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.

The outlook for the NZ and Australian stockmarkets is slightly unfavourable, but they offer good value compared with other world stockmarkets. We believe our share selections are also under-valued. Therefore, continue to hold these positions. Selling one share that has risen very strongly will generate a small 5-10% cash reserve.

Investment Outlook.

Our One Year Forecasts for the stockmarkets of New Zealand (**Bearish** at **29%**) and Australia (**slightly Bearish** at **39%**) have changed little over the last month. The **Short Term Trend Model** for the NZ market, however, has improved to a **Bullish 72%**.

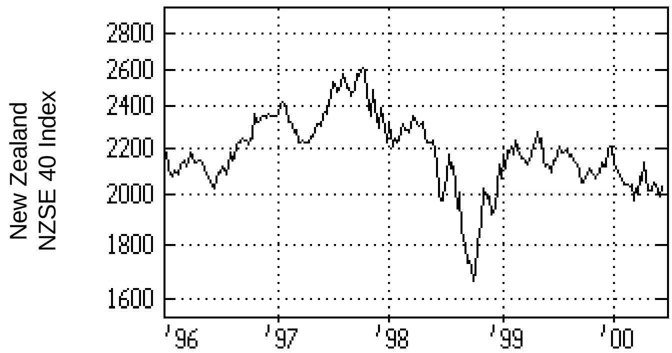
The Reserve Bank of Australia has indicated that interest rates will not be raised during June. That is unlikely to be the case in NZ, nor in the United States. US interest rate increases are responsible for the environment of world interest rate increases which is unfavourable for share prices.

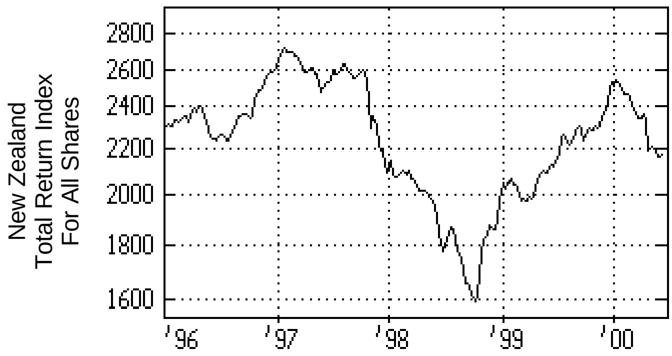
As recommended last month, investors should accumulate a small cash reserve from new savings and dividend income. We are now recommending the sale of **Flight Centre** shares to realise a six-fold gain on an investment which has achieved its potential and become over-valued. We shall hold this small cash reserve (equal to 5-10% of our NZ and Australian portfolios) pending new buying recommendations (and adding to existing shareholdings) when the outlook for stockmarket investment improves.

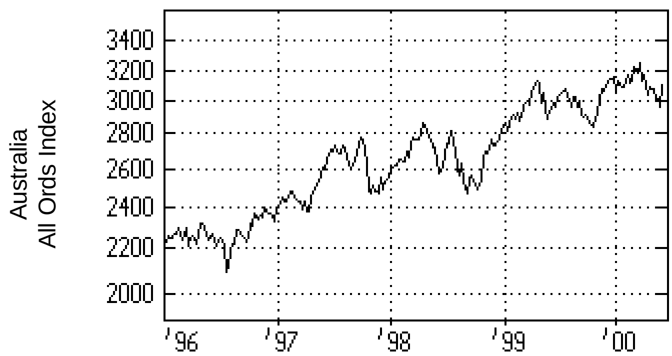
Despite the unfavourable outlook for share prices, we are not generally recommending reducing exposure to current recommended investments. The Australian stockmarket offers reasonably good *value* (from which we can find many *under-valued* situations) while the NZ market is very *under-valued* compared with the rest of the world. So we are happy for our NZ and Australian portfolios to remain 90-95% invested in equities which we believe are *under-valued* and attractive long term investments.

Despite a "business-unfriendly" Government - which has depressed business confidence - the NZ stockmarket could perform strongly *once global and local interest rates have peaked* (i.e. later this year?). Business confidence is not a good indicator of future stockmarket performance, but *low business confidence* is usually matched by *low investor confidence* - which is when share prices are at their lowest and more attractive for purchase.

The NZ economy and stockmarket could also benefit strongly from the significant decline in the NZ dollar exchange rate over the last 3½ years and over the last month. This is discussed in more detail on Page 3.







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	78	0.40	27	15.3
AMP Limited	A	1977	0.61	16	2.7
AMP NZ Office	D	82	5.87	11	9.4
AXA Asia Pac.	C	325	3.07	16	3.5
Advantage HDS	B	308	4.40	36	Nil
Affco Holdings	D	39	0.10	NE	Nil
Air New Zealand	B	181	0.31	5	8.3
Akd Int Airport	B	262	6.86	26	4.6
Apple Fields	D	8.8	0.07	NE	Nil
Aquaria 21	D	3.6	0.61	NE	Nil
Baycorp Hold	A	920	N/A	52	2.6
Beauty Direct	D	10	N/A	NE	Nil
Brierley Invest	D	32	0.49	8	9.4
Broadway Ind	D	25	0.06	NE	Nil
CDL Hotel NZ	D	20	0.42	11	5.3
CDL Investments	D	20	1.24	7	18.7
Calan Hlthcare	E	91	N/A	NE	Nil
Cap Properties	C	27	0.86	2	42.8
Carter Holt	C	179	0.95	19	3.4
Cavalier Corp	B	338	0.60	11	11.5
Cedenco Foods	B	98	2.31	11	Nil
Ceramco Corp	A	170	0.73	10	2.9
Col FS Property	C	86	N/A	12	8.0
Col Motor Co	A	300	0.31	16	7.7
Colonial Ltd	A	1170	0.96	19	2.2
Contact Energy	B	281	8.13	15	8.4
Cue Energy Ltd *	N/R	6.3	3.30	NE	Nil
DB Group	B	268	0.42	9	8.9
Dairy Brands	D	26	1.74	NE	Nil
Damba Hold Ltd	C	50	0.47	NE	Nil
Design Textiles	C	27	0.18	5	16.6
Dorchester Pac	A	138	0.99	10	6.5
E-Force Limited	E	25	1.46	NE	Nil
E-Phone Ltd	E	24	N/A	NE	Nil
E-Ventures NZ	D	56	N/A	NE	Nil
E-cademy Hold.	D	6.0	N/A	NE	Nil
Ebos Group Ltd	B	375	0.96	16	7.2
Eldercare NZ	E	42	8.27	NE	Nil
Evergreen	D	44	N/A	19	Nil
FC - Building	C	215	0.26	30	8.3
FC - Forests	C	84	1.30	13	Nil
FC - Paper	C	238	0.43	NE	0.9
FC - Energy	B	570	1.57	34	3.7
Fisher & Paykel	C	685	1.04	23	5.4
Force Corp.	D	41	1.99	8	14.6

	Performance Forecast	Price	Price/Sales Ratio	P/E Ratio	Gross Yield
GDC Communicat.	B	213	N/A	25	Nil
Goodman Fielder	C	155	0.44	14	6.0
Grocorp Pacific	D	12	0.73	NE	Nil
Guiness Peat	C	145	2.10	11	2.2
Hallenstein G.	C	200	0.73	12	12.7
Hellaby Hold.	C	168	0.49	6	12.4
Heritage Mining*	N/R	5.0	N/A	NE	Nil
Horizon Energy	C	640	2.07	23	5.4
IT Capital Ltd	E	33	N/A	NE	Nil
Ind Newspapers	B	395	1.53	32	9.1
Infratil Aust.	A	108	2.63	6	9.7
Infratil NZ	C	124	7.41	9	8.4
Kingsgate Int'l	E	13	1.23	16	Nil
Kiwi Property	D	88	6.05	9	11.8
Kiwi Developmnt	E	112	N/A	NE	Nil
Lion Nathan Ltd	B	442	1.24	16	4.7
Lyttelton Port	C	140	2.57	11	7.8
Mainfreight Grp	B	165	0.42	17	5.0
Manor Inns Grp	E	12	0.48	NE	Nil
Max Resources*	N/R	13	N/A	NE	Nil
Metro. LifeCare	C	178	1.74	16	5.0
Michael Hill	C	290	0.71	13	5.9
Mid-Cap Index*	N/R	170	N/A	NE	Nil
Montana Group	B	215	1.08	19	2.1
Mr Chips Hold	B	69	0.75	24	13.0
NZ Experience	E	8.9	0.64	42	Nil
NZ Invest Trust*	N/R	405	N/A	NE	2.0
NZ Oil and Gas *	N/R	25	1.72	NE	Nil
NZ Refining Co	B	1000	0.99	10	10.0
Nat Property Tr	C	75	4.64	9	13.5
National Mail	E	102	N/A	NE	Nil
Natural Gas	C	137	1.97	13	10.9
Newcall Group	D	37	N/A	NE	Nil
Newmarket Prop.	C	53	3.94	6	17.9
Nobilo Wines	B	101	0.88	22	4.4
Northland Port	A	140	1.12	13	8.0
Nufarm Limited	C	377	0.40	9	6.6
Nuhaka Forestry	C	1351	N/A	NE	Nil
Nuplex Indust	C	290	0.51	14	5.4
Opio Forestry	D	52	N/A	NE	Nil
Otter Gold Mine*	N/R	63	0.40	14	Nil
Owens Investmts	C	100	0.16	15	6.7
Ozzy (Tortis)*	N/R	240	N/A	NE	Nil
PDL Holdings	C	470	0.20	36	6.4
Pacific Retail	B	165	N/A	14	2.7

	Performance Forecast	Price	Price/Sales Ratio	P/E Ratio	Gross Yield
Port Tauranga	C	516	7.46	22	5.2
Ports Auckland	C	400	3.45	16	6.7
Property F Ind.	C	73	7.56	14	9.3
Pure NZ Limited	E	13	4.35	NE	Nil
Radio Works NZ	B	780	2.15	17	2.9
Reid Farmers	A	70	0.52	10	9.6
Renaissance	C	60	0.17	48	2.5
Restaurant Brds	B	115	0.49	8	13.0
Revesco Ltd*	N/R	43	5.68	NE	Nil
Richina Pacific	D	42	0.06	NE	Nil
Roller Int'l *	N/R	40	0.21	NE	Nil
Ryman Health.	D	171	N/A	NE	Nil
SE Utilities	C	92	2.29	13	6.5
Sanford Limited	C	427	1.26	10	5.2
Savoy Equities	E	3.6	1.35	NE	Nil
Scott Tech. Ltd	B	238	1.70	16	6.9
Seafresh Fish.	D	11	0.45	13	Nil
Shotover Jet	C	44	0.79	7	5.7
Sky City Ltd	C	620	2.32	13	10.4
Sky Network TV	D	371	N/A	NE	Nil
Southern Cap	D	67	4.93	10	Nil
South Port NZ	C	92	1.02	21	8.9
Spectrum Res.*	N/R	11	N/A	NE	Nil
St. Lukes Group	D	164	2.78	7	8.9
Steel & Tube	C	130	0.34	11	9.2
Strathmore Grp	D	27	N/A	NE	Nil
Summit Gold Ltd*	N/R	9.8	N/A	NE	Nil
Tag Pacific Ltd	D	35	0.49	NE	2.1
Tasman Agric.	B	85	2.73	12	3.5
Taylors Grp Ltd	B	108	0.69	14	6.2
TeNZ *	N/R	96	N/A	NE	Nil
Telecom Corp	B	782	3.99	17	8.8
Tourism Hold.	B	250	0.94	16	3.0
Tower Limited	A	585	0.76	13	2.2
Trans-Tasman	E	18	0.98	3	Nil
Trans Alta NZ	C	239	0.57	14	8.7
Tranz Rail Hold	C	333	0.71	6	7.6
Trust Power Ltd	C	305	1.07	17	8.1
United Networks	C	606	2.04	8	9.9
Utilico Int'l	D	27	N/A	NE	Nil
Warehouse Group	B	425	1.29	23	6.7
Waste Mgmt NZ	B	357	3.19	33	2.5
Williams Kettle	A	203	0.29	13	9.6
World Index Fd *	N/R	225	N/A	NE	Nil
Wrightsons Ltd	D	45	0.11	NE	Nil
Ave of 135 Coys	C	212	0.53	17	4.8

A.G.L.	B	930	1.82	14	4.8
AAPT	B	580	2.30	50	Nil
AJ Indust Trust	E	145	N/A	NE	Nil
AJ Office Group	D	115	N/A	NE	Nil
AMP Diver. Prop	C	231	2.38	12	8.1
AMP Ltd	C	1600	0.63	17	2.6
AMP Office Trt	C	113	9.31	13	7.3
AMP Shop Centre	B	139	8.52	20	6.3
ANZ Bank	B	1235	1.76	13	4.5
APN News Media	A	395	1.95	23	3.2
AXA Asia Pac	C	265	3.12	16	3.4
AXA Aust Div PT	C	109	8.92	15	7.9
Advance Prop	C	140	6.71	12	8.4
Amcor Ltd	C	522	0.50	11	7.5
Amway Asia Pac	C	2755	N/A	NE	Nil
Aristocrat	B	1773	6.66	51	1.6
Aust Stock Exch	B	1035	6.47	26	3.4
Austar United	E	582	N/A	NE	Nil
Australand Hold	C	126	0.75	5	9.5
BA Tobacco Aust	C	1100	0.42	14	78.8
BRL Hardy Ltd	A	685	1.88	20	2.3
BTR "A"	E	508	N/A	NE	Nil
Bank of W.Aust	B	352	3.16	13	5.1
Boral Limited	C	196	0.43	10	3.8
Brambles Ind.	B	4749	2.12	33	1.6
Brickworks Ltd	A	4200	3.75	14	2.6
C & W Optus	C	489	4.27	63	Nil
C'wth Prop Off.	C	95	N/A	63	1.6
C.S.R. Ltd	C	408	0.57	9	5.8
CSL Limited	A	2260	7.00	63	0.9
Cadbury Sch.	D	1127	N/A	NE	3.0
Centro Prop.	B	272	6.49	12	8.4
Challenger Int.	C	317	2.61	15	1.6
Coal & Allied	B	1499	2.21	18	5.3
Coca-Cola Bev.	E	287	N/A	NE	Nil
CocaCola Amatil	C	340	0.89	18	3.5
Cochlear Ltd	A	2499	9.85	77	1.1
Col FS Property	D	212	N/A	NE	Nil
Coles Myer	B	631	0.32	17	4.0
Colonial Ltd	B	946	1.00	19	2.1
Com'wealth Bank	B	2708	2.55	17	4.2

Com. Inv. Trust	E	97	N/A	NE	Nil
Computer Share	B	684	N/A	NE	0.6
Crown Ltd	C	90	0.70	14	Nil
E.R.G.	A	824	6.09	82	0.2
Email Ltd	B	298	0.38	15	8.2
Energy Develop.	A	839	8.82	61	0.5
Fairfax (John)	B	463	2.56	15	2.3
Faulding (F.H.)	B	794	0.61	20	2.6
Flight Centre	A	1825	0.80	53	1.0
Foodland Assoc	C	770	0.18	6	6.4
Foster's Brewin	B	436	2.40	21	3.0
Futuris Corp.	C	165	0.22	14	4.8
GWA Internat'l	C	212	1.06	13	5.9
Gandel Retail T	B	110	9.80	16	7.5
General Prop Tr	B	258	6.26	14	7.4
Ges Internat'l	B	160	0.90	36	0.6
Goodman Fielder	C	127	0.47	15	5.9
Guinness Peat	C	117	2.55	11	0.5
HIH Insurance	C	113	0.16	6	14.2
Hardie (James)	B	399	0.92	11	4.5
Harvey Norman	A	350	2.10	8	4.3
Hills Motorway	B	340	9.56	42	1.7
Hutchison Tel.	C	346	5.03	NE	Nil
Incitec	C	525	0.65	18	4.0
Jupiters	C	277	1.16	15	5.1
Lang Corporatio	C	810	2.38	27	Nil
Leighton Hold	C	510	0.40	11	5.9
Lend Lease Corp	C	2045	2.50	25	2.9
M.Y.O.B. Ltd	B	420	6.03	39	0.8
Macquarie Off.	C	112	8.19	12	9.4
Macquarie Bank	B	2352	3.39	19	3.7
Macquarie Infra	C	124	5.54	6	8.1
Mayne Nickless	B	301	0.26	9	10.0
Mirvac Limited	B	346	2.36	16	5.9
Mirvac Property	B	178	9.75	15	6.4
Nat'l Foods	B	286	0.69	16	4.5
Nat'l Aust Bank	B	2632	6.11	53	4.3
News Corporatio	B	2120	1.96	29	0.1
One Tel Ltd	E	127	6.57	NE	0.1
Open Telecom.	C	181	N/A	NE	Nil
Orica Ltd	C	718	0.44	13	5.2

Origin Energy	B	152	N/A	NE	Nil
Orogen Minerals	B	160	2.10	7	4.3
PBL	B	1345	5.42	51	1.3
Pacifica Group	C	417	0.66	19	4.2
Pacific Dunlop	C	153	0.24	8	9.2
Paperlin X Ltd	E	299	N/A	NE	Nil
Perp Trust Aust	A	2511	4.56	32	2.4
Pioneer Int'l	B	481	1.07	18	33.5
PowerTel Ltd	C	165	1.61	NE	Nil
Q.B.E. Insur.	C	662	0.70	16	4.1
Qantas	C	341	0.47	11	5.6
Rio Tinto Ltd	B	2540	1.00	7	3.5
Rural Press Ltd	B	500	1.34	13	2.5
SecureNet Ltd	C	750	N/A	NE	Nil
Seven Network	A	695	2.74	NE	2.9
Smith (Howard)	C	820	0.59	16	5.0
Smorgon Steel	C	145	0.64	19	3.1
Sonic Health	B	570	4.05	40	2.5
Southcorp Ltd	C	520	1.12	18	3.8
Spotless Group	A	475	0.61	21	3.7
Spotless Serv.	A	139	0.54	19	4.3
St George Bank	B	1182	1.65	17	4.4
Stockland Trust	B	351	6.08	14	7.0
Suncorp-Metway	B	815	0.67	6	5.4
TAB Ltd	C	245	0.30	22	3.7
Tabcorp Holding	C	922	2.59	20	4.7
Telstra	B	688	1.62	13	4.8
Ten Network	B	223	1.47	15	6.5
Transurban Grp	D	328	N/A	NE	Nil
United Energy	A	261	1.59	72	6.6
Village Road.	C	240	0.71	8	4.2
Wesfarmers Ltd	C	1180	1.05	17	5.6
West Aust News	B	522	3.10	16	5.7
Westfield Amer.	B	162	1.75	13	7.5
Westfield Hold.	A	1150	6.90	48	1.1
Westfield Trust	B	310	9.65	17	6.6
Weston (George)	C	595	0.45	16	3.2
Westpac Banking	B	1240	2.19	16	3.8
Westpac Prop Tr	B	160	7.02	21	8.1
Woolworths Ltd	A	590	0.36	22	3.1
Ave of 1332 Cos	C	165	0.37	18	2.6

Recommended Investments

After rising in value during most of the 1980's and 1990's the NZ dollar has fallen significantly in value over the last 3½ years. Appreciation of the currency is generally unfavourable for business (e.g. eroding profitability in both manufacturing export industries and in farming) although it benefits consumers (e.g. with cheaper imported goods).

The NZ dollar lost 25-30% of its value during 1997 and the first half of 1998. The expected boost in export revenue and profitability, however, was offset by the Asian crisis. Lower demand for commodities sharply reduced export income.

After rising slightly from mid-1998 to early 1999, the NZ dollar is once again depreciating sharply in value. While growth in the United States economy will slow, the world economy is growing relatively fast, and commodity prices have recovered from the Asian crisis

downturn. Farming incomes are about to rise sharply for the first time in about two decades - and an export led recovery *may* finally be about to start.

Current government policies may stifle development in the small and medium sized business sector (which creates most of the economic *(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*	B	567.0	0.9	0.31	5	8.3	181	69.0	-3%
HOLD-	Apple Fields Limited	APF	10/03/92	237	D	29.2	2.7	0.07	NE	Nil	9	10.0	-92%
HOLD+	CDL Investments Ltd	CDI	12/01/99	25	D	171.4	2.1	1.24	7	18.7	20	4.5	-2%
BUY	Cavalier Corporation	CAV	05/12/95	312	B	36.0	0.9	0.60	11	11.5	338	116.0	+46%
HOLD+	Colonial Motor Company	CMO	10/11/92	150	A	30.9	0.8	0.31	16	7.7	300	187.3	+225%
HOLD	Designer Textiles Ltd	DTL	12/01/99	47	C	29.7	1.8	0.18	5	16.6	27	4.0	-34%
BUY	Ebos Group Ltd	EBO	12/10/99	290	B	23.2	0.8	0.96	16	7.2	375	15.5	+35%
HOLD	Michael Hill Int'l Ltd	MHI	11/06/91	46*	C	38.6	0.9	0.71	13	5.9	290	60.5	+662%
HOLD	Nufarm Limited	NUF	11/02/97	505	C	150.5	0.8	0.40	9	6.6	377	60.0	-13%
HOLD+	Nuplex Industries Ltd	NPX	11/02/97	350	C	55.4	1.0	0.51	14	5.4	290	29.0	-9%
HOLD	Owens Group Limited	OWN	12/03/91	47*	C	56.5	1.1	0.16	15	6.7	100	80.3	+284%
HOLD	PDL Holdings Ltd	PDL	13/02/96	810	C	13.6	0.9	0.20	36	6.4	470	123.0	-27%
HOLD	Radio Works NZ Ltd	RWL	08/12/92	205	B	12.0	0.5	2.15	17	2.9	780	121.0	+340%
BUY	Renaissance Corp	RNS	13/08/96	85*	C	35.3	2.3	0.17	48	2.5	60	5.4	-23%
HOLD	Richina Pacific	RCH	03/11/95	119*	D	72.2	1.7	0.06	NE	Nil	42	11.9	-55%
HOLD	South Port New Zealand	SPN	13/02/96	120	C	32.4	1.1	1.02	21	8.9	92	35.3	+6%
BUY	Taylors Group Ltd	TAY	09/11/99	102	B	24.3	1.2	0.69	14	6.2	108	3.0	+9%
HOLD+	Tourism Holdings Ltd	THL	14/07/92	149*	B	92.0	1.0	0.94	16	3.0	250	50.9	+102%
HOLD+	Wrightson Limited	WRI	13/01/98	83	D	139.7	1.8	0.11	NE	Nil	45	7.3	-37%
	Australian Shares (in Aust cents)												
HOLD+	Abigroup Limited	ABG	09/03/99	265	C	47.7	0.9	0.11	5	8.6	163	21.0	-31%
BUY	Atlas Pacific Ltd	ATP	14/05/96	73	C	54.8	1.9	2.42	10	Nil	26	Nil	-64%
BUY	Auspine Limited	ANE	08/02/00	210	C	57.0	0.8	0.51	12	5.8	208	10.0	+4%
HOLD	Biron Corporation Ltd	BIC	12/04/94	178	B	21.8	2.0	0.79	NE	8.5	24	11.0	-81%
BUY	Campbell Brothers Ltd	CPB	12/10/99	435	C	31.0	0.7	0.53	12	5.7	470	11.0	+11%
HOLD+	Central Equity Ltd	CEQ	09/02/94	154	B	82.1	0.8	0.87	6	8.4	190	69.0	+68%
HOLD	Data#3 Limited	DTL	09/02/99	285	B	14.6	0.9	0.14	7	8.6	139	14.5	-46%
SELL	Flight Centre	FLT	11/08/98	308	A	81.7	0.5	0.80	53	1.0	1825	34.5	+504%
HOLD+	Hamilton Island Ltd	HAM	09/11/99	205	B	45.0	0.8	1.09	12	5.4	242	13.0	+24%
HOLD+	Hancock & Gore	HNG	15/07/97	125*	B	46.0	0.9	0.68	10	5.8	137	15.8	+22%
HOLD+	PMP Communications	PMP	09/02/99	309	C	253.4	1.0	0.40	8	11.0	185	30.8	-30%
HOLD	Thakral Holdings	THG	10/11/98	65	C	536.7	1.3	1.43	10	9.2	63	8.6	+10%
BUY	Toll Holdings	TOL	08/09/98	240	B	60.5	0.7	0.37	16	2.7	826	43.0	+262%
BUY	Utility Services Corp	USC	11/01/00	55*	B	101.5	1.4	0.77	21	Nil	70	Nil	+27%
BUY	Vision Systems Ltd	VSL	10/11/98	685*	A	14.0	0.6	0.97	18	2.7	1020	41.9	+55%

The average Total Return (i.e. both Capital Gains/Losses plus Dividends received) of all current investments from initial recommendation is +63.1%. This is equal to an average annual rate of +17.9%, based upon the length of time each position has been held.

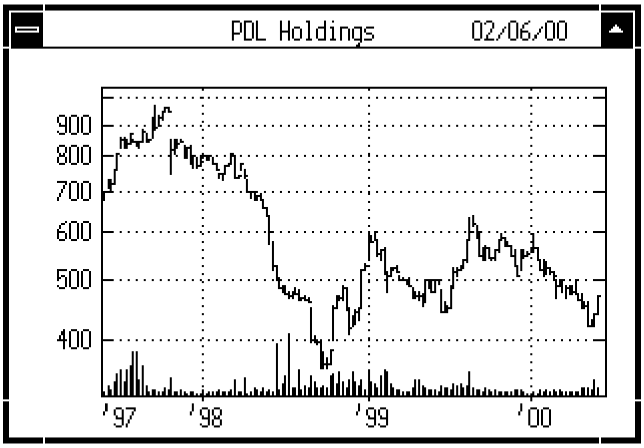
The average annual rate of gain of ALL recommendations (both the 34 current and 102 closed out) is +30.0%, compared with a market gain of +11.9% (by the SRC Total Return Index).

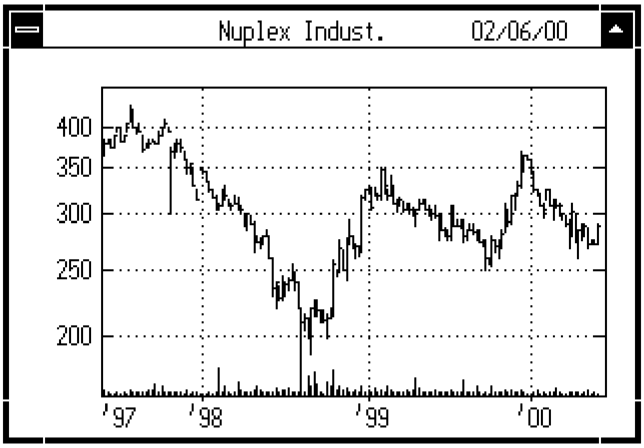
CURRENT ADVICE is either Buy, Hold+, Hold, Hold- or Sell. Hold+ indicates the most attractive shares not rated as Buy. Hold- indicates relatively less attractive issues.

* Initial Recommendation Prices adjusted for Share Splits, Bonus and Cash Issues. (1) Atlas Pacific notes (ATPG) last traded at 28 cents.

Recommended Investments *(Continued from Page 3)* growth and new employment) but these are mainly privately owned businesses. So while this may have serious consequences for the NZ economy, it doesn't impact *too* much on the listed companies which we are monitoring in this newsletter.

The 35% decline in the NZ dollar over the last 3½ years should have a favourable impact on many of our *Recommended Investments*: **Air NZ** may complain about higher fuel and aircraft costs (but in US dollar terms pay the same as all other airlines) but NZ has become a cheaper, more competitively priced destination for foreign tourists. Higher tourists numbers will also benefit **Tourism Holdings**. Exporters like **Cavalier** and **PDL Holdings** will benefit significantly from the lower NZ dollar, which makes their exports more competitive and adds significantly to profit margins. Companies with significant offshore businesses - **Michael Hill**, **Nufarm**, **Nuplex** and **Richina Pacific** - will find the value of their overseas profits are worth more when translated into NZ dollars. Companies that service export industries - **South Port** and **Wrightson** - should also see an upturn in their revenues and profits as a result of the lower exchange rate.





One of the investment strategies that we use in our *International Investor* newsletter is to buy into depressed and under-performing economies *after the exchange rate has depreciated sharply* as this will significantly boost corporate profitability and economic activity. It is perhaps time to start applying this international investment strategy to the NZ stockmarket . . .

New Zealand Shares

Owens Group has reported revenues down 9.3% to $349.5 million for the year to March 31, 2000. Trading profits fell 4.7% to $3,850,000 (6.8 cents per share), although the annual dividend rate has been cut 55.0% to 4.5 cents (plus full tax credits). In addition there were unusual losses of $3,572,000 - compared with unusual *profits* of $3,485,000 in the previous year.

CanWest has been buying **RadioWorks NZ** on-market and built up a 71.9% stake in the company. Although RadioWorks share price has since fallen slightly below the $8.25 paid by CanWest our advice has been "don't sell".

RadioWorks profit for the year to March 31 will be up 41% to $5.5 million - although earnings per share are unchanged at around 45 cents owing to shares issued in the merger with **Radio Otago**. The profit figure, however, under-states the result as it includes only eight months of trading from Radio Otago. Profits for the March 2001 year are forecast to rise 40% to give earnings per share of around 65 cents. The company would also be debt-free by March 2001 - after which it could make substantially higher dividend payments to shareholders.

Furthermore, RadioWorks had identified "operational savings and revenue enhancements" of "$5.0-6.5 million" (before tax) by merging with CanWest's NZ radio business. CanWest's acquisition of 72% of RadioWorks shares on market indicates that a full merger will yield significant increases in shareholder value *and that CanWest wanted to get a bigger share of those benefits*.

So where does this leave existing shareholders in RadioWorks? Firstly, RadioWorks shares remain a sound investment in their own right. We are in no rush to sell a company that will be able to raise its dividend from 15.0 cents (while currently repaying debt) to an annual dividend of about 50 cents next year. However, the prospects of that significantly higher dividend payout may have diminished following CanWest's acquisition of a major shareholding. Secondly, we are in no rush to sell shares in a company that could generate a further $5 million increase in pre-tax profits through a merger with CanWest's radio stations. As a RadioWorks shareholder, we want to benefit from our fair share of those merger benefits. Thirdly, CanWest cannot realise these merger benefits without the approval of the remaining 28% minority shareholders in RadioWorks.

CanWest has shown that it is interested in full ownership, rather than a minority stake in an enlarged post-merger listed RadioWorks. The easiest way to get approval for merging the companies is to buy out the minority shareholders by making a full takeover bid.

RadioWorks - as a stand alone business - has been valued by an independent report at $8.76-9.97 per share. In addition, the merger benefits of $5.0-6.5 million before tax - would add about $50-60 million to the capital value of the two companies. As RadioWorks is approximately twice the size of CanWest Radio, two-thirds of the merger benefits should accrue to RadioWorks' shareholders. That is $33-40 million or $2.75-3.30 per RadioWorks share!

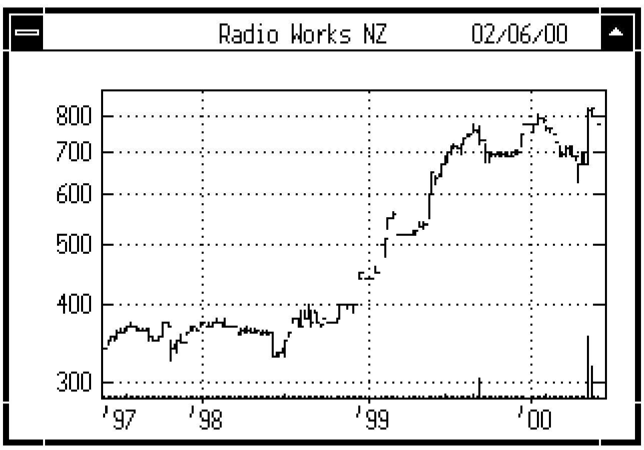
RadioWorks is therefore worth around $11.50-13.00 per share in a full takeover - but we won't get that much! NZ investors have "rewarded" RadioWorks for its good performance and strong growth over recent years by selling the company too cheaply to an overseas company. 72% of shareholders have accepted $8.25 from CanWest. With CanWest having acquired that much of the company, RadioWorks independent directors are not in a strong position to negotiate the best price for the remaining minority shareholders (and themselves).

CanWest's original view was that "it is best that it acquires 100% ownership of RadioWorks", but currently states that "its offer to acquire shares in RadioWorks expired on May 18" and that "the valuation report is not a fair assessment of the value of RadioWorks shares". Either CanWest believe that:

(1) RadioWorks shares are worth *more than $8.76-9.97*, which explains why they were buying shares at $8.25 or

(2) RadioWorks shares are worth *less than $8.76-9.97* and that CanWest is a philanthropic charity that only paid $8.25 to give minority shareholders a capital gain!

We would therefore expect CanWest to make a full takeover in the range of $8.50-10.00 within the next several months. That will give existing shareholders a slightly better price than those that have already sold out. However, we are more than happy to remain long term investors in RadioWorks shares. With the RadioWorks share price drifting back below $8.00 there is even the potential for those who sold to re-purchase shares and benefit from the expected full takeover bid.



Richina Pacific has announced a strong start to the financial year with China revenue up 68% and NZ revenue up 37% for the three months to March 31.

Tourism Holdings has sold its *Britz/Maui* motorhome business in South Africa for $9.6 million. In NZ and Australia, Tourism Holdings has integrated the *Britz* and *Maui* depots, created a single reservations system and will spend NZ$14 million to add 200 Mercedes vans to its rental fleet.

Australian Shares

Campbell Brothers has reported a 36.4% lift in revenues to A$273.0 million for the year to March 31, although profits rose only 13.5% to A$12,062,000 (38.9 cents per share). The final dividend will be 1.0 cent higher at 16.0 cents, lifting the annual rate 12.5% to 27.0 cents.

Despite strong cash flows from operations (up 36.5% to A$14.4 million), debt levels have risen from a low A$25.9 million (in March 1999) to A$53.0 million (at March 2000) owing to A$19.3 million invested to generate internal growth and A$16.8 million to finance acquisitions. The sale of its Bowen Hill site to the Brisbane City Council will realise a total of A$14.1 million - with the balance of A$9.0 million to be paid in early July which can be used to reduce debts.

The Soap & Chemical division lifted revenues 40.2% to A$197.2 million and earnings (before interest and tax) 29.0% to A$15.8 million. Laboratory Services' revenue rose 18.7% to A$13.5 million with earnings *down* 9.4% at A$8.2 million, while Distribution revenues jumped 102.2% to A$13.5 million and earnings increased 113.2% to A$1.0 million.

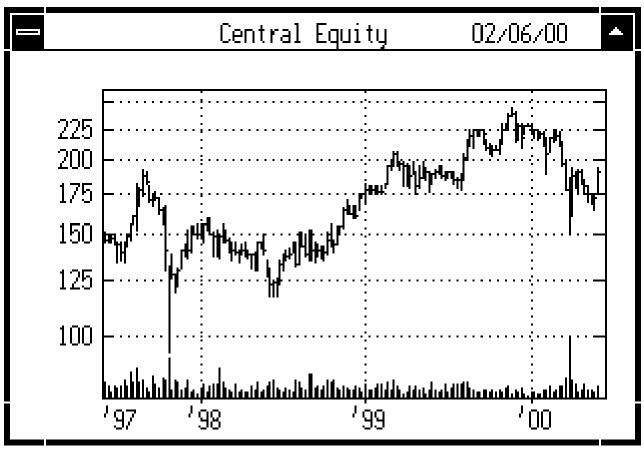
We see the Soap & Chemical business as being profitable, but also a low risk business generating a steady cash flow to fund expansions and acquisitions. Over the next few years we shall be looking for high profit margin Laboratory Services to generate significant profit growth and additional free cash flows.

In April, **Australian Laboratory Services** purchased the outstanding 22.6% of **Geolab Peru y Compania SA** for AS$606,000.

Director RJ White purchased 34,641 shares in Campbell Brothers in May, raising his holding to 76,963 shares.

Central Equity has received planning approval for two further residential towers on Southbank and at the western end of Bourke Street in Melbourne's central business district. The final sales value of these developments is A$150 million.

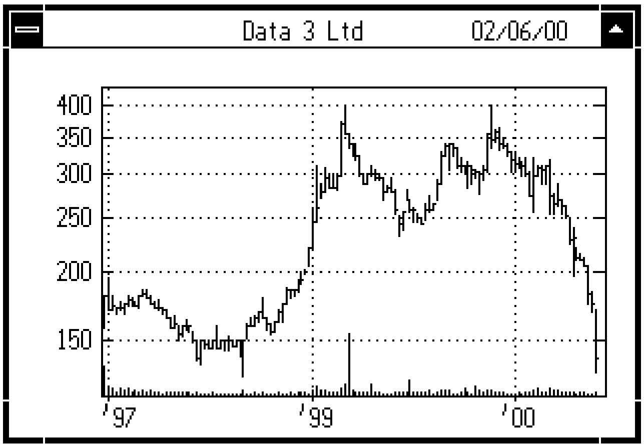
Central Equity will pay its third quarterly dividend of 4.0 cents on July 6 (ex-dividend June 29). This will make a 20.0% higher total of 12.0 cents for the year to date.



Data#3 has put out another unfavourable profit warning - causing its share price to fall further! First half profits (to December 1999) *(Continued on Page 6)*

Recommended Investments *(Continued from Page 5)* were down owing to the pre-Y2K downturn in computer sales. Now the company reports second half year (to June 2000) equipment sales are likely to be down 25-30%. Data#3 believes this is (another) "one-off" event caused by the introduction of GST at the end of June. Replacing sales taxes with GST will make computer equipment cheaper for businesses - so new purchases are being deferred. Data#3's services business is performing well, but is only a small part of the company. Full year profits are likely to be only around A$2 million - or about 14 cents per share.

We shall continue to rate Data#3 shares as "Hold", but if equipment sales recover in July the share price could rebound strongly! We would upgrade Data#3 to a "Buy" if and when its business *and* its share price trend start to impove.



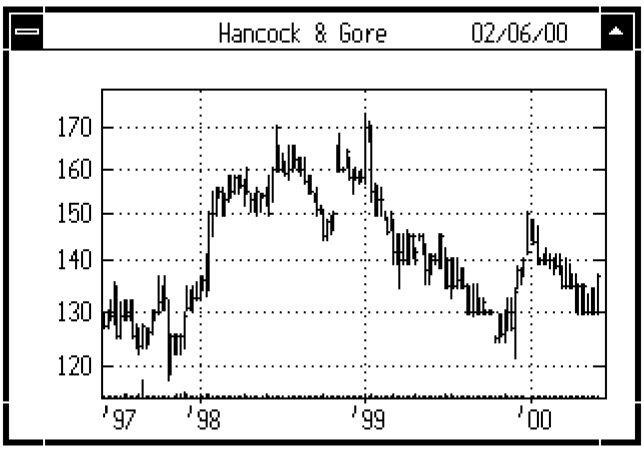
Hamilton Island director, MR Butler, has purchased 100,000 shares on-market during May.

Hancock & Gore has lifted revenues 8.3% to A$47.8 million for the six months to March 31. Profits were 8.4% higher at A$3,010,000 (6.5 cents per share) and a steady 3.75 cents interim dividend will be paid.

The company's various divisions experienced mixed results:

Division	Revenue		Earnings	
Industrial Abrasives	$8.563	-4%	$2.546	-27%
Information Technology	$15.346	-15%	$0.471	+239%
Optical	$6.436	+51%	$1.442	+58%
Fabric	$10.350	+24%	$1.219	+66%
Investment	$7.206	+54%	<$0.332>	

50% owned **GMA Garnet** (i.e. abrasives) was the only business not experiencing strong growth, owing to weaker economic conditions and stronger international competition. GMA Garnet has appointed a "new experienced executive . . . to identify and acquire niche industrial mineral opportunities with the objective of adding significant value to this business".



In April, Hancock & Gore subscribed A$1.75 million for new shares giving it a 25% shareholding in **4C**, a Sydney based systems integration business specialising in materials handling applications. This new money will fund software development and finance growth in the business. 4C was established in 1989 and generates annual revenues of about A$6 million.

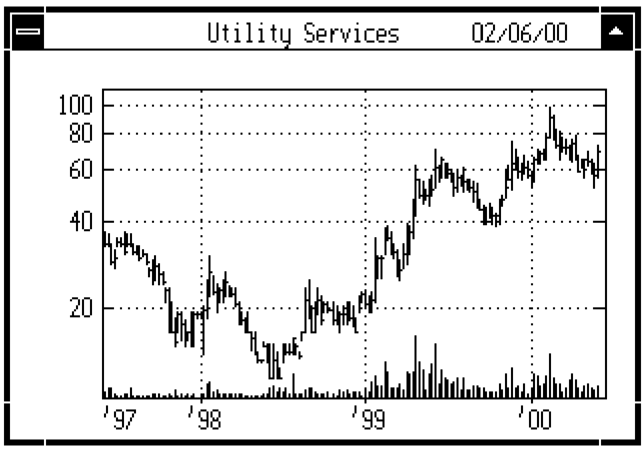
The proposed investment in **Cash Converters** is not proceeding. After conducting due diligence, Hancock & Gore and its investing partner sought to buy in at a lower price, but negotiations did not reach an agreement (and Cash Converters share price has since plunged lower).

Hancock & Gore is in a very strong financial position and cashed up looking for new acquisitions. Total interest bearing liabilities (mainly leases) are only A$10.9 million, while the company holds cash of A$3.5 million and A$19.3 million of unutilised bank facilities. Total group equity (including minority equity interests in subsidiaries of A$11.8 million) is A$54.0 million.

Utility Services Corporation shares are now trading ex-entitlement to the current 1 for 5 cash issue at A$0.40 per share. For some reason the company calls this a 1 for 10 cash issue at A$0.80 - with a free bonus share for each new share. The application form and payment need to be mailed back immediately to reach the company be June 15.

The "bonus" element in this cash issue has reduced our initial recommendation price to 55 cents.

Utility Services' 50% owned **Skilltech Consulting Services** has won a 3-5 year meter reading contract from **Yarra Valley Water**. Skilltech will now make over 11 million meter reads annually - up 37% since Utility Service bought into the company eleven months ago.



Vision Systems is to make a 10 for 1 share split- which simply divides every existing share into 10 new shares each worth 1/10th the value. This, however, will reduce the market price per share from around A$10 to about A$1 which may improve marketability and make the shares more attractive to a wider range of investors.

Share Recommendation: Sell Flight Centre

SELL Flight Centre

One of the most common mistakes that investors make is to sell their successful shares *too early* and hold on to their unsuccessful shares *too long*. So why are we recommending the sale of Flight Centre now? There are several reasons:

Firstly, the *mistake* would have been to sell Flight Centre when the shares went up 50% or 100% - but these shares have now increased *six-fold* in value in less than two years! At that rate of appreciation the share price has simply run far ahead of the underlying growth in the value of the business and the shares are looking very over-valued.

Since we first recommended Flight Centre shares in August 1998, the Price/Sales ratio has expanded from 0.20 to 0.82, the Price/Earnings ratio is up from 16 to 54, and the Dividend Yield has fallen from 2.9% to just 1.0%.

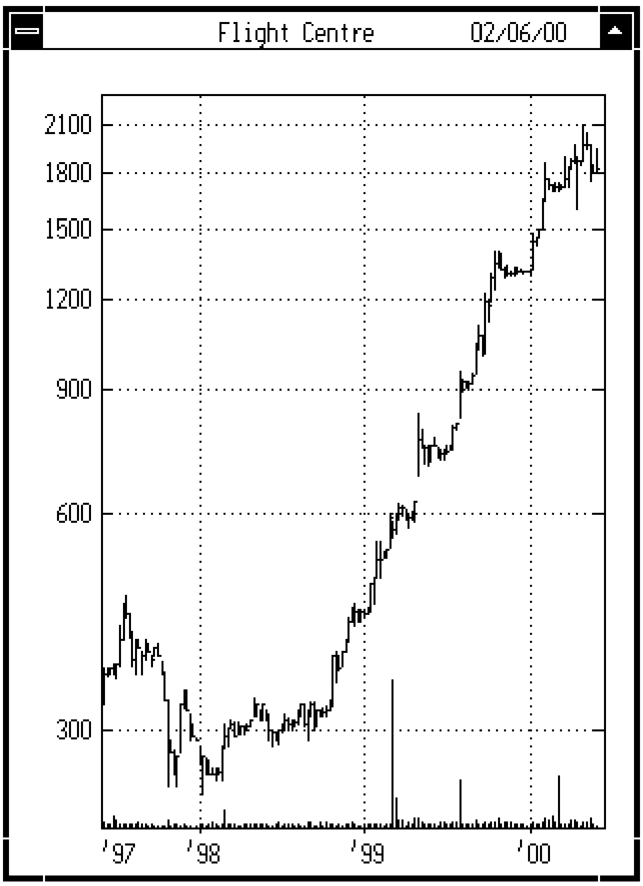
In our initial buy recommendation we had estimated that by the year 2003 the shares *could* be worth A$6-8, A$9-11 or A$14-16 - depending upon the company's ability to enter new markets and institutional interest in the shares. At A$18.25 - and in only June 2000 - the shares have moved much faster than we anticipated. While Flight Centre has excellent long term growth potential, the share price is just too high for the shares to remain attractive as a long term investment. At best the share price is *fully anticipating* very strong growth over the next two years (i.e. profits may grow strongly but the share price may not increase much further over the next two years).

So our first reason for selling is that Flight Centre shares have gone from being under-valued to over-valued, and may therefore under-perform the stockmarket in the future.

Secondly, there is a risk that economic factors (i.e. the decline in the stockmarket reducing investors' wealth, an economic slowdown, the lower Australian and NZ dollar exchange rates, the Fiji coup) will cause a slowdown in international air travel out of Australia and NZ. A slowdown in the company's growth rate, depressing the share price, is *exactly* what happened following the October 1997 Asian crisis - which led to the opportunity in August 1998 for us to buy Flight Centre shares at depressed levels. Over the last two years Flight Centre shares have gone from being *out of favour* and under-valued, to *popular* and over-valued. As discussed in our recent review of David Dreman's book *Contrarian Investment Strategies* "high P/E shares will react poorly to below expectation earnings, but yield only slightly above market average return after a good profit result".

Thirdly, the stockmarket decline of April and May has lowered the prices of a wide range of Australian shares - from which we hope to identify under-valued growth shares that will prove better long term investments than staying with Flight Centre. In fact, Flight Centre has increased in value so much that it will provide a large amount of cash - enabling us to buy into some new companies as well as add to positions in our *Recommended Investments* which have declined in price and now offer very good value.

Finally, the outlook for the Australian stockmarket is not favourable at the present time, owing to the increase in interest rates which is likely to continue for many more months. While we are reluctant to reduce our exposure to under-valued shares in good quality companies, the time is probably right to realise a position that has (over) achieved our expectations and to build up a small cash reserve. This money will be re-invested in new recommendations and in building up existing shareholdings when the stockmarket outlook improves.



Recommended Company Review: Atlas Pacific

Atlas Pacific "believes that the pearl farming project has developed to the stage whereby it can project earnings for the next four years". Here is the actual result for the 1999 year and the company's projections for the next four years:

Year	1999	2000	2001	2002	2003
Revenue ($000)	5,887	8,774	12,352	14,069	19,079
Expenses	4,919	4,479	4,937	5,882	6,867
Income Tax	Nil	1,047	2,316	2,552	3,944
Net Profit ($000)	310	3,561	5,099	5,635	8,268
Earnings Per Share (c)	0.6	6.5	9.3	6.3[1]	9.3[1]
Oysters Nucleated	108,000	130,000	150,000	150,000	150,000
Saleable Pearls	19,381	38,300	53,100	63,300	70,900

Note 1: We have changed the company's earnings per share figures for 2002 and 2003 to assume that the convertible notes become shares.

The company believes that actual revenues could be "up to 30% above or below" their projections owing to variations in the size, shape and colour of pearls, while expenses should be within 10% of projections. The conversion of the notes to ordinary shares in 2002 will dilute growth in earnings per share.

No mention is made of dividends, but the company's current cash holding of A$4.0 million will rise rapidly to $11.6 million in 2001 and A$26 million (29 cents per share - assuming the conversion of the notes) in 2002 if dividends are not paid. The most likely time to *start* dividend payments on the ordinary shares would be about March 2001 (i.e. a final dividend for the current 2000 year) of perhaps 2-3 cents when the company will have some franking credits. Dividend payments could then rise to 5-7 cents for 2001, 2002 and 2003.

Projected Share Valuation

As Atlas Pacific approaches full capacity, we believe the shares should be valued as a low-growth, income investment, perhaps trading on a Price/Earnings ratio of 10 and with a Dividend Yield of 7-8%. That suggests that the shares will be worth around 65-90 cents - sometime between the years 2001 and 2003.

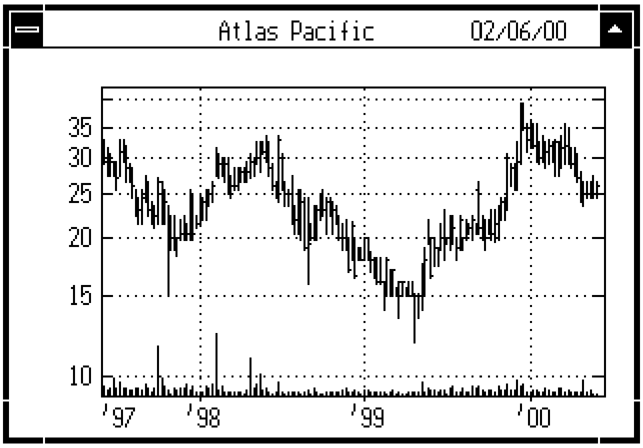
Current Year Harvest

Atlas Pacific's current year's pearl harvest is being made in three stages. 8,905 pearls were harvested in February, yielding 7,017 *saleable* pearls, but these were small (averaging 1.95 grams) and are currently being sold and are expected to realise about A$1 million. A further 11,500 pearls were harvested in April. These were large (averaging 3.15 grams), but many were of poor shape, although are expected to realise around A$2 million. A final harvest of 17,000-20,000 oysters in June is expected to yield 13,500-16,000 *saleable* pearls - which could be worth A$2-3 million. Further revenue may come from the sale of surplus juvenile oysters (around mid year) and from pearl harvests at joint venture operations (later in the year, or in early 2001).

Summary and Recommendation

As we have stated previously, in retrospect it is clear that we bought into Atlas Pacific *too early* when we first recommended these shares at 73 cents in May 1996. Developing the pearl farming operation involved some unexpected delays and costs, forcing the company to issue further shares to raise additional finance. That expansion of the issued capital has diluted the ultimate level of earnings per share and hence the value of the shares. Our mistake was to buy into the company too soon in its development phase and we should have waited for the company to *complete* its development and for it to start generating meaningful revenues.

Atlas Pacific, however, is now poised to generate the significant revenues and profit growth that first attracted us to this company. The share price is now likely to double or triple over the next 1-3 years, so we rate Atlas Pacific shares and/or convertible notes a strong "Buy".



Editor's Note on Atlas Pacific: While we may ultimately make a small profit on our personal initial investment in Atlas Pacific shares (15,000 shares purchased around A$0.75 in 1996), about 90% of our investment in this company has been acquired between 1997-1999 at prices between A$0.15 and A$0.31 per share/convertible note - so our average cost is about A$0.28. A recovery to 65-90 cents will better than double or triple our personal investment in Atlas Pacific.

Our *Recommended Portfolio* shows a large 64% loss on Atlas Pacific, but there are two important factors that have saved us from that loss:

1. Seeking to build up a holding over a period of time - so only a small investment was initially made at the high price in 1996 when we badly timed the initial buy recommendation for Atlas Pacific shares.
2. Holding a very well diversified portfolio. If you invest in only 10 shares, then up to 10% of your capital can be lost on just one bad or poorly timed investment. We invest our own money in all of the approximately 50 shares and funds recommended in *Market Analysis* and *International Investor*. If we commit 1% of our portfolio to a share and the price drops, we can afford to commit another 1-3% to buy further shares at the lower price *if the future potential for the shares is still attractive*. We have therefore been able to buy further Atlas Pacific shares/convertible notes over the last few years when the price was near its lows.

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 Cur-rent	4-Wk Chg.	Rank 0-99	Brokers Following	Price to NTA	Return on Equity	Vola-til-ity	Price Earn. Ratio	Divi-dend Yield	Price Sales Ratio	Market Cap'n
Renaissance	60	+11.3	-2.8	6	-	1.6	3	2.3	48	2.5	0.17	21
Williams Kettle	203	+0.6	+0.1	24	-	0.8	6	0.7	13	9.6	0.29	27
Col Motor Co	300	+4.3	+0.2	15	-	1.2	7	0.8	16	7.7	0.31	93
DB Group	268	+4.8	-2.3	13	7	1.2	13	0.7	9	8.9	0.42	270
FC - Paper	238	+28.3	+12.4	0	9	0.9	0	1.4	253	0.9	0.43	1,515
Tag Pacific Ltd	35	+30.4	-23.5	-0	-	1.3	-	1.9	NE	2.1	0.49	20
Reid Farmers	70	+6.2	+0.4	11	-	1.1	11	1.2	10	9.6	0.52	39
Mr Chips Hold	69	+10.2	+2.0	7	-	2.1	9	1.0	24	13.0	0.75	13
Ceramco Corp	170	+3.2	+1.6	17	3	1.4	6	1.1	23	4.4	0.79	71
Nobilo Wines	101	+0.6	+1.6	23	-	1.6	7	1.2	22	4.4	0.88	44
Colonial Ltd	1170	+20.4	+7.9	1	-	1.7	9	0.7	19	2.2	0.96	10,963
Ebos Group Ltd	375	+5.5	-1.7	12	-	5.6	34	0.8	16	7.2	0.96	87

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

Company	Share Price	Cur-rent	4-Wk Chg.	Rank 0-99	Brokers Following	Price to NTA	Return on Equity	Vola-til-ity	Price Earn. Ratio	Divi-dend Yield	Price Sales Ratio	Market Cap'n
Colonial Ltd	1170	+20.4	+7.9	1	-	1.7	9	0.7	19	2.2	0.96	10,963
Reid Farmers	70	+6.2	+0.4	11	-	1.1	11	0.9	10	9.6	0.52	39
Ebos Group Ltd	375	+5.5	-1.7	12	-	5.6	34	0.7	16	7.2	0.96	87
DB Group	268	+4.8	-2.3	13	7	1.2	13	0.6	9	8.9	0.42	270
Col Motor Co	300	+4.3	+0.2	15	-	1.2	7	0.7	16	7.7	0.31	93
Williams Kettle	203	+0.6	+0.1	24	-	0.8	6	0.5	13	9.6	0.29	27

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

Company	Share Price	Cur-rent	4-Wk Chg.	Rank 0-99	Brokers Following	Price to NTA	Return on Equity	Vola-til-ity	Price Earn. Ratio	Divi-dend Yield	Price Sales Ratio	Market Cap'n
Restaurant Brds	115	-4.1	-0.7	55	7	3.6	42	1.0	8	13.0	0.49	106
Hallenstein G.	200	-7.5	+0.8	73	6	3.5	30	0.8	12	12.7	0.73	116
Cavalier Corp	338	-0.8	+0.2	34	5	1.7	15	0.8	11	11.5	0.60	122
Natural Gas	137	-9.6	+1.2	83	7	1.0	8	0.9	13	10.9	1.97	1,110
Sky City Ltd	620	-6.6	-0.6	67	8	4.0	31	0.5	13	10.4	2.32	608
NZ Refining Co	1000	-4.3	+4.0	56	3	1.6	16	0.4	10	10.0	0.99	240
United Networks	606	-1.0	-0.0	34	2	1.2	14	0.4	8	9.9	2.04	918
Infratil Aust.	108	+6.4	+4.8	10	-	1.2	20	0.8	6	9.7	2.63	204
Brierley Invest	32	-6.9	+0.4	70	4	0.3	4	1.0	8	9.4	0.49	955
Steel & Tube	130	-8.8	-0.7	76	6	1.0	9	1.1	11	9.2	0.34	115

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

Company	Share Price	STRENGTH RATING Cur-rent	4-Wk Chg.	Rank 0-99	Brokers Following	Price to NTA	Return on Equity	Vola-til-ity	Price Earn. Ratio	Divi-dend Yield	Price Sales Ratio	Market Cap'n
Contact Energy	281	-9.0	+0.4	78	7	1.0	7	0.6	15	8.4	8.13	1,697
Port Tauranga	516	-3.7	-0.6	53	7	1.5	7	0.4	22	5.2	7.46	395
Infratil NZ	124	-6.8	+0.6	68	5	1.7	19	0.5	9	8.4	7.41	235
Akd Int Airport	262	-4.9	+1.6	60	8	2.2	8	0.7	26	4.6	6.86	1,100
Pure NZ Limited	13	-5.8	-12.8	64	-	2.9	-	1.9	NE	Nil	4.35	4
Ports Auckland	400	-10.1	-2.8	87	7	2.3	14	0.5	16	6.7	3.45	530
Cue Energy Ltd	6	-9.7	-5.0	84	-	0.5	-	2.4	NE	Nil	3.30	18
Waste Mgmt NZ	357	-9.2	-0.4	79	4	2.4	7	0.4	33	2.5	3.19	347
AXA Asia Pac.	325	-0.8	+2.4	33	-	1.1	7	0.7	16	3.5	3.07	5,728
Lyttelton Port	140	-5.4	-0.7	62	4	3.7	34	0.8	11	7.8	2.57	142
Trust Power Ltd	305	-10.1	-0.8	87	6	0.9	3	0.4	27	7.9	2.43	459
Sky City Ltd	620	-6.6	-0.6	67	8	4.0	31	0.5	13	10.4	2.32	608
SE Utilities	92	-1.7	+0.5	38	-	0.8	7	0.6	13	6.5	2.29	55
Guiness Peat	145	-3.6	+1.2	51	2	0.9	8	0.7	11	2.2	2.10	681
Horizon Energy	640	-4.2	-0.6	56	3	1.0	4	0.4	23	5.4	2.07	128
United Networks	606	-1.0	-0.0	34	2	1.2	14	0.3	8	9.9	2.04	918

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

Company	Share Price	Cur-rent	4-Wk Chg.	Rank 0-99	Brokers Following	Price to NTA	Return on Equity	Vola-til-ity	Price Earn. Ratio	Divi-dend Yield	Price Sales Ratio	Market Cap'n
Spectrum Res.	11	-48.7	+0.0	98	-	1.6	-	2.0	NE	Nil	N/A	3
Aquaria 21	4	-23.2	-11.3	98	-	0.9	-	2.8	NE	Nil	0.61	7
NZ Oil and Gas	25	-20.9	-7.5	97	-	0.5	-	0.9	NE	Nil	1.72	27
Beauty Direct	10	-19.7	-8.6	96	-	-	-	1.6	NE	Nil	N/A	3
Trans-Tasman	18	-16.6	-0.8	95	5	0.3	7	1.5	3	Nil	0.98	108
CDL Hotel NZ	20	-14.0	-1.2	94	3	0.3	3	1.3	11	5.3	0.42	69
Savoy Equities	4	-13.7	-7.6	92	-	0.2	-	3.2	NE	Nil	1.35	14
Shotover Jet	44	-13.1	-4.1	92	-	1.5	21	1.0	7	5.7	0.79	19
Otter Gold Mine	63	-11.9	-3.7	91	-	0.6	4	0.6	14	Nil	0.40	29
National Mail	102	-11.2	-4.2	89	-	-	-	0.8	NE	Nil	N/A	26
Southern Cap	67	-10.7	+0.9	89	-	0.6	6	0.8	10	Nil	4.93	17
Trust Power Ltd	305	-10.1	-0.8	87	6	0.9	3	0.4	27	7.9	2.43	459
Ports Auckland	400	-10.1	-2.8	87	7	2.3	14	0.5	16	6.7	3.45	530
Air New Zealand	181	-10.0	+1.2	86	10	0.5	10	0.6	5	8.3	0.31	1,026
NZ Experience	9	-9.9	-6.9	85	-	0.8	2	1.8	42	Nil	0.64	5
Cue Energy Ltd	6	-9.7	-5.0	84	-	0.5	-	2.2	NE	Nil	3.30	18
Eldercare NZ	42	-9.6	-3.8	84	-	1.8	0	1.3	4200	Nil	8.27	13
Carter Holt	179	-9.5	+0.5	82	8	0.6	3	1.0	19	3.4	0.95	3,108
Utilico Int'l	27	-9.4	+0.1	81	-	0.6	-	1.0	NE	Nil	N/A	27
Kingsgate Int'l	13	-9.4	-2.3	81	-	0.3	2	1.4	16	Nil	1.23	50

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.

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

Company	Share Price	STRENGTH RATING Cur-rent	4-Wk Chg.	Rank 0-99	Insider Buy-Sell	Brokers Following	Price to NTA	Return on Equity	Vola-til-ity	Price Earn. Ratio	Divi-dend Yield	Price Sales Ratio	Market Cap'n
A.P. Eagers	435	+1.9	+0.7	36	0-0	2	0.9	7	0.8	14	6.0	0.13	66
Roberts Ltd	199	+2.9	+1.9	33	0-0	-	0.7	6	1.0	12	7.5	0.17	21
Downer Group	45	+0.3	+0.1	43	0-0	-	1.0	17	1.5	6	6.2	0.17	234
Hudson Invest.	80	+6.0	+5.1	26	0-0	-	0.6	10	1.2	6	3.8	0.18	47
Pirelli Cables	69	+1.9	-1.9	36	1-0	2	1.0	7	1.3	15	5.1	0.19	59
Chiquita Brands	120	+8.1	-0.9	23	1-0	-	1.2	11	1.1	11	5.0	0.21	44
Oldfields Hold	122	+3.2	+2.7	32	0-0	-	0.6	11	1.1	6	7.0	0.21	8
Penfold (WC)	180	+7.0	+0.2	25	0-0	-	1.5	7	1.0	21	5.6	0.22	23
McPherson's Ltd	107	+3.4	-6.9	32	2-0	1	2.2	18	1.1	12	6.1	0.22	42
Aust Pharm. Ind	210	+2.1	+1.4	35	0-1	6	1.8	12	0.9	15	4.7	0.26	309
Crevet Ltd	68	+14.4	+3.7	16	1-0	3	0.9	-	1.3	NE	2.2	0.28	23
Datamatic Hold	34	+9.7	-2.8	20	0-0	-	-	-	1.6	3	5.9	0.29	24
Vealls Ltd	90	+6.5	-2.5	26	0-0	-	-	-	1.2	3	8.4	0.29	6
Embelton Ltd	220	+5.5	+0.9	28	0-0	-	0.8	6	0.9	14	3.2	0.30	5
Lemvest Ltd	395	+0.7	-2.0	41	0-0	-	1.7	20	0.8	9	6.8	0.36	39
Woolworths Ltd	590	+3.3	+2.8	32	2-2	16	4.8	22	0.8	22	3.1	0.36	6,226
Toll Holdings	826	+21.7	-0.6	11	0-0	7	3.4	22	0.7	16	2.7	0.37	500
Parbury Ltd	42	+6.9	-3.6	25	1-0	1	1.6	10	1.5	15	6.5	0.37	53
Email Ltd	298	+3.6	+6.8	31	2-1	10	1.7	11	0.9	15	8.2	0.38	810
Shearer (John)	165	+0.8	-0.3	40	0-0	-	0.7	10	1.0	7	4.2	0.39	18
Vietnam Indust.	20	+22.1	+3.0	10	0-0	-	0.8	16	2.0	5	5.1	0.39	20
Portman Mining	70	+0.9	-2.4	39	2-0	5	-	-	1.3	14	7.1	0.40	124
Plaspak Group	54	+2.3	-0.3	34	0-0	-	1.1	6	1.4	19	9.3	0.42	29
Citie Centre Lt	82	+1.4	-0.3	38	0-0	-	1.8	26	1.2	7	9.1	0.44	21
Brandrill	72	+36.6	-2.7	5	0-0	2	2.2	22	1.3	10	6.3	0.45	53
Tempo Services	343	+14.7	+2.0	16	2-2	6	-	-	0.8	26	2.3	0.45	142
Tag Pacific	29	+27.1	-27.3	8	0-0	-	1.4	5	1.7	31	2.1	0.46	19
Trust Co of Aus	1700	+5.3	-2.4	28	0-0	-	-	-	0.7	3	8.1	0.47	11
Southern Dental	40	+9.6	+1.6	21	0-0	-	1.3	17	1.5	8	5.0	0.47	9
Triako Res.	35	+11.2	+0.7	19	0-0	-	-	-	1.6	2	5.7	0.50	12
OAMPS	128	+21.6	-0.4	11	7-0	-	3.1	24	1.1	13	3.9	0.50	29
CDK Tectonics	82	+2.2	-1.5	35	0-0	-	2.0	29	1.2	7	8.5	0.51	10
Auspine Ltd	208	+0.3	-3.6	43	8-0	5	0.8	6	0.9	12	5.8	0.51	118
Spotless Serv.	139	+0.9	+0.8	40	0-0	7	-	-	1.0	19	4.3	0.54	517
BT Global Asset	88	+3.5	-1.5	31	0-2	-	0.9	-	1.2	NE	8.0	0.57	43
Gazal Corp	180	+0.6	-4.1	42	4-1	-	-	-	1.0	11	6.9	0.59	98
East African Co	515	+18.0	+1.2	13	0-0	-	1.2	12	0.8	10	2.4	0.62	33
Waterco Ltd	145	+1.4	-0.1	37	5-0	1	1.4	14	1.0	10	6.2	0.62	26
Hartley Poynton	187	+9.3	-1.6	21	0-2	-	2.1	6	1.0	35	2.9	0.65	117
Sunland Group	50	+2.5	-0.3	34	3-1	1	0.3	4	1.4	8	20.0	0.68	82
Wadepack Ltd	175	+7.6	-1.4	24	0-0	-	1.6	20	1.0	8	5.7	0.68	27
Nat'l Foods	286	+0.2	+1.0	44	3-0	12	3.1	20	0.9	16	4.5	0.69	793
Q.B.E. Insur.	662	+1.5	-2.9	37	0-0	12	2.5	16	0.7	16	4.1	0.70	2,792
Oroton Int'l	236	+5.9	-3.6	27	1-0	1	3.2	36	0.9	9	5.1	0.71	43
Gunns Ltd	250	+14.8	-1.1	16	0-0	1	2.0	13	0.9	16	4.0	0.72	90
Gold Mines Kal.	55	+2.7	-4.6	33	2-0	-	-	-	1.4	10	10.9	0.74	134
Prime TV	188	+6.4	+2.4	26	1-0	9	-	-	1.0	1044	5.1	0.74	202
Reece Australia	1774	+2.8	-0.5	33	0-0	-	2.5	19	0.6	13	3.1	0.75	353
Schaffer Corp	330	+11.4	+0.4	19	5-0	-	1.1	5	0.9	21	3.6	0.77	37
Biron Corp	24	+4.2	-8.3	30	0-2	-	0.5	-	1.9	NE	8.5	0.79	5

Company	Share Price	STRENGTH RATING Current			Insider Buy-Sell	Brokers Following	Price to NTA	Return on Equity	Volatility	Price Earn. Ratio	Dividend Yield	Price Sales Ratio	Market Cap'n
		Current	4-Wk Chg.	Rank 0-99									
BEST PERFORMING SHARES: Strongest Shares, P/E < 20, P/S < 1.0													
Strarch Int'l	8	+59.3	-14.2	3	0-0	-	-	-	2.2	4	Nil	0.46	4
Brandrill	72	+36.6	-2.7	5	0-0	2	2.2	22	1.0	10	6.3	0.45	53
WRF Securities	47	+23.3	-4.5	10	0-0	1	-	-	1.2	18	Nil	0.90	17
Vietnam Indust.	20	+22.1	+3.0	10	0-0	-	0.8	16	1.6	5	5.1	0.39	20
Toll Holdings	826	+21.7	-0.6	11	0-0	7	3.4	22	0.7	16	2.7	0.37	500
OAMPS	128	+21.6	-0.4	11	7-0	-	3.1	24	0.9	13	3.9	0.50	29
Vision Systems	1020	+19.6	+5.2	12	0-2	1	4.9	27	0.6	18	2.7	0.97	143
Barlow	2	+18.5	-3.1	12	0-0	-	1.2	9	3.8	13	Nil	0.14	3
East African Co	515	+18.0	+1.2	13	0-0	-	1.2	12	0.7	10	2.4	0.62	33
Desane Group	30	+16.9	+4.0	14	0-0	-	0.7	4	1.3	16	3.3	0.81	5
Murchison Un.	75	+15.0	-5.6	15	0-0	3	7.5	-	1.0	5	Nil	0.51	45
Gunns Ltd	250	+14.8	-1.1	16	0-0	1	2.0	13	0.8	16	4.0	0.72	90
Astron Ltd	21	+14.3	-33.3	16	0-0	-	0.2	8	1.5	2	Nil	0.12	3
Triako Res.	35	+11.2	+0.7	19	0-0	-	-	-	1.3	2	5.7	0.50	12
Arrowfield Grp	230	+9.8	+0.2	20	0-0	-	0.9	6	0.8	16	Nil	0.74	20
Datamatic Hold	34	+9.7	-2.8	20	0-0	-	-	-	1.3	3	5.9	0.29	24
Southern Dental	40	+9.6	+1.6	21	0-0	-	1.3	17	1.2	8	5.0	0.47	9
Chiquita Brands	120	+8.1	-0.9	23	1-0	-	1.2	11	0.9	11	5.0	0.21	44
Wadepack Ltd	175	+7.6	-1.4	24	0-0	-	1.6	20	0.8	8	5.7	0.68	27
Pacific Energy	130	+7.3	-5.3	24	9-0	-	0.6	37	0.9	2	Nil	0.50	17
Parbury Ltd	42	+6.9	-3.6	25	1-0	1	1.6	10	1.2	15	6.5	0.37	53
Vealls Ltd	90	+6.5	-2.5	26	0-0	-	-	-	1.0	3	8.4	0.29	6
Grange Resource	52	+6.3	-29.0	26	0-0	-	-	-	1.1	4	Nil	0.96	33
Hudson Invest.	80	+6.0	+5.1	26	0-0	-	0.6	10	1.0	6	3.8	0.18	47
Oroton Int'l	236	+5.9	-3.6	27	1-0	1	3.2	36	0.8	9	5.1	0.71	43
Embelton Ltd	220	+5.5	+0.9	28	0-0	-	0.8	6	0.8	14	3.2	0.30	5
Trust Co of Aus	1700	+5.3	-2.4	28	0-0	-	-	-	0.6	3	8.1	0.47	11
Burns Philp	41	+5.2	-2.7	28	2-0	1	-	-	1.2	4	Nil	0.14	221
Platinum Cap'l	135	+5.1	-2.5	28	3-0	-	0.9	5	0.9	20	7.4	0.99	142
Tasmania Mines	15	+4.8	-14.7	29	0-0	-	-	-	1.7	8	Nil	0.54	3
Siddons Ramset	611	+3.9	-2.0	30	0-0	7	2.0	13	0.7	15	4.1	0.86	330
General Publish	10	+3.7	-11.1	31	0-0	-	-	-	2.0	3	Nil	0.14	2
Email Ltd	298	+3.6	+6.8	31	2-1	10	1.7	11	0.8	15	8.2	0.38	810
McPherson's Ltd	107	+3.4	-6.9	32	2-0	1	2.2	18	0.9	12	6.1	0.22	42
MBF Carpenters	7	+3.4	+5.2	32	0-0	-	0.4	6	2.4	6	Nil	0.11	33
Oldfields Hold	122	+3.2	+2.7	32	0-0	-	0.6	11	0.9	6	7.0	0.21	8
Roberts Ltd	199	+2.9	+1.9	33	0-0	-	0.7	6	0.8	12	7.5	0.17	21
Reece Australia	1774	+2.8	-0.5	33	0-0	-	2.5	19	0.6	13	3.1	0.75	353
Gold Mines Kal.	55	+2.7	-4.6	33	2-0	-	-	-	1.1	10	10.9	0.74	134
Aircrusing Aust	15	+2.6	-0.4	34	0-0	-	3.0	24	1.7	12	Nil	0.20	2
Sunland Group	50	+2.5	-0.3	34	3-1	1	0.3	4	1.1	8	20.0	0.68	82
Plaspak Group	54	+2.3	-0.3	34	0-0	-	1.1	6	1.1	19	9.3	0.42	29
CDK Tectonics	82	+2.2	-1.5	35	0-0	-	2.0	29	1.0	7	8.5	0.51	10
Eumundi Brewing	7	+2.2	-59.4	35	0-0	-	1.4	9	2.3	15	Nil	0.22	3
Aust Pharm. Ind	210	+2.1	+1.4	35	0-1	6	1.8	12	0.8	15	4.7	0.26	309
Soul Pattinson	3600	+2.0	+0.3	35	7-0	4	2.0	10	0.6	19	3.5	0.95	859
Pirelli Cables	69	+1.9	-1.9	36	1-0	2	1.0	7	1.0	15	5.1	0.19	59
A.P. Eagers	435	+1.9	+0.7	36	0-0	2	0.9	7	0.7	14	6.0	0.13	66
Cabonne Limited	70	+1.8	+1.6	36	0-0	-	0.7	17	1.0	4	Nil	0.88	43

Company	Share Price	STRENGTH RATING Current			Insider Buy-Sell	Brokers Following	Price to NTA	Return on Equity	Volatility	Price Earn. Ratio	Dividend Yield	Price Sales Ratio	Market Cap'n
		Current	4-Wk Chg.	Rank 0-99									
INCOME SHARES: Highest Yields, Capitalisation > A$250 million													
BA Tobacco Aust	1100	-10.8	+0.2	82	0-0	4	6.4	46	0.6	14	78.8	0.42	1,656
Pioneer Int'l	481	+7.1	+1.0	25	0-0	11	2.1	12	0.7	18	33.5	1.07	3,965
HIH Insurance	113	-10.3	-0.0	81	6-0	10	1.5	25	0.8	6	14.2	0.16	533
Delta Gold NL	145	-14.7	-3.8	88	1-0	14	-	-	0.8	7	13.8	1.52	362
Envestra	70	-4.9	-0.7	68	1-0	8	-	-	0.9	NE	11.6	1.60	412
PMP Communicat.	185	-10.1	-1.1	80	3-0	10	-	-	0.8	8	11.0	0.40	469
Q.C.T. Resource	68	-10.6	+2.1	81	0-0	12	0.7	7	0.9	10	10.3	0.47	468
Mayne Nickless	301	-11.2	+2.3	82	1-0	14	2.3	24	0.7	9	10.0	0.26	1,055
Australand Hold	126	-1.6	-1.7	55	0-0	4	1.1	20	0.8	5	9.5	0.75	610
Pacific Dunlop	153	-13.9	+1.3	87	0-0	14	1.5	20	0.8	8	9.2	0.24	1,574
Burswood Ltd	66	-8.0	+1.8	75	3-0	13	1.3	15	1.0	9	9.1	0.71	265
Caltex Austrlia	245	-8.2	+3.7	75	0-0	10	0.8	9	0.7	8	9.0	0.10	662
Email Ltd	298	+3.6	+6.8	31	2-1	10	1.7	11	0.7	15	8.2	0.38	810
Timbercorp	196	-45.0	+0.3	99	0-0	3	4.8	-	0.8	1	8.2	0.11	364
Capral Alum.	221	-1.7	+2.9	56	1-0	12	1.0	4	0.7	23	8.1	0.61	455
Macquarie Infra	124	-10.2	-1.6	80	0-0	-	0.9	15	0.8	6	8.1	5.54	1,092
Energy Resource	185	-4.3	-1.7	65	0-0	7	-	-	0.8	12	7.6	1.51	264
Amcor Ltd	522	-11.4	-0.3	83	5-0	15	1.4	12	0.7	11	7.5	0.50	3,254
Austrim Nylex	204	-11.4	-2.4	83	0-1	5	2.8	42	0.8	7	7.5	0.53	481
Normandy Mining	85	-10.5	+0.1	81	9-0	16	-	-	0.9	14	7.1	0.80	1,488
Franked Income	380	-7.9	+0.8	74	0-0	4	0.8	6	0.7	14	7.1	N/A	1,123
David Jones	116	-5.4	-1.0	68	2-0	14	1.1	10	0.8	11	6.9	0.32	456
Wattyl Ltd	330	-11.1	-1.4	82	0-1	11	1.4	13	0.7	11	6.7	0.46	253
INSIDER BUYING: Most Insider Buying, Relative Strength > 0													
Milton Corp.	895	+0.6	+0.6	41	11-0	-	1.0	5	0.6	21	4.6	6.74	454
Pacific Energy	130	+7.3	-5.3	24	9-0	-	0.6	37	0.8	2	Nil	0.50	17
Auspine Ltd	208	+0.3	-3.6	43	8-0	5	0.8	6	0.7	12	5.8	0.51	118
Soul Pattinson	3600	+2.0	+0.3	35	7-0	4	2.0	10	0.6	19	3.5	0.95	859
OAMPS	128	+21.6	-0.4	11	7-0	-	3.1	24	0.8	13	3.9	0.50	29
Atlas Pacific	26	+1.3	-5.6	38	6-0	-	1.6	17	1.1	10	Nil	2.42	14
Grimwood Davies	11	+68.6	-43.3	2	6-0	-	0.9	-	1.5	NE	Nil	0.36	11
Perp Trust Aust	2511	+8.6	+2.4	22	6-0	7	7.7	24	0.6	32	2.4	4.56	924
Brickworks Ltd	4200	+4.6	+0.4	29	5-0	5	1.2	9	0.5	14	2.6	3.75	553
Schaffer Corp	330	+11.4	+0.4	19	5-0	-	1.1	5	0.7	21	3.6	0.77	37
Waterco Ltd	145	+1.4	-0.1	37	5-0	1	1.4	14	0.8	10	6.2	0.62	26
Gippsland Ltd	14	+71.1	-91.2	2	4-0	-	-	-	1.4	NE	Nil	N/A	7
Westfield Hold.	1150	+3.4	+3.9	32	5-1	11	11.5	24	0.6	48	1.1	6.90	6,028
Acclaim Uranium	6	+21.6	-17.3	11	5-1	-	-	-	1.9	NE	Nil	N/A	3
Colonial Ltd	946	+21.7	+7.7	11	3-0	11	2.5	13	0.6	19	2.1	1.00	9,348
Hamilton Island	242	+5.5	-1.4	28	3-0	-	0.9	8	0.7	12	5.4	1.09	109
Platinum Cap'l	135	+5.1	-2.5	28	3-0	-	0.9	5	0.8	20	7.4	0.99	142
Nat'l Foods	286	+0.2	+1.0	44	3-0	12	3.1	20	0.7	16	4.5	0.69	793
Fairfax (John)	463	+5.5	-7.9	27	3-0	13	-	-	0.6	15	2.3	2.56	3,374
Allegiance Min.	10	+11.0	-11.1	19	3-0	-	-	-	1.5	NE	Nil	N/A	17
Citadel Pooled	57	+2.0	-5.2	35	3-0	-	0.8	1	0.9	58	Nil	N/A	12
Ticor Ltd	117	+1.3	-2.8	38	3-0	7	0.8	10	0.8	8	5.1	0.91	288
Lion Selection	75	+3.6	-3.1	31	3-0	-	0.6	0	0.9	142	Nil	N/A	75
Gazal Corp	180	+0.6	-4.1	42	4-1	-	-	-	0.7	11	6.9	0.59	98
Nat'l Aust Bank	2632	+1.1	+3.6	39	4-1	17	2.8	5	0.6	53	4.3	6.11	39,340

"Internet Economics" Fails
Companies Running out of Cash . . .

The main problem with e-commerce companies is that they have sought to finance their businesses not from operating cash flows and profits, but from equity provided by investors. This was called "internet economics" and suggested that cashflow and profits didn't matter. Investors wanted *revenue growth* as internet companies sought *first mover advantage* and made a "land grab", staking out their "claim" in the e-world.

Welcome back to reality! Cash flows and profits *do* matter. The old economic rules - that successful businesses need to generate positive cashflows, not to lose money - still apply in the brave new e-world.

Today - unlike three months ago - e-commerce companies are failing rapidly. Not a week goes by without news of a major Internet company closing or filing for bankruptcy: In Europe, high fashion retailer, **Boo.com**, has closed - after spending a massive US$135 million on marketing and advertising but generating little in sales. US based **CDnow.com** has filed for bankruptcy protection from its creditors. US based educational toy retailer **Toysmart Inc** will close or sell its business - after its major shareholder, **Disney**, refused to provide additional equity and alternative equity financing deals failed.

Operating Cash Flows and Cash Holdings of Australian E-Commerce Companies

The Australian Stock Exchange has required recently listed e-commerce companies to report their quarterly cashflows and cash holdings. This data suggests many companies are candidates for failure over the next year:

The most *unfavourable* companies include **131 Shop** which has $2.5 million in the bank but had an operating cashflow of *negative* A$2.8 million in the March quarter. At that rate of cash burn the company will exhaust its cash holding by mid-June. The decline in share price means the company is unable to raise additional equity at favourable prices. To avoid exhausting its cash holding (i.e. becoming insolvent and failing) the company needs to significantly cut back on expenditure. Unfortunately, the company's revenue for the March quarter was just A$0.37 million - so 131Shop has failed to build a significant business and is unlikely to ever generate positive cash flows. Cutting expenditure can only *delay* the inevitable! Needless to say, even at its current low share price we don't rate 131Shop a good recovery stock!

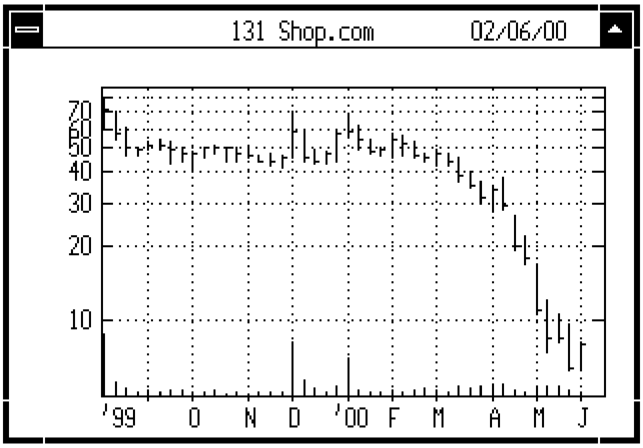
Other companies that face an *immediate* cash crisis are **Eftnet** (cash A$0.4 million, quarterly operating cash *out*flow A$0.4 million, quarterly revenue A$0.1 million), **Eisa (**cash $6.9m, cash outflow A$5.8m, revenue A$5.2m), **Realestate.com (**cash $4.0m, cash outflow A$2.5m, revenue A$0.4m), **Sanity.com (**cash A$2.9m, cash outflow A$1.6m, revenue A$3.0m) and **Technology Licensing (**cash A$1.9m, cash outflow A$1.0m, revenue A$0.1m) could also exhaust their cash holdings - and become insolvent - within the next 3-6 months.

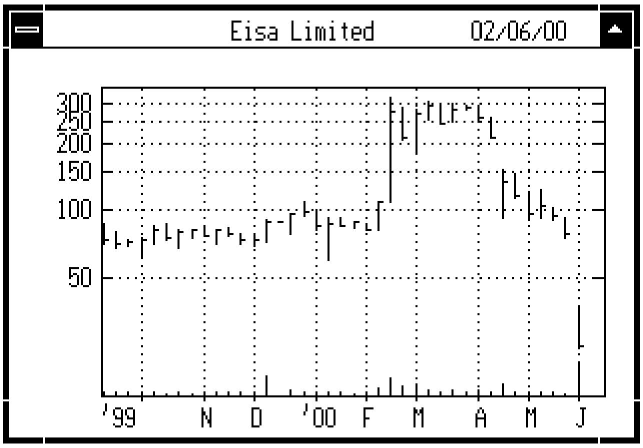
Companies with little revenue (i.e. that have failed to build a substantial business) and which could exhaust their cash holdings and face a cash crisis within the next year include **Advanced Engine**, **BMC Media.com**, **Bourse Data**, **Chrome Global**, **Max Multimedia**, **Plexus International** and **Q Multimedia**.

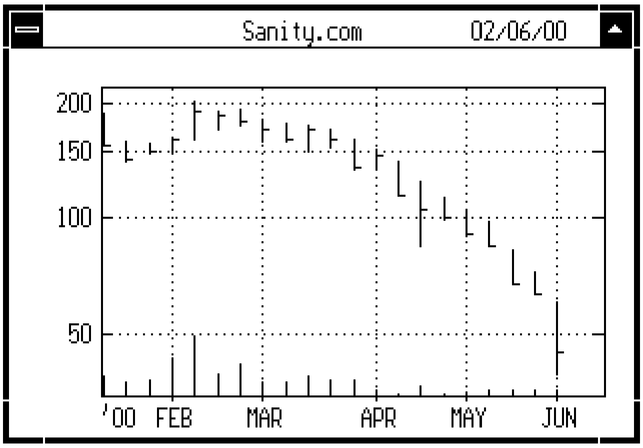
Investors need to be very cautious about investing in any of the companies listed above. Simply to *survive* these companies need to significantly raise their revenues to cover operating costs that are rapidly burning through their cash.

On the other hand, there are a few e-commerce companies that are generating *positive* operating cashflows and which have cash in the bank. These companies include: **Chariot Internet**, **eBet**, **iiNet**, **Investor Web**, **Melbourne IT** and **Online Trading**. These companies are in a much stronger financial position (i.e. are unlikely to fail) and should be more attractive to investors searching for e-commerce investments. "Financial strength", however, is not the same thing as "good value". The shares of many of these companies may be over-valued in relation to the future value of these companies. Investors still need to apply old fashioned valuation methods to identify under-valued situations which could become good investments.

Running Out of Money . . . Fast!







Australian Company Review: Chariot Internet

While many e-commerce companies have little cash and large operating cash *deficits*, **Chariot Internet** is a profitable, rapidly growing Internet Service Provider (ISP) generating cash *surpluses* and with cash in the bank! The company focuses on regional and rural markets in Australia that are not well serviced by the larger ISPs. Chariot Internet has access to satellite bandwidth (for use by its own retail customers and for re-sale to other ISPs), and provides some specialised, high value services to its corporate and Government customers as well as offering education software and services. Chariot Internet is also seeking to use it experience to help establish ISP joint ventures in Asia.

Company History

Chariot Internet Pty Ltd was established in 1996 to provide "flat rate" internet access to Adelaide subscribers using high-speed digital equipment and has grown rapidly through both *(Continued on Page 12)*

Chariot Internet *(Continued from Page 11)*

organic growth and strategic acquisition. In addition to several small ISP acquisitions, Chariot Internet purchased South Australian ISP **Wantree Development** in February 1999, **Cobweb Internet Services** in July 1999 and **Newave Internet Services** in August 1999. Chariot is still a small ISP but aims to become Australia's largest regional ISP.

Chariot Internet went public in December 1999, raising A$8.5 million in new equity from the issue of 8,500,000 shares (plus 1,125,000 free options) to the public at A$1.00 per share. This money was used to fund its biggest acquisition, the A$9.2 million purchase of **NetConnect**. NetConnect was formed from the 1998 merger of two ISPs established in Ballarat and Bendigo four years earlier to service rural internet users. NetConnect re-sells wholesale satellite bandwidth (data transfer) from two PanAmSat satellites to other ISPs in Australia and South East Asia.

Since listing, Chariot Internet has continued to grow rapidly by using cash, borrowings or shares to take over other ISPs. In February 2000, it expanded into New South Wales by acquiring **NorthNet Internet Services** for A$1.0 million (A$560,000 in cash and 169,232 shares issued at A$2.60 per share). NorthNet had 5,500 subscribers, giving each a value of A$182, which is inexpensive compared to other ISPs that are often valued at up to A$1000 per customer. Expansion into Queensland was achieved with the purchase of **QLDNET**, a regional ISP around Brisbane and the Gold Coast, for A$1.2 million (A$650,000 in cash and 287,578 shares issued at A$1.91) valuing the company's 5,000 customers at A$240 each.

The company's aggressive growth strategy has seen subscriber numbers rise from around 2,000 in December 1998 to approximately 50,000 in June 2000.

Recent Results

Unlike many other e-commerce companies Chariot Internet has significant revenues and profits.

The company reported revenues of A$5.5 million for the six months to December 1999, a profit of a A$732,000 (2.4 cents per share) and paid a 1.0 cent dividend. Net operating cash flow was A$1,209,000. Net operating cash flow for the March quarter was A$474,000 with cash in the bank of A$5,058,000.

Cash in the bank and a positive cashflow from operations ensures that Chariot Internet won't be one of those e-commerce companies that runs out of cash and fails in the near future. In fact, its strong financial position makes Chariot Internet well placed to acquire less soundly financed ISPs.

Future Growth Potential

Chariot Internet seeks *profit* growth - rather than maximum *revenue* growth - and this should help to ensure that future expansion is self-funding and avoid the need to keep issuing new equity to raise cash just to keep the company going!

Chariot Internet has positioned itself well to grow in its niche rural markets in Australia and plans to expand into South-East Asia via joint ventures.

The company plans to expand existing operations and to grow through acquisition, where it seeks to add value with its “extensive experience, state-of-the-art delivery systems and satellite bandwidth access”.

Internal growth potential includes adding high value services: For example, in February, Chariot Internet won a contract to host **Vircom**'s unique **OnTrac** billing management and reporting tool which will “provide a strong additional revenue stream”. In March Chariot Internet and **Central Exchange** formed a joint venture to offer a Voice over Internet Protocol (VoIP) network. This venture puts the company in the telecommunications business offering high quality international telephone calls priced at A$0.75 per minute in rural Australia (which cannot access the same low cost services as urban areas). In May 2000 Chariot Internet launched its unique **High Reliability Network** (HRN) service, offering businesses and Government a dedicated service with the highest levels of network reliability, internet security, availability of service and response times. The HRN involves data replicated electronically between different sites around Australia so that if one fails there is minimum disruption as the other sites will compensate for any problems. This enables Chariot Internet to offer unique service guarantees on critical systems such as banking. The company anticipates significant growth from this venture and eventually plans to expand it internationally.

Chariot Internet is also seeking to grow its retail market in the regional sectors, expanding its Points of Presence (i.e. sites where customers connect to access the internet) from 30 to 40. This is being partially funded through the Government's **Regional Telecommunications Infrastructure Fund**, which will provide $750,000 over five years towards setup and running costs.

A longer term goal is to provide Internet services to South East Asia, via joint ventures with local companies. The first joint venture, with Malaysian company **Lityan Holdings Berhad**, was formed in February “to explore investment opportunities in South East Asia”. As part of the deal, Lityan took an 11.5% stake in Chariot Internet with the purchase of 3.6 million shares (of which 3,030,030 were a placement of new shares). Chariot Internet will initially earn revenue from the provision of operational expertise in establishing and running a rural and regional ISP, consultancy services and from services provided to customers (i.e. Internet access, e-commerce applications, VoIP). Corporate ISP systems will be developed using the HRN, and Lityan has “already identified a number of ISPs who are prepared to bring their corporate customer base to utilise the HRN”.

The second joint venture - announced in April - is with **China Online**. Chariot Internet will provide online English comprehension and literacy courses designed for Chinese secondary students seeking entry to Australian tertiary institutions. China Online has a subscriber base of 300,000 customers and has committed to deliver a minimum 22,000 students over the next 18 months, providing Chariot with immediate and significant earnings from the deal. The course will later be expanded to cover primary, tertiary, adult and specialist English comprehension courses by early 2001. China is one of the fastest growing markets for internet use in the world - and a market where Chariot Internet's expertise in providing rural internet services could lead to further work.

Capital Structure

The issued capital of the company comprises of 35 million shares (after the new issues to Lityan and to partially finance acquisitions) and 2,125,000 listed options (which give investors the right to buy shares at A$1.00 at any time until 31 December 2002). As shown in our *Australian Warrant / Option Analysis* (*Market Analysis*, May 2000) the options - currently trading around 23 cents - are slightly under-valued and could be considered as an entry into the company.

Investment Criteria

At $0.90, Chariot Internet shares are now trading below their issue price of A$1.00 per share in December 1999. Results for the year to June 1999 are meaningless owing to the rapid change and expansion of the company over that period. It is therefore probably better to evaluate the shares based upon the company's forecast for the year to June 2000. Revenue is forecast at A$15.4 million, profits at A$2.1 million and a 2.0 cents annual dividend is expected. That puts the shares on a Price/Sales ratio of 2.0, a Price/Earnings ratio of 15 and a Dividend Yield of 2.2%. Those statistics are very good for an e-commerce company and, while the P/S ratio is higher than the "less than 1.0" that we like, the P/E ratio shows that Chariot Internet shares offer good value.

With a capitalisation of A$31.5 million, Chariot Internet is a smaller company. The shares are *neglected* by brokers and there are no significant institutional shareholders.

The directors have substantial shareholdings in Chariot Internet: Founder, Managing Director and Chairman G Chua owns 15,200,000 shares (43.4% of the company), director G Fong (who joined the company from NetConnect) owns 470,000 shares (1.3%), and Director R Horlin-Smith owns 6,383,000 (18.2%). The directors have not sold any shares since listing, demonstrating their confidence in the company's future.

Technically, the shares have been an average performer with a current Relative Strength rating of +0.8 and ranked 41 (on a scale of 0-99). However, the shares have been very volatile - rising to a high of A$2.67 in February before falling back to their current low of A$0.90! Chariot Internet's Relative Strength rating is falling very rapidly, and we would prefer to see this stablise or rise slightly - indicating a new uptrend - before buying into the company. Technology shares may fall further in the short to medium term, so Chariot Internet shares may also remain weak.

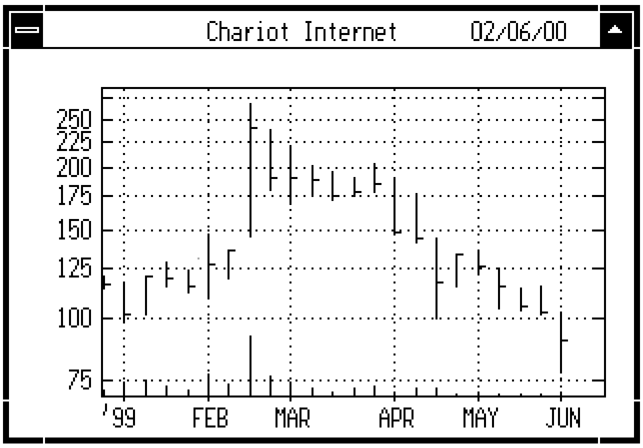
Business Risks

The ISP business is changing rapidly with rationalisation forcing the merger of the many smaller operators. This offers Chariot Internet the opportunity to grow via the acquisition of smaller competitors - or be acquired by a larger competitor! The business is also subject to economic and technological change. The price that an ISP can charge is falling rapidly - although "free" internet has not yet arrived in Australia. These changes could impact upon future profitability. Technology could also change the role of an ISP or lower the cost of providing internet access to the public. Potentially that could destroy shareholder wealth by making existing ISPs investment in equipment (and marketing to build up customer numbers) obsolete. On the other hand, existing and *profitable* ISPs are probably in the best position to adapt to and introduce new technologies to lower the operating costs of their business and improve service to existing customers.

Summary & Recommendation

Chariot Internet appears to offer very good value in the e-commerce/internet company sector. Cash in the bank and an operating cash surplus make this a financially strong company in a sector that is good at losing money fast!

On the negative side, Chariot Internet has only been listed for six months and we would like to see if it can continue to perform well in a more difficult market environment. Furthermore, we believe that technology shares will remain depressed over the next 6-12 months as many weaker companies fail - depressing the price of both "good" and "bad" companies in this sector. Chariot Internet is certainly a company worth watching closely to see how the business develops and whether that leads to an attractive opportunity to buy into the company. We are not, however, formally recommending investment in the shares (or the options) at the present time.



Neglect Ratings For NZ and Australian Shares

This regular quarterly feature scheduled for this month has been postponed. The publication from which we collated the number of brokers following companies has been cancelled without warning (and half way through our annual subscription!).

We can obtain the data (more cheaply, but more labour intensively) from an alternative source, but with the previous source of information being cancelled just a couple of days prior to our own publication deadline, we did not have the time to collect this data from the alternative source in time for this month's newsletter.

Book Review: Future Wealth

Future Wealth by Francis McInerney and Sean White (Hard cover. 327 pages. Published by St Martin's Press).

Sub-titled “Investing in the Second Great Wave of Technology”, this book isn't directly about *investing* or about *technology shares*. It is, however, probably one of the most important books that an investor *should* read.

Warning! *Future Wealth* is not an easy book to read. You will need to think long and hard about the concepts discussed in this book - and applying those concepts to actual investment will be a very difficult (although essential) job. Furthermore, if you currently sleep soundly at night knowing that your portfolio is invested in “blue chip” companies like Telecom NZ, Sky TV and property shares then *Future Wealth* will cause you to wake up screaming in a cold sweat!

Future Wealth discusses two main concepts:

(1) The potential for ordinary companies to be successful by substituting *low cost information* for high cost labour, materials and capital, and

(2) The sort of technology/telecommunications companies *that do not currently exist but will need to evolve* to expand the internet and electronic appliances past the present PC stage.

The impact of falling information costs on business is summarised in the authors' four *Iron Laws of Information* which state:

(1) Cheap information *always* chases out expensive information.

(2) Disorder *always* increases.

(3) Profit *always* flows to the least regulated company or market.

(4) The first three laws *always* operate simultaneously on *any* organisation.

Understanding these laws is a little more difficult.

The first law can be restated to say that falling information costs favour consumers, not producers. When technology lowers production costs the benefits will flow to the consumer as lower prices, not to businesses as higher profits. Successful companies therefore need to *stay ahead of their competitors* in adopting new technology. For example, using technology to shorten supply chains (i.e. sell direct to customers rather than through wholesalers and retailers), making it easier for customers to buy (i.e. 24 hours per day via the internet) and by adopting flat management structures that communicate better with customers and meet the customers needs.

The second law states that power moves away from big companies to smaller companies. Cheap information breaks up mass markets (serviced by a large company) into a wide range of niche markets where smaller companies will be successful. This concept is exactly the opposite of what many investors expect on the internet, where investors currently favour “first movers” and large companies that seek (ultimately unsuccessfully) to dominate a market.

As examples of the third law (i.e. deregulation) the authors mention pornography - one of the few internet businesses to make profits - and the United Kingdom's information processing dominance in Europe. As governments cannot restrict internet access, operators of pornography sites can and do sell across borders to countries where such services may be illegal. Profits therefore accrue to operators in the unregulated markets. In European information processing, countries like Germany and France seek to heavily regulate their markets. The United Kingdom, by comparision, is lightly regulated and has become the information processing centre for Europe. The authors state that “riding its low-cost information strategy, Britain is emerging as the dominant force in services” and “could easily wind up controlling EU banking, advertising, accounting and insurance markets by early in the 21st century.”

As a result of these *Iron Laws*, the book advises investors to:

(1) Always expect better price-performance - and avoid companies that can't deliver.

(2) Assume information economies are messy places without order or structure - like the Internet. Don't invest in companies that offer one-size-fits-all answers.

(3) Think of government regulation as one giant Maginot Line around which cheap information always finds a way.

(4) Watch out for companies that expect change to happen one event at a time. The Iron Laws apply all at once and management has to be ready for this.

The book also gives four characteristics of the company structure necessary to be successful:

(1) Vertically and horizontally *disintegrated*.

(2) Decentralised.

(3) Flat, with not more than four layers.

(4) Designed to deliver customer service.

Five stages of information technology development are also discussed: Mainframe computers, Minicomputers, Personal Computers, the Internet (i.e. the current stage) and post-PC devices. The development of each stage has been driven by rapidly improving price-performance, each market is about ten times larger than the previous one and companies that dominated one stage have almost always been unsuccessful in the next stage.

In the 60's and 70's mainframe computing was diminated by BUNCH (Burroughs, Univac, NCR, Control Data and Honeywell). Unable to compete on price-performance, these companies were replaced in the mini-computer market of the 80's by Wang, Datapoint, Data General and DEC, only to be replaced by a new larger set of smaller companies in the Personal Computer market of the 90's. To move down the information cost curve a company needs to transform itself into a completely different company. Hewlett-Packard (formerly a test equipment and mini-computer maker) is given as an example of one of the few companies that has succeeded in this -

transforming itself into a consumer electronics company.

Many companies make the mistake of investing back up the information cost curve (i.e. into older technologies). A local example would be The Internet Group's (IHUG) purchase of a video rental company.

The authors believe that Microsoft's attempt to move its software from dominance of hundreds of millions of desktop computer to the billions of post-PC devices that will be in our homes in the future is the sort of move that "has never been done before and is unlikely to be done now" - stranding Microsoft in the PC market which has slow future growth prospects. Among other things, Microsoft's operating systems fail the "Granny test" of a <u>reliable, easy to use</u> operating system that is necessary in post-PC devices. In fact, these devices will probably use a wide range of operating systems - with the only necessary standard in the future being internet compatibility (i.e. able to communicate with all other devices).

The book also suggests that investors look at pollution and waste as an indicator of management problems. "Companies that pollute the least have the lowest-cost and highest-quality products and services. <u>Improving quality reduces manufacturing costs</u>" and "in information technology, the low-cost producer *always* has the highest quality".

Telephone companies are seen as one industry that could suffer greatly in the future. Most own infrastructure built to be profitable at call prices of US$0.15 per minute, but we are entering an age of 1 cent per minute. The book states that many US and European telephone companies are valued at US$1,000-2,000 per customer line, that "New Zealand Telecom and Hong Kong Telecom" have valuations of $10,000 per line" while another company, MFS, built a long distance "virtual phone company with logical, rather than physical, access" to 500 million consumers worldwide at an average price of $4 per customer.

The cost of Sky TV putting decoders into subscribers homes is also *too high* for the company to ever make a profit - while the price it can charge for its services must fall rapidly over the medium to long term. In fact, in the post-PC age, TV stations as we currently know them will no longer exist!

The failure of the Iridium satelite telephone project shows that <u>*good technology* isn't enough for a company to be successful - its capital investment to reach customers has to be *low* so that it can offer a *low cost* service that customers will buy</u>.

Future Wealth will make you think long and hard about your investments and the type of companies in which you invest. Successful companies need to focus on customer service, offer low cost and high quality, they need to have flat mangement structures, be prepared to change, to use the falling cost in information to replace higher cost resources - and <u>they need to do all of this better and faster than their competitors</u>! Those companies that fall behind will lose shareholder value - those that lead will generate significant profits!

Glossary of Terms from *Future Wealth*

Future Wealth uses many terms from physics to describe the impact of information technology on business - all of which can be a little confusing! Here are a few of those terms and our explanation:

Hubble Effect: The astromer, Edwin Hubble, postulated that the further a galaxy is from us, the faster it is moving away. The same applies to a business's customers. The more distant and unresponsive management is to its customers (i.e. the more layers of management, or the more companies in the distribution chain), the faster customers will move to competitors.

Big Bang: This describes the fall in microprocessor costs to below US$1 per "million instructions per second" of processing power in the mid-1990's which is leading to explosive demand for new products and services - the *first* of which is the Internet.

Black Hole in Cyberspace: This is where under-performing companies end up when unable to keep ahead of changes in information price-performance.

Event Horizon: This surrounds the Black Hole and is the point where the price-performance of the company's product or service is equalled by new competitors. Companies may improve their own price-performance, remain competitive and pull away from the Event Horizon - or fall over the horizon and be quickly sucked into the Black Hole.

The Dead Zone: This is used to describe the current situation where computer power has moved ahead of the speed of communications networks - preventing computers (and e-commerce) from achieving its full potential.

Terminal Velocity: This is where companies cannot grow fast enough to stay ahead of cost pressures. For example, demand for computers has soared over the last 25 years, but prices fell rapidly, making most manufacturers uneconomic. Mobile phone costs have fallen, encouraging higher usage, but total revenue is now static while many cellular networks cannot handle these volumes and the operators face massive (uneconomic) investment if they want to increase capacity.

The Singularity: The merger of the Internet and Television will create an Information Singularity. This will impact on a wide range of industries - both destroying and creating huge amounts of shareholder wealth.

Dematerialisation: As cheap information replaces labour and natural resources, large industries (e.g. the production of music CDs) will cease to exist.

"Insider" Insights

(A summary of buying and selling by major shareholders)

Company	Shareholder	Buy/ Sell	Shares (Mill)	% of Coy Held Before	After
05/05/2000					
Fisher & Paykel	Franklin Resources	Sell	-1.400	6.64%	5.45%
12/05/2000					
Advantage Group	Soros Fund	Sell	-0.565	7.89%	7.18%
Affco Holdings	UBS Nominees	Sell	-2.200	9.64%	8.54%
Ceramco Corporation	UBS Nominees	Sell	-0.468	11.91%	10.75%
FC - Building	Franklin Resources	Sell	-3.940	9.20%	8.05%
Radio Works NZ	Media Investments	Buy	+5.406	0.0%	44.85%
Spectrum Resources	Otter Gold Mines	Sell	-7.612	8.75%	0.0%
19/05/2000					
Advantage Group	NZ Funds Mgmt	Sell	-2.200	6.60%	2.70%
Fisher & Paykel	AXA Asia Pacific	Buy	+5.918	0.0%	5.01%
Montana Group NZ	Lion Nathan	Buy	+42.868	0.0%	19.97%
Nobilo Wines	BRL Hardy	Buy	+7.178	24.68%	40.10%
Radio Works NZ	Media Investments	Buy	+3.330	44.85%	71.97%
Radio Works NZ	NZ Funds Mgmt	Sell	-1.808	15.00%	0.0%
Radio Works NZ	TAB	Sell	-1.471	12.20%	0.0%
Radio Works NZ	SL Joyce	Buy	+0.162	7.97%	9.29%
Restaurant Brands	Aust Opportunities	Sell	-1.236	6.33%	4.99%
26/05/2000					
Advantage Group	AXA Asia Pacific	Buy	+1.035	3.36%	5.22%
FC - Building	Franklin Resources	Sell	-3.495	8.05%	7.03%
Ind Newspapers	Telecom NZ	Buy	+16.450	5.74%	9.99%
Nobilo Wines	Emerald Capital	Sell	-7.132	18.50%	4.00%
Property For Industry	Royal & Sun Alliance	Sell	-2.855	5.74%	4.15%
Telecom NZ	Franklin Resources	Buy	+18.229	5.00%	6.04%
02/06/2000					
Ceramco Corporation	AXA Asia Pacific	Sell	-1.189	7.54%	4.60%
Kiwi Development Trust	AXA Asia Pacific	Buy	+1.118	9.15%	11.48%
National Mail	Ellis Capital	Buy	+2.762	0.0%	10.30%
Nuplex Industries	AXA Asia Pacific	Sell	-1.512	7.09%	4.36%
Tourism Holdings	AMP	Sell	-2.716	10.56%	9.45%
Tranz Rail Holdings	Infratil NZ	Buy	+6.157	0.0%	5.10%
Waste Management NZ	AXA Asia Pacific	Buy	+5.009	0.0%	5.14%

Emerald Capital has sold its **Nobilo Wines** shares to **BRL Hardy** (in exchange for BRL Hardy shares), which may result in BRL Hardy bidding 105 cents per share for the remainder of Nobilo Wines. Lion Nathan has bought up 19.97% of **Montana**. These two acquisitions of wine company shares suggests a favourable outlook for the industry - perhaps helped by increased production volumes and a lower exchange rate that will improve the profitability of exports!

Media Investments has built up a 71.97% shareholding in **RadioWorks**, but the major shareholder, director SL Joyce, has not sold, but increased his holding slightly with the exercise of 162,000 executive share options.

Otter Gold Mines has sold out of **Spectrum Resources** - cashing in on the rise in share price as the company turned into an e-commerce company during the recent boom!

Australian Internet Brokers

Sanford Securities has changed their brokerage from A$24.95 *per contract note* to A$24.95 *per trade* - in response to unfavourable feedback from customers!

Australian Quotes, Company Announcements

Access Brokerage (www.access-brokerage.co.nz) provides quotes and company announcements for both NZ and Australian companies, free of charge and available to anyone.

Total Return Index for All Listed Shares

May 8	2206.23	May 15	2162.17
May 9	2188.55	May 16	2149.66
May 10	2179.22	May 17	2165.94
May 11	2161.77	May 18	2167.47
May 12	2165.28	May 19	2176.24
May 22	2168.36	May 29	2159.14
May 23	2168.55	May 30	2158.54
May 24	2154.85	May 31	2177.45
May 25	2162.47	Jun 1	2174.79
May 26	2164.45	Jun 2	2192.86

Current Issues

BONUS ISSUES

	Ratio	Ex-Date
Spectrum (1)	1:6	12-06

(1) Issue of options to buy shares at 20 cents until 30/11/2001.

SHARE REPURCHASES

	Price	Ratio
National Property Trust (1)	-	-
Tasman Agriculture (2)	120	1:5

(1) National Property will re-purchase10% of its shares on-market.
(2) Tasman will sell some farms to reduce debt - but mainly to distribute cash to its shareholders (i.e. cash strapped Brierley Investments).

CASH ISSUES

	Ratio	Price	Ex-Date	Appln Date
E-Force	1:6	25	15-05	09-06
Spectrum (1)	7:3	5	12-06	14-07

(1) New shares will participate in bonus issue of options.

D i v i d e n d $

Company	Cents per Share	Ex-Date	Pay-able	Tax Credit
Capital Properties	2.2425	12-06	23-06	0.645
Carter Holt Harvey	3.00	19-06	10-07	Nil
Colonial FS Property	2.40	05-06	12-06	0.3316
DB Group	8.00	05-06	16-06	Full
Dorchester Pacific	3.00	-	-	Full
Northland Port	3.00	05-06	09-06	Full
Owens Group	1.50	24-07	28-07	Full
Trust Power	7.85021	14-08	25-08	Full
Australian Shares				
Campbell Brothers	16.00	16-06	03-07	-
Central Equity	4.00	23-06	06-07	-

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Next Issue

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