presses throughout Australia. (Bliss presses, originally made by the US based **EW Bliss Company**, are no longer manufactured, but there is still demand for maintenance of existing machines.)

Impact of Recent Acquisitions

Last year AI Engineering generated revenues of A$27 million, but that will increase substantially for the year to June 2000 which will include a full year of trading by Kiam (revenue A$23 million), Eclipse ($2.4 million from AI Engineering's one-third share) and the original Bliss business (revenue A$26 million). The recent Holden contract could add another A$29 million to annual revenues, fully leasing the existing industrial park would add about A$1.6 million to revenues and expansion of that development could add a further A$1.6 million. That could see revenues rising to around A$110 million.

Profits should also increase substantially as a result of these recent acquisitions - A$2.2 million from the original AI Engineering business, about A$0.4 from Kiam, A$0.2 million from Eclipse, about A$1.7 million from the original Bliss businesses, with perhaps as much as another A$1.0 million from the Holden expansion, A$0.5 million from leasing vacant property and another A$0.5 million from completing and leasing the industrial park. So net profits for the years to June 2000 and June 2001 could rise to around A$5.0-6.5 million.

Investment Criteria

Based upon their current price of A$0.35 and last year's results, AI Engineering shares trade on a Price/Sales of 0.96, a Price/Earnings ratio of 12 and a Dividend Yield of 2.9%. However, those figures are probably meaningless given that recent acquisitions should substantially increase revenue and profits, and issued capital will expand from 74,382,006 shares to around 94.4-96.0 million shares (following the placement to fund the investment in Eclipse, the exercise of options in October and the conversion of notes issued to fund the deposit for the Bliss assets). Above we noted the *potential* for revenues to grow to A$110 million and for profits to increase to A$5.0-6.5 million as a result of recent expansions. That would place the shares on a Price/Sales ratio of 0.31 and a Price/Earnings ratio between 5 and 7.

Interest bearing debts (including the existing debts of Kiam which will be consolidated) will have increased from A$4.1 million to A$29.2 million (and exceed Shareholders' Equity of A$14.8 million), so dividend payouts are likely to remain low as the company seeks to repay debt and build up its equity.

Market capitalisation (following the exercise of the options and conversion of the notes) will be around A$33 million - so this is still a very *small* company.

Directors have not been buying or selling shares but - as we like to see - hold a significant investment in the company. Chairman J J Martin owns 38,782,316 shares plus 3,900,000 of the October 1999 options, giving him around 45% of the fully diluted capital, while director GJ Pickles owns 1,000,000 shares (just over 1% of the company).

There are no brokers following AI Engineering and preparing profit forecasts and there is only one institutional investor (holding an insignificant 0.6% of the company), so this company is definitely *neglected*. Neglected shares tend to be under-valued relative to *widely followed* shares and given the current state of total neglect, *any* broker or institutional interest in the company in the future can only be positive.

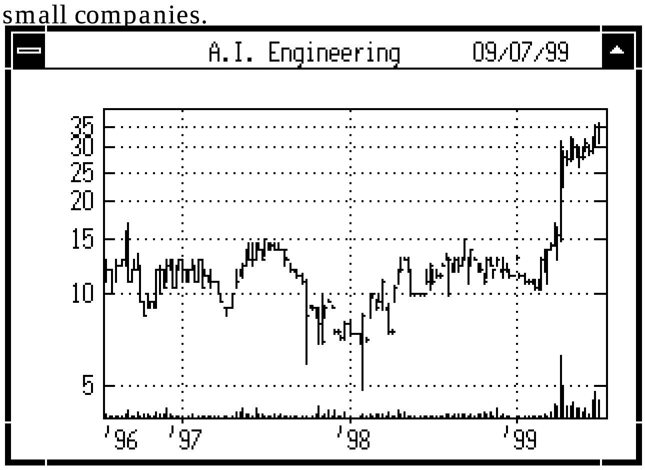
Technically the shares are in a strong uptrend with a very high Strength Rating of +52.4% and ranked 2 (on a scale of 0-99). In recent month's AI Engineering has featured in the "Best Performing Shares" section of our "Comprehensive Share Selection Criteria".

Summary and Recommendation

AI Engineering shares involve above average risks. The engineering businesses previously owned have struggled for fifteen years to achieve reasonable levels of profitability. Recent expansions should provide some synergies and economies of scale to cover the overhead costs faced by a very small business listed on the stock exchange, but there is no guarantee that the recently acquired businesses will maintain their historical level of profitability. Also AI Engineering has very high debt levels.

Nevertheless, if the recently acquired businesses can simply *maintain* historical levels of profitability, then AI Engineering shares will be cheap - and likely to be further re-rated upwards in value. With synergies, better utilisation (of manufacturing facilities and property assets) or growth in the businesses, the shares would be very cheap. Its involvement in "e-commerce" may not have a major impact on operating profits (although could yield a significant capital gain, *if* Eclipse lists on the stock exchange at a high valuation) but may help to lift AI Engineering's profile and attract some broker or institutional interest.

We are not formally recommending AI Engineering shares for investment, but these shares may appeal to more risk tolerant investors with diversified portfolios and seeking to invest a portion of their portfolio in very small companies.



"Insider" Trades in Australian Shares

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

The second table ranks Industry Groups by the average number of Net Buyers (i.e. Buyers less Sellers over the last year). Consistent buying across an Industry may indicate developments that are favourable for all companies within that sector, while consistent Industry selling may indicate an unfavourable outlook for that whole sector.

"Insider" Indicators

Last 5 wks: 77.4% Buyers
Last 13 wks: 73.0% Buyers

Company	Insider Buyers-Sellers	Company	Insider Buyers-Sellers	Company	Insider Buyers-Sellers	Company	Insider Buyers-Sellers	Company	Insider Buyers-Sellers
AMP Ltd	10-1	Burns Philp	3-0	General Gold Re	3-0	Milton Corp.	14-0	Precious Metals	1-3
APN News Media	2-0	C & W Optus	2-5	Gindalbie Gold	0-3	Montague Gold	0-2	Q.B.E. Insur.	3-0
ARC Energy	3-0	C.S.R. Ltd	3-0	Graincorp	7-2	Mt Grace Res.	4-0	Queens'd Cotton	2-0
Adacel Tech.	3-0	Cambrian Res	2-0	Grange Resource	4-0	Murchison Un.	3-0	Ranger Minerals	2-5
Adtrans Group	5-0	Capral Alum.	3-0	Green's Foods	3-0	Namoi Cotton	2-0	Reinsurance Aus	2-0
Amcor Ltd	2-0	Central Equity	9-0	HIH Insurance	3-0	Nat'l Foods	3-0	Rhodes Mining	3-0
Argo Investment	1-4	Circadian Tech	0-2	Hamilton Island	2-0	Nautronix Ltd	3-1	Ridley Corp.	2-0
Ashton Mining	3-0	CocaCola Amatil	2-0	Healthscope	2-0	Normandy Mining	4-0	Rural Press Ltd	3-0
Atkins Carlyle	2-5	Colonial Ltd	2-0	Heine Managem't	4-0	North Star Res.	4-0	Santos Ltd	2-0
Atlas Pacific	3-0	Computer Share	0-3	Helix Resources	2-0	OAMPS	3-0	Schaffer Corp	2-0
Auridiam Cons.	5-0	Cons Foods Aust	2-0	Herald Resource	3-0	Orbital Engine	3-1	Seven Network	4-1
Ausdoc Group	4-0	Cordukes Ltd	3-1	Holyman Ltd	2-0	Orica Ltd	2-0	Smith (Howard)	5-0
Auspine Ltd	7-0	Corp Express	1-3	Hoyts Cinemas	3-0	Oroton Int'l	3-0	Soul Pattinson	5-0
Aust Kaolin NL	2-0	Crane Group	4-0	Illuka Resource	4-0	PBL	3-1	Southcorp Ltd	3-0
Aust Resources	0-2	Div. United Inv	3-1	Jubilee Gold	5-1	PMP Communicat.	2-0	St George Bank	4-0
Aust Rural	2-0	Duketon Gold.	2-0	Just Jeans Grp	5-0	Pacific Group	2-0	Tanganyika Gold	5-1
Aust Stock Exch	0-5	ETRADE Aust.	0-2	Kilkenny Gold	2-0	Pacific Energy	4-0	Tempo Services	1-4
Austral Coal	4-0	Eastern Gold	0-2	Leo Shield	2-0	Pacrim Energy	2-0	Thakral Holding	8-0
B.H.P.	2-0	Email Ltd	3-0	M.I.M. Holdings	2-0	Paladin Res.	2-0	Titan Resources	2-0
BRL Hardy Ltd	2-4	Finemore Hold	2-0	MacMahon Hold	0-2	Parbury Ltd	2-0	Toll Holdings	2-0
BT Aust Equity	2-0	Flight Centre	0-4	Macmin NL	0-2	Perilya Mines	3-0	Triden Corp	2-0
BT Global Asset	7-3	Fortuna NL	2-0	Majestic Res.	0-2	Perp Trust Aust	2-0	Tyndall Aust.	4-0
BT Resources	3-1	G.U.D. Holdings	2-0	McGuigan Wines	2-0	Petroz NL	2-0	Vos Industries	0-2
Beaconsfield Gl	0-2	GIO Australia	2-0	Metal Manufact.	6-0	Plaspak Group	0-2	Watpac Ltd	2-0
Brambles Ind.	2-0	GWA Internat'l	6-0	Metex Resources	0-4	Polartechnics	0-2	West'n Reefs	2-0
Buderim Ginger	0-3	Garratt's Ltd	2-0	Michealago Res.	2-0	Portman Mining	2-0	Westfield Hold.	3-0
								Woolworths Ltd	3-0

Rank	Industy Group	Insider Buy-Sell	No. of Coys	Average Buyers-Sellers	Rank	Industy Group	Insider Buy-Sell	No. of Coys	Average Buyers-Sellers	Rank	Industy Group	Insider Buy-Sell	No. of Coys	Average Buyers-Sellers
1	Insurance	26-1	11	+2.27	24	Television	4-1	9	+0.33	47	Mineral Exploration	14-12	45	+0.04
2	Publishers	7-0	6	+1.17	25	Other Utilities	1-0	3	+0.33	48	Other Infrastructure	1-1	6	+0.00
3	Hospital Management	4-0	4	+1.00	26	Heavy Engineer	3-1	6	+0.33	49	Advertising/Marketing	0-0	18	+0.00
4	Diamonds	8-0	10	+0.80	27	Gold/Investment	1-0	3	+0.33	50	Mining Investment	0-0	4	+0.00
5	Diversified Industrial	21-2	24	+0.79	28	Banking	9-4	15	+0.33	51	Mining Services	0-0	10	+0.00
6	Building Materials	16-1	21	+0.71	29	Building Contractor	11-6	16	+0.31	52	Gold/Other Mining	0-0	9	+0.00
7	Diversified Mining	4-0	6	+0.67	30	Leisure Activities	3-0	11	+0.27	53	Oil/Gas Investor	0-0	2	+0.00
8	Mining Producer	12-2	16	+0.63	31	Oil/Gas Producer	4-0	16	+0.25	54	Brewer	1-1	4	+0.00
9	Forest Products	10-2	13	+0.62	32	Soft Drink/Confectionery	2-0	8	+0.25	55	Property Investor	1-1	11	+0.00
10	Transport	8-1	12	+0.58	33	Gold Producer	19-7	48	+0.25	56	Machinery Manufacturer	0-0	3	+0.00
11	Energy/Electricity	9-5	7	+0.57	34	Diversified Media	6-2	17	+0.24	57	Uranium	0-0	3	+0.00
12	Equity Investor	46-6	75	+0.53	35	Hotel/Resort	2-0	9	+0.22	58	Pharmaceutical	3-4	11	-0.09
13	Manufacturer/Retailer	6-0	12	+0.50	36	Light Engineering	5-1	19	+0.21	59	Misc Industrial	6-9	33	-0.09
14	Coal	6-1	11	+0.45	37	Gold Explorer	61-29	174	+0.18	60	Health & Related Products	2-3	11	-0.09
15	Property Dev/Manager	9-0	20	+0.45	38	Chemical & Fertiliser	3-2	6	+0.17	61	Investment Trust/Company	2-4	19	-0.11
16	Agricultural	18-5	29	+0.45	39	Engineering Contractor	2-1	6	+0.17	62	Entrepreneurial Investor	0-1	9	-0.11
17	Automotive	6-0	14	+0.43	40	Biotechnology	2-0	12	+0.17	63	Computer & Office Serv.	6-9	25	-0.12
18	Mineral Sands	4-0	10	+0.40	41	Oil/Gas Exploration	8-3	34	+0.15	64	Wholesaler/Retail	0-1	8	-0.13
19	Trustee Company	2-0	5	+0.40	42	Property Trust	10-0	72	+0.14	65	Misc Financial	6-8	16	-0.13
20	High Technology	14-3	31	+0.35	43	Equipment/Services	2-0	17	+0.12	66	Casinos/Gaming	0-2	12	-0.17
21	Base Metals	10-4	17	+0.35	44	Other Telecommunications	1-0	11	+0.09	67	Gold/Copper	1-2	5	-0.20
22	Retail	13-6	20	+0.35	45	Residential Developer	1-0	11	+0.09	68	Misc Services	8-14	28	-0.21
23	Food	15-6	26	+0.35	46	Vintner	6-5	13	+0.08	69	Health/Medical Services	0-2	5	-0.40
										70	Network Operator	2-5	3	-1.00

In Australia, the Industry Groups (and companies within those groups) with the most *Insider* buying are: **Insurance** (AMP), **Publishers** (Rural Press, APN News Media, PMP Communications), **Hospital Management** (Healthscope), **Diamonds** (Auridiam Consolidated), **Diversified Industrials** (GWA International, Email), **Building Materials** (Auspine, Metal Manufactures, CSR, Parbury, Schaffer) and **Mining Producers** (Grange Resources, Titan Resources). *Insiders* are the most knowledgeable investors, so over the next month we shall examine these companies to try to discover what the directors consider to be so attractive about their shares.

"Insider" Insights

(A summary of buying and selling by major shareholders)

Company	Shareholder	Buy/ Sell	Shares (Mill)	% of Coy Held Before	After
04/06/99					
Eastern Equities	National Mutual	Sell	-2.285	8.30%	1.50%
FC - Building	Franklin Resources	Buy	+3.984	6.78%	7.80%
NZ Light Leathers	Argent Group	Buy	+0.116	95.11%	97.05%
11/06/99					
Advantage Group	Romney (No 11)	Sell	-0.434	6.98%	5.89%
Eastern Equities	Royal & Sun Alliance	Buy	+1.250	4.97%	8.60%
Kiwi Development	Kiwi Income Prop	Buy	+1.296	17.30%	20.00%
NZ Light Leathers	Argent Group	Buy	+0.177	97.05%	100.0%
Radio Otago	Spicers Portfolio	Buy	+0.360	0.0%	8.20%
Strathmore Group	RJ Thomson	Sell	-15.625	70.53%	0.0%
Strathmore Group	JA Sorensen	Buy	+15.625	0.0%	70.53%
St Lukes Group	AMP Asset Mgmt	Sell	-0.628	10.76%	9.30%
Trans Tasman Prop.	SEABIL	Buy	+5.026	54.80%	56.19%
18/06/99					
Affco Holdings	UBS Nominees	Sell	-2.484	11.89%	10.68%
Ebos Group	Whyte Adder	Buy	+0.380	19.99%	24.89%
Ebos Group	Cullen Trust	Sell	-0.300	6.53%	3.50%
ElderCare NZ	CO Gibbs	Buy	+11.930	0.0%	8.92%
ElderCare NZ	TC Brandon	Buy	+13.810	0.0%	10.33%
Nuplex Industries	Tower Corporation	Buy	+0.676	6.90%	8.12%
25/06/99					
Advantage Group	Romney (No 11)	Sell	-0.649	5.89%	4.27%
Air New Zealand	Franklin Resources	Sell	-6.235	6.92%	5.82%
Colonial Motor Coy	RC Gibbons	Buy	+0.155	4.63%	5.13%
Colonial Motor Coy	PC Gibbons	Buy	+0.377	9.43%	10.65%
Dorchester Pacific	PR Briggs	Buy	+0.705	8.24%	12.97%
FC - Energy	Capital Group	Buy	+2.874	6.06%	8.61%
FC - Building	Franklin Resources	Buy	+3.945	7.80%	8.81%
Fisher & Paykel	Franklin Resources	Sell	-1.293	10.37%	9.27%
Fruitfed Supplies	Williams & Kettle	Buy	+4.035	36.34%	69.67%
Mainfreight	Tower Corporation	Sell	-0.224	5.30%	4.99%
Natural Gas Corporation	AGL	Buy	+19.409	29.80%	34.70%
Revesco Ltd	Global Portfolios	Sell	-2.909	5.02%	3.84%
Seafresh NZ	Lim Family	Sell	-5.000	73.98%	66.40%
02/07/99					
Advantage Group	Royal & Sun Alliance	Buy	+3.960	0.0%	9.03%
ElderCare NZ	CO Gibbs	Sell	-3.333	8.92%	6.43%
ElderCare NZ	TC Brandon	Sell	-3.333	10.33%	7.84%
FC - Energy	AMP Asset Mgmt	Buy	+2.085	4.49%	5.26%
FC - Paper	Franklin Resources	Sell	-7.800	7.59%	6.58%
Kiwi Development	Kiwi Income Prop	Buy	+2.000	20.00%	24.16%
Shortland Properties	National Mutual	Sell	-5.768	9.23%	7.30%
09/07/99					
FC - Paper	Franklin Resources	Sell	-7.801	7.59%	6.58%
LWR Industries	CHL New Zealand	Buy	+21.420	0.0%	64.20%
Pacific Retail Group	MS Hotchin	Buy	+4.305	0.0%	9.54%
Pacific Retail Group	Logan Corporation	Sell	-4.624	73.72%	63.46%
Pacific Retail Group	NP Gordon	Buy	+1.500	0.0%	3.33%
Sky Network TV	Independent News	Buy	+34.253	40.23%	49.60%
Sky Network TV	TVNZ	Sell	-46.099	12.40%	0.0%
Sky Network TV	Todd Com.	Buy	+9.600	7.80%	10.27%
Trans-Tasman Prop	Nat Mutual	Sell	-1.800	5.24%	4.94%

D i v i d e n d $

Company	Cents per Share	Ex-Date	Pay-able	Tax Credit
Carter Holt Harvey	3.00	21-06	12-07	0.4925373
DB Group	8.00	28-06	09-07	Full
Dorchester Pacific	2.50	-	-	Full
Fisher & Paykel	9.00	21-06	25-06	Full
Horizon Energy	12.00	-	02-07	Full
Mainfreight	3.00	05-07	09-07	Full
Owens Group	6.00	26-07	30-07	Full
Radio Otago	9.00	26-07	01-08	Full
Radio Pacific	7.50	26-07	06-08	Full
Trust Power	6.95	16-08	27-08	Full
United Networks	19.00	26-07	30-07	Full
	Australian Dividends			
Hancock & Gore	3.75	02-07	16-07	-

While some people are closely following the buying and selling of NZ's latest investment "personality" Eric Watson, we advise generally avoiding companies with which he is associated. To date, there is no evidence that he will make money for minority public shareholders. To the contrary, his "track record" involves a number of questionable transactions when dealing with public shareholders. [Editor's Note: We hasten to point out that there has been nothing illegal - under NZ law.] Over the last month, some long term investors in **Advantage Group** (Romney, NP Gordon) have been selling, which we consider significant. In other situations, we cannot even try to make sense of all the buying and selling in two other of Watson's companies: **Elder Care** and **Pacific Retail**.

Kiwi Income Properties has been buying **Kiwi Development Trust** - suggesting that the trust is under-valued.

Strathmore Group has a new 70.5% shareholder - so *something* may be about to happen there!

Ebos Group is raising additional capital for expansion through a cash issue, but its Managing Director is seeking to substantially increase his shareholding.

Two **Colonial Motor Company** directors have spent the last month (and $1.2 million) raising their shareholdings in the company.

Total Return Index for All Listed Shares

	Jun 7	Holiday	
	Jun 8	2115.00	
	Jun 9	2107.83	
	Jun 10	2119.58	
	Jun 11	2125.54	
Jun 14	2120.71	Jun 21	2118.27
Jun 15	2130.89	Jun 22	2118.16
Jun 16	2131.76	Jun 23	2115.78
Jun 17	2133.54	Jun 24	2121.21
Jun 18	2122.04	Jun 25	2128.76
Jun 28	2124.70	Jul 5	2170.93
Jun 29	2127.76	Jul 6	2173.76
Jun 30	2129.19	Jul 7	2177.02
Jul 1	2146.19	Jul 8	2193.2
Jul 2	2158.19	Jul 9	2213.14

Internet Password

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July's Password — August's Password

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Next Issue

The next issue of "Market Analysis" will be posted in four weeks time on Tuesday August 10, 1999.

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