Market Analysis

Issue No. 344 P.O. Box 34-162, Auckland February 13, 2001.

Inside Market Analysis								
Lion Nathans takeover of Montana Wines 6, 7	Australian Company Reviews: Cellnet Telecommunications							
NZ Warrant / Option Analysis	Mobile Innovations							
Australian Warrant / Option Analysis 10	Individual Internet <i>User Names</i> and <i>Passwords</i> : See separate letter enclosed.							
Editor and Research Director: James R Cornell (B.Com.)								

Summary and Recommended Investment Strategy.

Falling global interest rates are improving the outlook for world stockmarkets - except in NZ, which is resisting the trend to lower interest rates. Later this year we shall re-invest our 25-30% cash reserve in Australia, but the time for aggressive buying has not arrived. Hold 70-75% of portfolios in recommended shares.

Investment Outlook.

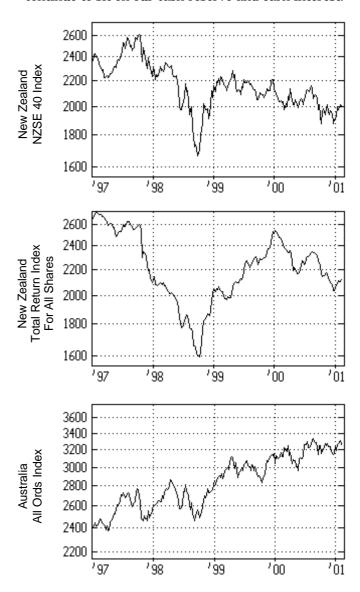
After lowering US interest rates by ½% on January 3, the Federal Reserve made a second ½% cut on January 31. This is a very aggressive easing of monetary policy - designed to head off a recession - but favourable for share prices. Most other countries have followed this lead. The Australian Reserve Bank lowered interest rates by ½% on February 7. Against this tide of global interest rate cuts, the NZ Reserve Bank has held rates steady. Recent statistics showing lower NZ unemployment now makes it even less likely that NZ interest rates will be lowered in the Bank's next review in April. This could be a serious mistake!

Is it possible that Central Banks around the world are wrong to be cutting interest rates and that the NZ Reserve Bank is right? Recent history is full of examples that suggest this is not the case. The Reserve Bank initially went against the Federal Reserve in October 1997 - raising NZ interest rates in response to the Asian crisis. It took seven months to reverse that policy mistake - and a massive cut in interest rates from $8\frac{3}{4}\%$ to $4\frac{1}{2}\%$ - but the damage had already been done to the NZ economy and NZ stockmarket. Donald Brash, alas, is no Alan Greenspan.

While there is short term risk from the impact of the US (world?) recession on share prices, falling interest rates are slowly improving the outlook for most world stockmarkets. This is not the case in NZ. Our One-Year Forecast has deteriorated to a Bearish 32% - although our Short Term Trend Model has risen to a Bullish 76%.

Last month we indicated that our cash reserve (built up from the sale of some NZ shares last year and from the takeover of RadioWorks last month) would likely be re-invested in Australia. Our main reason was the wider range of potential investments across the Tasman, but mismanagement of the NZ economy and the continued lack of investor protection in NZ (i.e. the Lion Nathan/Montana Wines scandal) makes that re-investment <code>inAustralia</code>more certain. We shall therefore aim to have 55-65% of our <code>local</code> investments in Australia and just 35-45% in NZ.

However, the time is not right to be aggressively buying Australian shares. Our Forecast for the Australian stockmarket remains **Neutral** at **46**%, so we shall continue to sit on our cash reserve and earn interest.



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 Price/Sales P/E Gross	Performance Price/Sale		Performance Price/Sales P/E Gross
Forecast Price Ratio Ratio Yield	Forecast Price Ratio	Ratio Yield	Forecast Price Ratio Ratio Yield
A. Barnett Ltd C 88 0.46 19 Nil AMP Limited A 2365 0.73 19 2.2	Force Corp. D 25 0.71 Frucor Bev. C 197 1.37	8 6.0 20 Nil	Port Tauranga B 575 6.29 22 5.7 Ports Auckland B 490 4.21 15 5.5
AMP NZ Office C 87 6.22 12 8.9	GDC Communicat. C 375 N/A	44 Nil	Powerco Limited C 142 0.50 NE Nil
AXA Asia Pac. B 324 0.54 12 3.7 Advantage Group E 157 1.48 55 Nil	Genesis Res. C 755 6.66 Goodman Fielder B 155 0.47	NE Nil 11 6.5	Property F Ind. C 81 8.39 16 8.4 Pure NZ Limited D 10 4.35 NE Nil
Affco Holdings D 42 0.09 8 Nil	Grocorp Pacific C 12 0.39	NE Nil	Radio Works NZ B 930 2.12 24 Nil
Air New Zealand C 167 0.27 5 9.0	Guiness Peat B 143 2.28	12 2.2	Reid Farmers B 86 0.56 10 8.7
Akd Int Airport B 339 8.38 28 4.3 Apple Fields D 5.0 0.08 NE Nil	Hallenstein G. A 239 0.86 Hellaby Hold. B 178 0.35	12 11.6 8 11.7	Renaissance C 132 0.38 NE 1.1 Restaurant Brds B 133 0.52 10 11.2
Aquaria 21 E 1.7 0.29 NE Nil	Heritage Mining* N/R 5.0 0.13	NE NII	Richina Pacific E 48 0.07 NE Nil
Baycorp Hold B 1250 N/A 63 2.3 Beauty Direct D 6.8 9.44 NE Nil	Horizon Energy A 990 1.78 IT Capital Ltd E 26 N/A	8 12.5 NE Nil	Rocom Wireless E 65 N/A NE Nil Roller Int'l D 40 0.21 NE Nil
Bendon Limited B 170 0.70 10 2.9	Ind Newspapers C 375 2.49	38 2.8	Ryman Health. C 185 3.98 15 2.8
Brierley Invest E 34 0.58 NE Nil Broadway Ind D 28 0.11 28 Nil	Infratil NZ C 126 7.53 Kingsgate Int'l E 14 1.31	9 8.3 17 Nil	SE Utilities C 107 N/A 31 7.0 Sanford Limited B 550 1.49 11 5.4
CACI Group Ltd D 42 N/A NE Nil	Kiwi Developmnt D 255 N/A	NE Nil	Savoy Equities C 5.0 0.19 NE Nil
CDL Hotel NZ D 18 0.38 10 5.8 CDL Investments D 21 1.30 7 17.8	Kiwi Property C 91 6.33 Lion Nathan Ltd A 480 1.23	10 11.5 16 3.9	Scott Tech. Ltd B 170 1.09 9 9.7 Seafresh Fish. D 5.5 0.33 NE Nil
Cabletalk Group D 125 0.58 NE Nil	Lyttelton Port A 173 3.03	12 8.8	Selector Group C 15 N/A NE Nil
Cadmus Tech Ltd E 14 N/A NE Nil Calan Hlthcare C 84 6.89 13 8.5	Mainfreight Grp B 125 0.29 Manor Inns Grp D 11 0.37	10 7.2 NE Nil	Shotover Jet C 55 1.04 49 Nil Sky City Ltd A 925 3.01 15 9.0
Cap Properties C 91 0.98 3 12.7	Max Resources *N/R 13 N/A	NE Nil	Sky Network TV D 365 5.09 NE Nil
Carter Holt D 165 0.88 18 3.6 Cavalier Corp A 484 0.80 13 9.3	Medical Care C 145 N/A Metro. LifeCare C 103 1.00	93 Nil 9 8.7	Software of Exc D 100 0.94 NE Nil South Port NZ A 125 2.11 21 6.6
Cedenco Foods A 144 1.76 8 Nil	Michael Hill B 355 0.75	14 5.7	Southern Cap D 71 7.59 NE Nil
Col FS Property C 97 8.17 14 10.8 Col Motor Co C 275 0.26 11 10.0	Mid-Cap Index * N/R 193 N/A Montana Group A 467 2.23	NE Nil 33 2.2	Spectrum Res. D 3.2 N/A NE Nil Steel & Tube B 152 0.36 10 11.8
Commsoft Group E 106 N/A NE Nil	Mooring Systems B 150 N/A	NE Nil	Strathmore Grp D 14 2.93 NE Nil
Compass Com. D 44 N/A NE Nil Contact Energy C 292 2.03 28 8.9	Mr Chips Hold B 93 0.81 NZ Experience C 10 0.81	14 9.6 NE Nil	Submarines Aust C 45 0.21 NE Nil Summit Gold Ltd*N/R 10 N/A NE Nil
Cue Energy Ltd * N/R 5.0 1.73 NE Nil	NZ Invest Trust* N/R 440 N/A	NE 1.9	Tag Pacific Ltd D 25 0.36 7 3.2
DB Group A 542 0.68 15 4.4 Dairy Brands C 49 3.40 NE Nil	NZ Oil and Gas * N/R 30 1.91 NZ Refining Co A 1600 1.86	NE Nil 68 4.4	Tasman Agric. C 148 3.97 15 2.0 Taylors Grp Ltd C 117 0.73 12 7.7
Damba Hold Ltd C 37 0.66 18 Nil	Nat Property Tr C 82 5.65	11 11.3	TeNZ * N/R 87 N/A NE Nil
Design Textiles B 34 0.18 11 8.8 Dorchester Pac C 109 0.78 8 8.2	National Mail E 10 1.10 Natural Gas C 133 1.48	NE Nil 11 5.6	Telecom Corp C 545 2.21 12 12.6 Tourism Hold. C 178 0.82 10 7.2
E-Force Limited D 4.0 0.23 NE Nil	Newcall Group E 7.0 2.24	NE Nil	Tower Limited B 536 0.55 12 5.6
E-Phone Ltd D 8.0 N/A NE Nil E-Ventures NZ D 30 N/A NE Nil	Newmarket Prop. C 50 N/A Northland Port B 170 1.36	6 19.0 16 6.6	Trans-Tasman E 19 1.03 4 Nil Tranz Rail Hold C 380 0.81 7 2.2
E-cademy Hold. D 2.7 N/A NE Nil	Nufarm Limited B 413 0.34	9 4.7	Trust Power Ltd C 301 1.06 17 8.2
Ebos Group Ltd B 299 0.99 19 6.5 Eldercare NZ D 19 1.12 5 Nil	Nuhaka Forestry E 1210 6.71 Nuplex Indust B 371 0.54	NE Nil 12 6.0	United Networks B 804 2.65 11 6.1 Utilico Int'l D 36 N/A NE Nil
Evergreen D 51 3.42 13 Nil	Opio Forestry E 51 N/A	40 Nil	Vending Tech. C 290 0.28 NE Nil
FC - Energy B 893 1.96 19 3.0 FC - Forests D 30 0.49 4 Nil	Otter Gold Mine* N/R 35 0.23 Owens Group Ltd C 86 0.14	NE Nil 13 7.8	Warehouse Group C 560 1.46 22 3.3 Waste Mgmt NZ B 456 4.07 42 2.0
FC - Building B 208 0.30 7 11.5	Ozzy (Tortis) * N/R 257 N/A	NE Nil	Williams Kettle B 277 0.25 10 8.1
Finzsoft Sol'ns C 48 0.45 NE Nil Fisher & Paykel B 810 1.15 18 4.6	PDL Holdings C 390 0.15 Pacific Retail D 132 0.18	10 Nil 7 Nil	World Index Fd * N/R 202 N/A NE Nil Wrightsons Ltd C 68 0.15 12 8.8
,			Ave of 144 Cos C 227 0.50 18 3.6
A.G.L. A 1119 1.36 15 4.6 AJ Indust Trust B 144 8.24 13 9.0	Corp Express C 820 2.01 Crown Ltd C 90 0.70		Nat'l Foods B 235 0.59 13 10.2 News Corporatio C 1790 1.63 29 0.2
AJ Office Group B 112 N/A 25 4.7 AMP Diver. Prop B 240 2.47 13 7.8	Data Advantage B 541 8.36 David Jones C 133 0.32	11 6.0	Nufarm Limited B 330 0.36 9 5.2 One Tel Ltd D 48 1.88 NE 2.1
AMP Ltd B 1919 0.76 20 2.1 AMP Office Trt B 118 6.46 15 8.1	Deutsche Office C 125 N/A E.R.G. C 260 3.87	NE NII 46 0.8	Open Telecom. E 135 N/A NE Nil Orbital Engine D 181 N/A NE Nil
AMP Shop Centre B 128 N/A 18 6.6 ANZ Bank A 1475 1.88 14 4.3	Email Ltd C 286 0.36 Energy Develop. A 1340 N/A	71 0.4	Orica Ltd C 596 0.41 11 5.9 Origin Energy A 226 0.36 8 9.3
APN News Media C 376 1.86 22 3.4 AXA Asia Pac B 266 0.55 13 3.6	Envestra C 85 2.08 Fairfax (John) C 386 2.00	17 3.0	Pacific Dunlop C 134 0.24 10 7.5 Paladin Com. B 124 7.45 14 7.7
AXA Aust Div PT B 111 7.73 13 7.9 Advance Prop B 182 8.64 15 6.7	Faulding (F.H.) A 1050 0.81 Flight Centre B 2560 0.87	27 2.0 52 1.0	Paperlin X Ltd B 380 0.51 14 1.3 Perp Trust Aust A 3424 4.51 31 1.9
Alintagas Ltd C 317 1.88 NE Nil Amcor Ltd B 596 0.51 13 6.4	Foodland Assoc B 875 0.22 Foster's Brewin B 454 2.27	18 3.2	Publishing & Br C 1312 3.49 26 1.5 Q.B.E. Insur. B 986 0.91 27 2.9
Aristocrat C 573 2.15 17 4.9 Aust Stock Exch B 1281 6.44 22 4.4	Futuris Corp. B 210 0.25 GWA Internat'l C 208 0.99		O.C.T. Resource C 121 1.05 NE Nil Oantas B 369 0.48 9 16.0
Aust Pipeline C 246 N/A NE Nil Austar United E 128 3.97 NE Nil	Gandel Retail T B 113 8.80 General Prop Tr B 261 6.33	14 7.3	Rio Tinto Ltd B 3141 1.24 9 2.8 Rural Press Ltd C 485 1.24 11 2.9
Australand Hold C 133 0.79 6 9.0 Axon Instrument C 149 N/A NE Nil	Ges Internat'l C 125 0.46 Goodman Fielder B 128 0.51	22 0.9 12 5.9	Seven Network B 650 1.44 25 3.2 Smith (Howard) B 840 0.61 15 4.9
BA Tobacco Aust A 1779 0.68 22 48.7 BRL Hardy Ltd A 875 2.40 25 1.8	Guinness Peat C 116 2.53 Hardie (James) B 370 0.85	11 0.5 10 4.9	Smorgon Steel C 99 0.33 10 9.1 Sonic Health B 826 3.57 74 1.8
Bank of W.Aust A 378 3.39 14 4.8 Bendigo Bank A 612 1.39 18 3.9	Harvey Norman B 399 N/A Hills Motorway B 468 8.88	NE 0.9 NE 7.2	Southcorp Ltd B 569 1.32 17 3.7 Spotless Group B 776 0.86 42 2.6
Bidvest B 270 0.18 14 2.8 Billabong Int'l C 436 N/A NE Nil	Hutchison Tel. D 156 2.27 Incitec B 510 0.67	84 Nil 18 4.5	St George Bank A 1408 1.71 17 3.9 Stockland Trust B 389 6.33 17 6.7
Boral Limited B 218 0.49 10 8.3 Brambles Ind. B 4854 2.26 31 1.7	Infomedia Ltd D 210 9.37 Investa Prop. B 175 7.85	13 7.5	Suncorp-Metway A 1132 1.04 11 4.1 TAB Ltd B 322 0.32 27 3.4
Brickworks Ltd A 490 3.46 15 2.6 C & W Optus D 404 3.53 52 Nil	Jupiters B 395 1.40 Kaz Computer C 140 N/A	14 4.3 NE 0.6	Tabcorp Holding C 1043 2.33 23 4.5 Telstra C 687 2.22 11 2.6
C'wth Prop Off. B 101 7.62 13 7.7 C.S.R. Ltd A 509 0.72 11 4.7	Keycorp İtd E 748 2.07 Lang Corporatio B 1255 2.59	NE NII 27 1.1	Ten Network C 222 1.39 14 7.2 Toll Holdings A 1314 0.57 20 2.1
CSL Limited A 3500 N/A 96 0.7 Cadbury Sch. C 991 N/A NE 3.4	Leighton Hold A 682 0.50 Lend Lease Corp C 1620 0.64	19 4.0	Transurban Grp C 456 N/A NE Nil Uecomm Limited E 128 N/A NE Nil
Centro Prop. B 285 7.72 14 8.4 Challenger Int. B 399 2.43 12 1.9	Macquarie Off. B 118 8.18 Macquarie Bank A 2904 4.19	12 9.0 24 3.0	United Energy B 333 2.03 92 5.2 Wesfarmers Ltd B 1903 1.44 24 3.8
Coal & Allied A 2000 2.95 24 4.0 Coca-Cola Bev. C 240 N/A NE Nil	Macquarie Good. B 133 7.65 Macquarie Infra A 221 N/A	13 7.9 44 4.5	West Aust News C 520 3.02 15 8.7 Western Mining B 745 3.50 31 1.7
CocaCola Amatil A 490 1.28 26 2.4 Cochlear Ltd A 3713 N/A 82 0.8	Mayne Nickless B 529 0.60 Medical Imaging C 128 3.57	25 3.2 67 0.5	Westfield Amer. B 154 2.82 18 5.4 Westfield Hold. B 1365 4.63 48 1.0
Col FS Property B 207 N/A 25 4.3 Coles Myer C 624 0.29 15 4.3	Mirvac Limited B 347 2.38 Mirvac Property B 178 9.75	15 6.9 15 6.4	Westfield Trust B 327 N/A 18 6.3 Weston (George) A 750 0.51 18 2.5
Comwealth Bank A 3077 3.42 23 4.2 Computer Share B 780 N/A NE 0.1	NRMA Insurance C 281 0.98 Nat'l Aust Bank A 2918 1.06	15 Nil 13 4.2	Westpac Banking A 1372 1.92 14 3.9 Woolworths Ltd B 788 0.41 23 2.9
,		~ -	Ave of 1372 Cos C 162 0.39 19 2.6

Recommended Investments

<u>Air New Zealand</u> has received acceptances that would take its holding in **Hazelton Airlines** to 74.4%, but the takeover offer is still conditional upon approval by the Australian Competition and Consumer Commission.

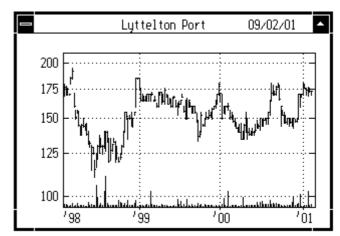
Air NZ is to purchase 16 new Beach 19-seater aircraft to update its fleet servicing provincial NZ routes. Delivery of the new aircraft will be over an 18 month period, starting from May 2001.

The half year profit result (to December 2000) will be released on February 20.

We are continuing to rate **Lyttelton Port Company** shares as a "Hold+", but would consider them a "Buy" if the price dips back to 150-160 cents.

<u>Nufarm</u> has sold its timber treatment businesses in NZ and Australia, and two joint ventures in Malaysia, to US based **Osmose Inc** for \$20 million.

Nuplex Industries shares have moved up to a new 3½ year high of 371 cents - and just short of their all



time high of 430 cents in August 1997. This is a favourable technical chart pattern. Our trend measuring Relative Strength rating is +6.2%, ranking the shares 17 (on a scale of 0-99), (Continued on Page 4)

	Portfolio	of	Rec	om.	me	nde	ed	In	ives	stn	ien	ts	
CURRENT ADVICE	Company	Code	Initial Recomn - Date -	nendation Price	Perform- mance Forecast	Issued Shares (mil.)	Vola- tility 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	244*	С	756.7	1.0	0.27	5	9.0	167	74.7	-1%
HOLD+	CDL Investments Ltd	CDI	12/01/99	25	D	171.4	1.9	1.30	7	17.8	21	4.5	+2%
HOLD+	Cavalier Corporation	CAV	05/12/95	312	Α	36.0	8.0	0.80	13	9.3	484	136.0	+99%
HOLD	Colonial Motor Company	CMO	10/11/92	150	С	27.9	0.7	0.26	11	10.0	275	196.8	+215%
HOLD+	Lyttelton Port Company	LPC	12/12/00	150	Α	101.7	0.9	3.03	12	8.8	173	Nil	+15%
HOLD	Michael Hill Int'l Ltd	MHI	11/06/91	46*	В	38.6	8.0	0.75	14	5.7	355	68.0	+819%
HOLD	Nufarm Limited	NUF	11/02/97	505	В	155.3	0.9	0.34	9	4.7	413	74.7	-3%
BUY	Nuplex Industries Ltd	NPX	11/02/97	350	В	56.3	1.0	0.54	12	6.0	371	36.0	+16%
BUY	Renaissance Corp	RNS	13/08/96	85*	С	35.3	1.7	0.38	0	1.1	132	5.4	+62%
HOLD	Richina Pacific	RCH	03/11/95	119*	Ε	72.2	1.8	0.07	NE	Nil	48	11.9	-50%
HOLD	South Port New Zealand	SPN	13/02/96	120	Α	26.2	1.1	2.11	21	6.6	125	38.8	+36%
BUY	Steel & Tube Holdings	STU	08/08/00	146	В	87.7	1.1	0.36	10	11.8	152	7.0	+9%
BUY	Taylors Group Ltd	TAY	09/11/99	102	С	24.3	1.2	0.73	12	7.7	117	6.0	+21%
BUY	Wrightson Limited	WRI	13/01/98	83	С	134.1	1.6	0.15	12	8.8	68	10.3	-6%
	Australian Shares (in Aust	cents)											
HOLD+	Abigroup Limited	ABG	09/03/99	265	В	47.7	0.9	0.12	6	8.3	180	29.0	-21%
HOLD+	Atlas Pacific Ltd	ATP	14/05/96	73	С	54.8	2.1	2.05	8	Nil	22	Nil	-70%
HOLD+	Auspine Limited	ANE	08/02/00	210	В	57.0	8.0	0.47	6	9.9	223	22.0	+17%
BUY	Austral Coal Ltd	AUO	16/01/01	19	В	81.3	2.0	0.24	9	Nil	23	Nil	+21%
HOLD	Biron Corporation Ltd	BIC	12/04/94	178	D	21.8	2.1	1.36	NE	Nil	24	11.0	-80%
BUY	Campbell Brothers Ltd	CPB	12/10/99	435	В	31.5	0.5	0.52	12	5.9	457	40.0	+14%
HOLD	Central Equity Ltd	CEQ	09/02/94	154	В	82.1	0.9	0.83	6	8.2	220	83.0	+97%
BUY	C.S.R. Limited	CSR	11/07/00	436	Α	970.9	0.7	0.72	11	4.7	509	11.0	+19%
HOLD	Hamilton Island Ltd	HAM	09/11/99	205	Α	45.0	0.7	1.34	10	3.3	269	9.0	+36%
BUY	McPherson's Ltd	MCP	10/10/00	125	В	39.2	0.9	0.21	5	9.5	126	Nil	+1%
HOLD	PMP Communications	PMP	09/02/99	309	С	253.4	1.1	0.17	4	19.6	104	40.8	-53%
HOLD	Thakral Holdings	THG	10/11/98	65	В	576.1	1.1	1.39	11	9.2	68	12.1	+23%
HOLD+	Toll Holdings	TOL	08/09/98	240	Α	61.3	0.7	0.57	20	2.1	1314	43.0	+465%
HOLD+	Utility Services Corp	USC	11/01/00	55*	С	105.7	1.7	0.92	19	Nil	71	5.0	+38%
HOLD+	Vision Systems Ltd	VSL	10/11/98	69*	В	143.9	0.7	2.71	51	1.1	273	12.8	+314%

The average Total Return (i.e. both Capital Gains/Losses plus Dividends received) of all current investments from initial recommendation is +70.8%. This is equal to an average annual rate of +22.2%, based upon the length of time each position has been held.

The average annual rate of gain of ALL recommendations (both the 29 current and 112 closed out) is +30.9%, compared with a market gain of +11.2% (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.

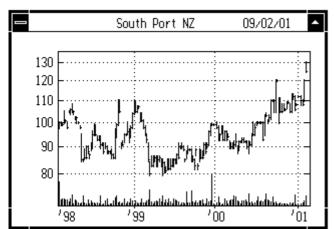
⁽¹⁾ Atlas Pacific notes (ATPG) last traded at 22 cents.

Recommended Investments (Continued from Page 3) which is also a favourable technical situation. The shares also offer good value on a Price/Sales ratio of 0.54, a Price/Earnings ratio of 12 and with a gross Dividend Yield of 6.0%.



Renaissance Corporation plans to spin off about 30% of Conduit to its own shareholders at the time that Conduit makes a public share issue in Singapore, through a share buy-back of its own shares. Investors will be able to choose whether or nor to participate in the buy-back. Investors that retain all of their Renaissance shares will gain a larger percentage ownership of the NZ importing and distribution business, but no direct shareholding in Conduit. Investors participating in the buy-back will retain about 70% of their Renaissance shares (representing about the same percentage interest in the local business) but exchange 30% of their existing Renaissance shares for an equal number of Conduit shares. The stockmarket is under-valuing this combined group, so splitting these businesses will increase the total value of investors combined Renaissance/Conduit shareholdings. At this stage we anticipate that shareholders will be able to maximise their investment through full participation in the buy-back (i.e. exchanging Renaissance shares for Conduit shares) but actual details, including the timing of the Conduit float and Renaissance buy-back, are still to be finalised. We shall make a final recommendation when shareholders are presented with the buy-back

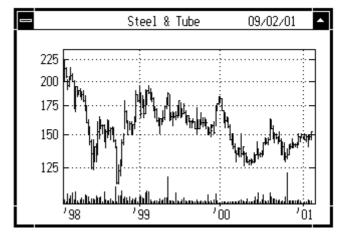
South Port NZ - whose revenue now all comes from port operations - recorded revenues 53.1% lower at \$6.0 million for the period to December 2000. Trading profits were down 3.7% to \$910,000 but earnings per share rose to 18.8% to 3.5 cents owing to the reduction



in issued capital following its recent share buy back. As a result, the interim dividend is being raised 25.0% to 2.5 cents (plus full imputation tax credits).

These higher earnings and dividend - and the increase in the share price - justify our recommendation <u>not</u> to participate in the buy-back at 108 cents. South Port has also stated that "further one-off distributions to shareholders will be considered in future years".

Steel & Tube Holdings remains an attractive "Buy" - offering investors a very high gross Dividend Yield of 11.8% and the potential for 100-300% capital gain from the next upturn in this cyclical business.



Australian Shares

Biron Corporation will not be selling its created emerald business after **Gemhouseonline.com Inc** indicated that it would not proceed with the purchase. Biron will keep the non-refundable A\$250,000 deposit and may seek damages.

Biron has indicated that the company traded profitably for the six months to December 2000, but the current dispute with Gemhouse may impact upon the second half results, as a Gemhouse subsidiary distributes Biron's emeralds internationally.

While <u>Campbell Brothers</u>' main business is a profitable, low risk Soap & Chemical operation, what really makes these shares an attractive investment is its Laboratory Services division. Laboratory Services currently generates 35-40% of Campbell Brothers profits, but this is a business which offers excellent growth potential, a very high return on capital and high free cash flows (i.e. cash that does not need to be re-invested in the business, but which can finance external acquisitions or pay dividends). Furthermore, the business has high initial fixed costs but low ongoing operating costs - forming a *natural monopoly* - and acting as a barrier to entry by potential competitors.

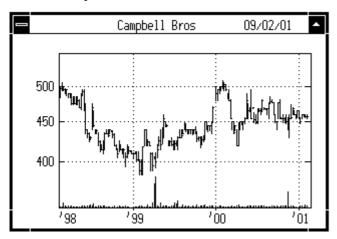
Therefore, acquiring existing competitors is an important way to grow and enhance the Laboratory Services business. Campbell Brothers formed Australian Laboratory Services in 1981, acquiring Kalgoorlie Assay Laboratory in 1990, South American based Geolab Laboratory Services in 1996 and Canadian based Chemex in October 1999. Now Campbell Brothers has negotiated the acquisition of another Canadian laboratory services company.

In April this year, Campbell Brothers will acquire **Analytical Services Laboratories**, a leading environmental analysis company based in Western Canada, with smaller laboratories in Chile and

Indonesia, and involved in environmental projects throughout Asia and the Americas. The A\$10 million acquisition of Analytical Services Laboratories will bring "a strong management and technical team that will drive expansion" of environmental services throughout the group's existing laboratories.

Following this acquisition, Campbell Brothers believes it will be the <u>leading international mineral</u> <u>services laboratory group and one of the top ten environmental services laboratory groups in the world.</u>

While Campbell Brothers share price hasn't changed much since we first bought into the company 16 months ago, we continue to believe that its laboratory services business offers strong growth potential - which will eventually lead to strong capital appreciation in the share price However, the shares also offer an attractive 5.8% Dividend Yield and this is a relatively low risk investment owing to the stability in its Soap & Chemical business. So Campbell Brothers offers just about everything that an investor could want: Low valuation (P/S 0.52, P/E 12, Yield 5.8%), low risk, a high income return and excellent potential for capital appreciation. The Relative Strength rating of -0.3% is a little lower than we would like, but the shares at ranked at 37 (on a scale of 0-99) so are doing better than average. Not surprisingly, therefore, we have continued to rate the shares a "Buy".



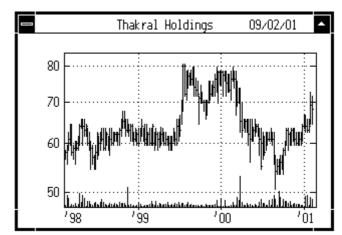
Media reports suggest that **CSR** has been offered A\$850 million cash for its sugar business, with three other trade buyers believed to be offering around A\$1 billion but "having difficulty funding bids for the entire business". In the meantime (and also to put pressure on these trade buyers), CSR is progressing with its alternative plan to float the sugar company on the Australian stockmarket and distribute the shares to its own shareholders. In preparation for a stockmarket float, CSR is seeking a cornerstone shareholder. The remaining shares will be distributed to CSR shareholders - worth around A\$0.75 per CSR share (if 75% of the sugar company is spun off to its shareholders) - with the option to sell in a pre-listing facility that would offer the shares through a prospectus to institutional and private investors. A decision on a trade sale or spin-off and stockmarket listing is expected by the end of February. Either option should increase shareholder value.

Three CSR directors bought shares in the company during January. PM Kirby purchased 52,936 shares and now owns 665,941 shares. AN Brennan bought 12,448 shares, raising his holding to 319,827 shares, while CN Goode bought 2,242 shares to build up a total holding of 266,617 shares.

The Singapore based Thakral family have entered into discussions that may result in the sale of their shares in **Thakral Holdings Group**, which would result in an offer being made to all shareholders. The Thakral family believe the shares are under-valued owing to the small size of the group and that merging with another company or being taken over may be in the best interests of shareholders. The family remain "committed to the success of Thakral Holdings and will not dispose of its interest unless *full value can be achieved for all shareholders*". Discussions are at an early stage, but a further announcement may be made over the next month. Newspaper reports have suggested that UK listed **Millennium and Copthorne Hotels** is the party interested in Thakral Holdings.

We would be happy to hold Thakral Holdings shares forever - collecting that high income yield and expecting a steady (if moderate) rate of capital appreciation - from this relatively low risk property based investment. On the other hand, we be happy to accept an 80-90 cents per share takeover offer.

In other news, Thakral Holdings has taken a 50% interest in **East Asia Property Group**'s A\$45 million, 81 residential apartment development of the *Hawthorn Tram Depot* in Melbourne. The development is 90% pre-sold. **Bovis Lend Lease** will build the apartments, scheduled for completion in May 2002



We originally bought into Thakral Holdings in November 1998 after realising a significant capital gain following the takeover of JNA Telecommunications and a small gain on **Equitilink**. The money from these two takeovers was used to top up some existing investments and to buy shares in Flight Centre (sold last year after increasing six-fold in value), Toll Holdings (also up six-fold in value), Vision Systems (up only four-fold in value) and Thakral Holdings. While three of those four investments have been spectacularly successful, Thakral Holdings has served its original purpose. Flight Centre, Toll Holdings and Vision Systems were all identified as attractive growth stocks - but each involved risks. We diversified a large cash holding across these three growth stocks, and have been very well rewarded as each outperformed our initial expectations. But growth stock investing does involve high risks, so we put one-quarter of that money in a lower risk, high (Continued on Page 6) **Recommended Investments** (Continued from Page 5) yielding investment: Thakral Holdings.

It is certainly nice when everything goes right and three out of three growth shares all appreciate so strongly in value and over such a short period of time - but this is an unusual situation! While it is important to have some big winners (and to let profits run), to successfully build investment wealth over the long term requires that one can recover when things go wrong! Therefore we have maintained a diversified portfolio and deliberately put some of the cash into a low risk, high yielding investment like Thakral Holdings. If Thakral Holdings is taken over in the next few months then it will have achieved its purpose: providing a low risk home for some of our capital but still producing a high income yield and moderate capital gain. And the proceeds will be available just at the right time to finance a new investment in a depressed, post-boom technology share - which will, hopefully, go on to produce a many-fold increase in value over the next several years.

<u>Toll Holdings</u> has acquired **ARN Logistics**, a leading service provider in the paper and packaging

sector, from **AR Neal Pty**. The integration of this business offers "significant operational and administrative benefits". The acquisition will be "earnings positive" this year, with the majority of the integration benefits being realised in the June 2002 financial year.

Against competition from 22 other companies, Toll Holdings has been awarded a long term contract to supply warehousing and distribution in Australia for **Nike**. Toll Holdings will consolidate three existing warehouses into one purpose built 18,000m² warehouse, incorporating the latest materials handling and warehouse management technology at the *Toll Business Park* at Altona. This facility will be fully operational by September this year.

Toll Holdings has also announced that it has sold (and leased back) Stage One of its Altona property development, realising A\$19 million.

TTP Communications-in which <u>Vision Systems</u> owns an 8.2% shareholding - has launched its GPRS (General Packet Radio Service) technology for mobile handsets. This is the first independent supplier of software and chip design to bring this product to market.

Lion Nathan's Takeover for Montana Wines (NZ)

Lion Nathan's current *partial* takeover of **Montana Wines (NZ)** is an example of how large NZ companies -with the active support of the NZ Stock Exchange - are able to disadvantage public minority shareholders. Is it any wonder that the public is disenchanted with the NZ stockmarket and that the NZ stockmarket has performed poorly over the last decade? The new Takeover Code will help prevent this abuse, but comes into effect too late to save Montana Wines shareholders.

The Takeover Offers and Current Situation UK based Allied Domecq is offering \$4.40 for *all* of the shares in Montana Wines, but 28.3% shareholder Lion Nathan has sought to gain a controlling 51.0% of Montana Wines by purchasing just another 22.7% at \$4.65. Lion Nathan acquired 18.2% off-market from institutions on Friday, leaving it to acquire just 4.5% from the minority public shareholders on Monday.

If Lion Nathan is successful, shareholders with the remaining 49.0% of Montana Wines will be trapped in the company and unable to obtain the high prices being offered in these takeover bids. In fact, Lion Nathan - which has a track record of treating minority shareholders unfairly - *could* syphon off all of the benefits from Montana Wines, leaving nothing for the 49.0% minority shareholders.

What's Wrong with the Lion Nathan Bid?

Our initial concern is that it is unfair and will disadvantage the *majority* of Montana Wines shareholders who will not have the opportunity to accept Lion Nathan's offer of \$4.65 per share. Of greater importance to the wider NZ economy, this type

of takeover undermines faith in the stockmarket and results in an inefficient allocation of capital resources within the economy. Ultimately the whole country pays, as investors move their money offshore (where even third world stockmarkets offer better *investor protection*) leaving NZ companies unable to obtain equity financing through the NZ stockmarket.

The Role of the NZ Stock Exchange

The NZ Stock Exchange has actively allowed the Montana Wines situation to develop. Under the *Notice* and Pause regulations, Lion Nathan needed to give notice of its intention to make its latest offer - and would have been unable to buy Montana Wines shares until Monday morning. While not very effective, this regulation was designed to prevent the Dawn Raids. That was where a bidder lined up institutional sellers in the dead of the night and executed the trades in the first minute of trading. A dawn raid favours the bidder over all other parties. The company has no time to respond to the bid, negotiate a higher bid or seek a White Knight who will make a higher bid. Other bidders have no opportunity to make a higher bid. The minority shareholders usually have no opportunity to participate in the bid or, at best, must decide instantly, with no information, whether to sell or hold. Even institutional fund managers are woken in the middle of the night to make multi-million dollar sell decisions with no information.

Despite all of the disadvantages of dawn raids, the NZ Stock Exchange has chosen to grant Lion Nathan a waiver from the notice and pause regulation. As a

result, Allied Domecq has no time to consider raising its bid, and Montana Wines' institutional and private shareholders are rushed to sell into uncertainty.

The only parties to benefit from this waiver are Lion Nathan, its *broker* and other *brokers* who will earn a brokerage commission on sales. An off-market full takeover from Allied Domecq would have paid no brokerage commissions.

Although the NZ Stock Exchange has rules that appear to stop dawn raids, this type of takeover is still favoured by many bidders - and by brokers seeking to earn corporate advisory fees and brokerage commissions. Overseas, a bidder must extend an offer at all shareholders, giving investors time to evaluate the merits of a takeover. Under the NZ dawn raid style, a company can bid for just 20% - so investors will rush to sell as quickly as possible, rather than risk being in the 80% that miss out. The bidder may then extend the offer, quickly and cheaply gaining 50.1% and control of the target company. This system favours the bidder and its corporate adviser, but disadvantages minority shareholders and makes NZ shares less attractive than investing in shares in a foreign company. In addition, the fate of companies like Montana Wines is also not determined in an open competitive auction on the stockmarket, but signed up off-market in the dead of night.

Brokers and the NZ Stock Exchange blame the granting of a waiver from the notice and pause regulations on the exchange's *Surveillance Panel*. In media reports the panel, "which operates independently" of the NZSE board, was "well-intentioned" but "badly mis-read the situation". Not so. It is fairly standard procedure for the surveillance panel to insist that *smaller* companies abide by the listing rules, but to commonly grant waivers for the larger, more influential listed companies. The surveillance panel is a committee of stock exchange members. Its operation and membership is determined solely by the NZ Stock Exchange, which is controlled by its stockbroker members.

This affair is just another example that demonstrates that the NZ Stock Exchange is unable to act ethically for the good of the whole "market" (i.e. for the common benefit of stockbrokers, listed companies and investors). It is a narrow, self interest group. Self-regulation of the stockmarket is not appropriate in this situation.

Furthermore, the NZ Stock Exchange has further disadvantaged the public shareholders by suspending



Montana Wines shares on Friday. Private investors were denied the *chance* to join the rush to sell to Lion Nathan, or to sell on-market. A potential competitor like Allied Domeqc was also denied the opportunity to overbid Lion Nathan and to buy on-market. This is probably just another example of the NZStock Exchange being "well-intentioned, but badly mis-reading the situation".

The Role of the Institutional Investors

In our opinion, institutions have also not acted ethically in participating in this dawn raid. Institutions will argue that they were simply seeking the best deal for their investors - but that argument takes a very short term view and a narrow perspective.

By rushing to sell off-market on Friday, institutions have accepted \$4.65 but denied minority shareholders the opportunity to realise this value. If institutions had supported the Allied Domecq bid then *all* shareholders could have received at least \$4.40 (which, quite likely, would have been raised to match the price offered by Lion Nathan). So those institutions involved have sold out for a mere 25 cents per share - just 5.7% extra. If the institutions wanted to deliver the minority shareholders into the paws of Lion Nathan, they could have at least held out for the standard rate of *30 pieces of silver*!

Of course, it is probably not simply a question of money for the institutions - after all, it is only other peoples money they are investing. Being able to sell in attractive takeovers that are not available to smaller investors is a significant marketing message that institutions can use to sell their unit trusts and superannuation funds. So locking out the minority public shareholders is an extra bonus that they can use in their marketing. We would like to see attempts to justify this as ethical behaviour by institutions!

Finally, by helping to further tarnish the bad reputation of the NZ stockmarket, the institutional investors have worked against maximising the long term investment wealth of their investors. Therefore, accepting the Lion Nathan partial takeover was *not* the best deal for their investors.

The Takeover Code and Market Regulation

The NZ Stock Exchange has always opposed a Takeover Code that attempts to treat all shareholders equally. This is in stark contrast to the basic meaning of the term "share" - a unit of capital being an *equal share* in the ownership of a company. Fortunately, the Labour government is *forcing* a new Takeover Code on the NZ Stock Exchange which will avoid many of the problems in the current system. Unfortunately, the new Takeover Code does not become effective until July 1st this year.

We would suggest that the NZ Stock Exchange (i.e. an organisation representing only brokers) is not a fit body to regulate the NZ stockmarket. Either the NZ government needs to regulate the NZ stockmarket (e.g. by changing the role and increasing the power of the Securities Commission) or the NZ Stock Exchange should be taken over by the Australian Stock Exchange (i.e. the NZ stockmarket should close, and NZ companies list in Australia and be subject to regulation by the Australian Securities & Investments Commission).

(Continued on Page 8)

Lion Nathan/Montana Wines (Continued from Page 7)

<u>Lion Nathan has a Tradition of</u>

Discriminating Against Smaller Shareholders

The Lion Nathan partial takeover of Montana Wines is in line with that company's historical treatment of minority public shareholders. When **Lion Corporation** and **LD Nathan & Company** merged in 1988, the large shareholders in LD Nathan were offered a better deal than the public shareholders. Again in 1998, when **Kirin Breweries** bought into the company, the major shareholder, Douglas Myers, was able to sell *all* of his shares at the high price while other shareholders were not so lucky.

Summary and Recommendation

Montana Wines minority shareholders can take some comfort in the fact that the Chairman, P Masfen, has a 19.9% stake in the company and will resist moves by Lion Nathan to discriminate further against the minority shareholders. Still, being a minority shareholder in Montana Wines under Lion Nathan is not an attractive situation, so investors should probably

STRENGTH RATING SPrice Return Vola- Price Divi- Price

try to get out of this company - although will probably realise substantially less than \$4.65 per share. Montana Wines has risen strongly over recent years, so investors can still realise a substantial gain.

Fortunately the new Takeover Code will become effective soon, preventing companies like Lion Nathan from making these discriminatory offers, improving the rights of minority shareholders and allowing all shareholders time to evaluate a takeover offer before making a decision to sell.

NZ has about 140 listed companies. Take out *shell* companies, hopeless e-commerce hopefuls, over-valued shares, those without growth prospects, those that have a history of disadvantaging minority shareholders . . . and what is left? Open an account with an Australian stockbroker like Sanford Securities, HSBC DirectInvest or E*Trade Australia and send your money across the Tasman! As investors we can take our money anywhere in the world. If NZ stockbrokers, large NZ companies and NZ institutions act unethically and infringe on our right to equal treatment, we can simply move more of our money offshore.

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.

			IGTH RA	TING_	ers	Price	Returr	ı Vola-	Price	Divi-	Price					NGTH RA	TING_	ers Ving	Price	Return on	Vola-	Price	Divi-	Price	
Company	Share	Cur-	4-WK	Rank	žé.	to NTA	on	til-	Earn.	dend		Market	Company	Share	Cur-	4-Wk	Rank -	호등.	OJ ATLA	On	til-	Earn.	dend	Sales	Market
	Price	rent	City.	0.99	шш	NIA	Equity	ity	Ratio	Yield	Rallo	Cap'n		Price	rent	Crig.	0-99	ш.Z	NIA	Equity	пу	Ratio	Yield	Rallo	Cap'n
UNDER-VALUED	SHARE	S: Lowe	est Prio	ce/Sa	iles.	Yld >	O. R	el St	renat	h > 0			INCOME SHARES	: Hiah	est Yie	lds. Ca	noitalis	ation	> 1	17\$10	0 mil	llion			
Wrightsons Ltd		+14.1		4		0.9			_	8.8	0.15	91	Telecom Corp	9	-11.7								12 6	2 21	9 567
Design Textiles	34		+6.0	24		0.4	4				0.18		Steel & Tube	152		+1.6	39		1.1				11.8		133
Williams Kettle		+11.7		6		1.1	11	0.6			0.25	41	Hallenstein G.	239		+0.7			4.1				11.6		139
Hellaby Hold.	178		+1.4			1.3		1.1		11.7		89	FC - Building	208		+2.8	66			11	1.1		11.5		713
Steel & Tube	152		+1.6	39		1.1	11			11.8	0.36		Restaurant Brds	133		+2.7	13		4.4	45	1.0		11.2		122
Renaissance		+21.0		2		3.5		1.8		1.1			Cavalier Corp		+10.3		9		2.2		0.7			0.80	174
Restaurant Brds			+2.7			4.4				11.2			Sky City Ltd	925		+3.1	11		5.7			15		3.01	891
AXA Asia Pac.	324			26		1.4					0.54		Air New Zealand	167		+1.7	76		0.6	11	0.8	5		0.27	1,264
Nuplex Indust	371		+1.1			1.7		1.0			0.54	209	Contact Energy	292	-0.3		43		1.1	4	0.7	28		2.03	1,204
Tower Limited	536		+1.1	40	5	1.1	9	0.6			0.55	946	Lyttelton Port	173		+2.8	25					12		3.03	176
Reid Farmers						1.4		1.3			0.56	48	Lyttetton Fort	173	+4.∠	+2.0	23	U	5.5	43	0.0	12	0.0	3.03	170
DB Group	86	+17.8		3	6	2.5	17	0.6			0.56	273	OVER-VALUED SH	IADEC	. Lliabo	ct Dric	o /C ala	c D	otioc	Dolot	C	tronat	th . i	1	
'				37		1.5	15				0.00				-										220
Bendon Limited	170 117	+1.1	-0.3 +1.7				12	1.0			0.70	52 28	Infratil NZ	126		+0.5					0.6	9 NE		7.53	239 21
Taylors Grp Ltd													Nuhaka Forestry			-1.0			0.7		0.8			6.71	
AMP Limited	2365	+6.0	-0.9	18		2.6	14	0.6				25,461	Sky Network TV	365		+3.7	74		3.4					5.09	
Michael Hill	355		+2.4			3.2					0.75	137	Strathmore Grp	14	-22.3		90		0.8		2.3			2.93	28
Cavalier Corp		+10.3		9	4		16				0.80		Ind Newspapers	375		+1.7	55		1.5		0.7				1,453
Mr Chips Hold		+10.0			-	3.0	21				0.81	14	Newcall Group	7	-33.6		96		0.5		2.5			2.24	7
Hallenstein G.	239	+3.4	+0.7	21	6	4.1	34	0.8	12	11.6	0.86	139	Telecom Corp	545	-11.7				8.5						9,567
DECT DEDECOM		ADEC	CI			D /F			·C	4.0			Contact Energy	292	-0.1	-0.6	43	9	1.1	4	0.6	28	8.9	2.03	176
BEST PERFORM			_								0 (0	070	WODET DEDECOM	c	LADEC	147 1 .			D/C	D . I'		- \r		- • • •	
DB Group		+17.8		3		2.5					0.68	273	WORST PERFORM												5
Wrightsons Ltd		+14.1		4	-	0.9	7	1.3			0.15	91	Newcall Group		-33.6				0.5	-	2.3			2.24	7
Williams Kettle		+11.7		6		1.1					0.25	41	E-Phone Ltd	8	-32.1				1.6					N/A	9
Cavalier Corp		+10.3		9		2.2		0.8			0.80		Eldercare NZ	19	-25.5		93		0.8		1.7	5		1.12	29
Mr Chips Hold		+10.0		10		3.0	21	0.7			0.81	14	Advantage Group				92		1.5		1.2	55		1.48	95
Restaurant Brds			+2.7			4.4				11.2			FC - Forests		-24.0				0.2	4	1.5	. 4		0.49	769
Reid Farmers	86	+6.8	-0.7	16	-	1.4	13	1.1			0.56	48	Strathmore Grp	14	-22.3		90		8.0		2.2			2.93	28
Nuplex Indust	371			17		1.7					0.54	209	Force Corp.	25	-19.0		88		0.7		1.6	8		0.71	39
AMP Limited	2365			18	-	2.6	14	0.5				25,461	IT Capital Ltd		-18.8		87		1.7	-			Nil	N/A	38
Michael Hill	355		+2.4			3.2	23	0.7			0.75	137	E-Ventures NZ		-17.3		86		1.3		1.2		Nil	N/A	75
Design Textiles	34		+6.0			0.4		1.4			0.18	11	Tag Pacific Ltd		-14.9		84		0.7	10		7		0.36	16
AXA Asia Pac.	324	+3.6	-3.6	26	-			0.7				5,710	Cue Energy Ltd	5	-13.8		83		0.5	-	2.3			1.73	15
Hallenstein G.	239		+0.7			4.1				11.6		139	Tourism Hold.	178	-11.3		81		1.0			10		0.82	164
Affco Holdings	42	+3.1	-1.6	28		8.0	9	1.1	8	Nil	0.09	86	Mainfreight Grp	125		+0.9	81	7	1.8			10		0.29	90
Taylors Grp Ltd	117		+1.7	35		1.5		1.0			0.73		Rocom Wireless	65	-7.8		80		-		0.9		Nil	N/A	10
Bendon Limited	170		-0.3				15				0.70		Brierley Invest	34		+0.4	78		0.4		1.1			0.58	930
Steel & Tube	152		+1.6	39		1.1	11	1.0		11.8			Ebos Group Ltd	299		+1.8	77	-	2.3			19		0.99	80
Tower Limited	536		+1.4			1.1	9	0.5		5.6		946	CDL Hotel NZ	18		+1.7	77		0.3	3	1.3			0.38	63
Hellaby Hold.	178	+0.4	+1.4	41	5	1.3	17	0.9	8	11.7	0.35	89	Sky Network TV	365		+3.7	74		3.4	-	0.7			5.09	1,335
													Damba Hold Ltd	37	-5.6		73		0.5			18		0.66	6
													Software of Exc	100	-5.1	-1.7	71	7	1.0	-	0.7	ΝE	Nil	0.94	5
								\sim		1															

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

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Company	Share Cur. 4-Wk Rank 25 55 to on til Earn. dend Sales Market Price rent Chg. 0-99 25 55 NTA Equity ity Ratio Vield Ratio Cap'n	STRENGTH RATING STRENGTH STRENGTH RATING STRENGTH RATING STRENGTH RATING STREN
OVER VALUED SE	HARES: Highest Price/Sales Ratios, Relative Strength < 0	Spike Networks 19 -38.3 +1.5 99 0-0 1.1 NE Nil 0.43 8
Earth Sanct.	140 -9.2 +0.9 63 2-0 - 1.5 8 0.7 18 0.4 9.80 38	Timbercorp 138 36.9 +1.2 99 1-0 2.6 54 0.7 5 5.1 1.66 276
EftNet Tech.	31 -28.5 -0.1 93 0.0 - 5.1 - 1.0 NE NII 9.78 6	My Casino Ltd 9 -36.7 -1.3 99 2-2 - 2.1 - 1.4 NE Nil N/A 11
Healthpoint Tec	14 -10.1 -1.2 66 0-0 - 1.9 - 1.3 NE NII 9.71 12	Surfboard Ltd
ComOps Limited	53 -10.3 -3.4 66 1.0 -13.3 13 0.9 100 Nil 9.62 25	Emitch Limited 20 36.0 0.7 99 0.0 2.5 1.1 NE Nil 1.48 11
Payce Consol.	70 -1.1 -1.8 40 2-0 - 0.7 1 0.8 74 Nil 9.54 24	Eisa Ltd 14 -35.6 +1.9 98 0.0 1.2 NE Nil 0.56 9
PEG Technology	35 -9.0 +0.5 62 0·0 1.0 88 Nil 9.46 40	ICS Global Ltd 30 34.6 2.0 98 0.0 1.1 1.0 NE Nil 1.14 8
Electrometals	21 -0.8 +1.7 39 -0.0 -	China Converg. 10 34.6 -2.9 98 0-0 -0.6 1.3 NE Nil 0.61 47
Protel Int'l	464 0.6 1.9 38 0.0 - 9.3 23 0.6 40 1.3 9.41 344	ISIS Com'cation 19 34.4 +1.1 98 0-0 0.5 1.1 NE NII 1.74 17
BMCMedia.com	33 -33.8 +2.5 97 0·0 - 5.5 - 1.0 NE Nil 9.32 18	My Money 5 -34.3 -1.9 98 0-0 - 0.7 - 1.7 NE Nil 0.25 6
Equatorial Min.	245 -5.6 -0.4 54 0-0 0.7 NE Nil 9.28 87	Geo2 Limited 6 -34.3 -1.6 98 0-0 - 1.2 - 1.6 NE Nil 1.02 8
Julia Mines	10 -21.8 -0.9 86 0.0 1.4 NE NII 9.22 13	Copper Mines 1 -34.3 +0.7 97 0-0 3.0 6 Nil 0.50 8
Aust Pure Fruit	80 -0.0 +1.7 36 0·0 - 2.4 - 0.8 NE Nil 9.15 6	Sausage Softwar 58 -34.1 -1.0 97 0-2 - 3.2 - 0.8 NE Nil 2.75 167
Premier Invest	180 -4.6 -0.4 51 0-0 - 0.7 2 0.7 31 2.8 8.89 167	Solution 6 116 -34.0 +2.2 97 0.0 7 1.2 - 0.7 NE Nil 0.87 174
Charter Pacific	79 -0.1 -1.7 36 0-0 - 7.2 - 0.8 NE Nil 8.73 51	CCK Financial 31 -34.0 -7.7 97 0-0 - 0.4 3 1.0 14 Nil 1.62 7
Zeolite Aust.	38 -10.2 -0.8 66 0-0 - 4.8 - 1.0 NE Nil 8.72 8	Access 1 Ltd
Tectonic Res.	16 -4.5 +2.2 50 0·1 1.2 NE Nil 8.61 21	BMCMedia.com 33 -33.8 +2.5 97 0-0 - 5.5 - 1.0 NE Nil 9.32 18
Templeton Globa	158 -2.7 +0.8 44 3-0 - 0.9 1 0.7 74 10.8 8.58 134	Pilbara Mines 32 -33.5 -0.5 97 0-0 1.0 NE Nil N/A 13
Adultshop.com	32 -27.9 +5.2 93 0·0 - 3.2 - 1.0 NE Nil 8.51 63	Crest Resources 3 -33.5 -1.0 97 2-1 2.0 NE Nil N/A 7
Vostech Limited	17 -14.3 -0.2 75 1-0 -16.5 - 1.2 NE Nil 8.42 15	Cons. Gaming 13 -33.5 +0.9 97 0-0 - 0.8 19 1.2 4 Nil 1.67 5
Lake Technology	68 -7.1 +0.4 57 0.0 - 9.7 - 0.8 NE Nil 8.25 19	Techniche Ltd 97 -33.2 +0.3 96 0-0 - 1.2 - 0.8 NE Nil 0.96 35
Huada City	77 -1.9 -0.0 42 -0.0 - 0.6 -6 -0.8 -9 10.8 8.24 - 28	Objectif Tele. 20 -33.2 -1.7 96 0-0 - 6.7 41 1.1 16 Nil 3.44 24
Tennyson Netwks		Day Trader HQ 26 -33.1 -0.8 96 3-0 - 1.6 12 1.0 13 Nil 0.91 5
Tradehouse Int.	17 15.7 2.6 77 0.0 - 0.2 - 1.2 NE NII 7.98 5	Digital Now 32 -33.0 -4.6 96 0-0 - 2.0 - 1.0 NE Nil N/A 33
Ambition Group	80 -8.3 -1.8 61 4-0 0.8 NE NII 7.98 8	131 Shop.com.au 9 -32.9 +2.5 96 0-0 - 1.5 - 1.4 NE Nil 0.64 5
Senetas Corp	25 -26.0 +0.4 91 0·0 - 0.8 - 1.1 NE NII 7.93 43	ECAT Dev Cap'l 6 31.5 +2.7 96 0.0 - 1.2 - 1.6 NE Nil N/A 10
Circle Com Ltd	15 - 30.6 - 2.7 95 0.0 1.2 NE NII 7.50 20	IXLA Limited 31 -31.5 -0.8 96 0-1 - 1.5 - 1.0 NE Nil 1.86 26
AMP Ind Prop Tr	96 -1.7 -0.2 41 0.0 4 1.0 9 0.8 10 9.8 7.20 325	Wealthpoint Ltd
Roc Oil Company		IBA Technology 39 -30.8 +1.4 95 0-0 - 1.2 - 0.9 NE Nil 3.44 47 Datafast Tel. 5 -30.7 -0.6 95 0-0 1.7 NE Nil 1.16 6
Zylotech	12 -16.4 +1.8 78 0-0 - 2.9 - 1.4 NE NII 6.50 8 9 -11.1 -0.6 68 0-0 - 1.4 - 1.5 NE NII 6.39 15	Datafast Tel. 5 -30.7 -0.6 95 0-0 1.7 NE Nil 1.16 6 Cardia Tech. 8 -30.7 +1.0 95 0-0 1.5 NE Nil N/A 5
Sedimentary Hld Telemedia Netwk		Circle Com Ltd 15 -30.6 -2.7 95 0-0 1.2 NE Nil 7.50 20
New Tel Ltd	55 -29.1 -7.0 93 1-0 -55.0 - 0.9 NE NII 6.14 55	Kidz.net Ltd 8 -30.2 -0.3 95 0-0 - 0.6 - 1.4 NE Nil 1.22 8
Aust Infra.	178 -1.6 -1.3 41 00 6 0.8 12 0.7 6 9.0 6.08 260	Webspy Limited 8 -30.2 +0.9 95 0-0 1.4 NE Nil N/A 9
FTR Holdings	24 -21.3 +1.5 85 0·0 · · · · 1.1 NE Nil 6.06 34	IPT Systems Ltd 6 -30.2 +0.7 95 0-0 - 1.6 NE Nil N/A 16
Voicenet (Aust)	37 -38.4 -1.3 99 0-0 - 1.4 - 1.0 NE Nil 6.01 42	Harvest Road 27 -30.0 +0.4 95 0.0 - 0.9 - 1.0 NE Nil 3.19 10
Queensland Opal	6 -12.3 -0.2 70 3-0 - 6.0 - 1.7 NE Nil 5.83 6	Multi-Emedia 10 -30.0 +1.6 95 0.0 1.7 1 1.3 167 Nil 4.24 32
Hillgrove Gold	7 -9.0 -0.3 62 0-0 1.6 NE Nil 5.74 23	B Digital Ltd 26 -29.7 -3.6 94 0-0 - 1.0 NE Nil 0.35 21
Metroland Aust	9 -20.6 -4.3 84 3-0 - 0.9 - 1.5 NE NII 5.70 7	M.Y.O.B. Ltd 187 -29.7 -1.7 94 2-1 -37.4 - 0.7 18 1.8 2.69 460
Tomorrow Ltd	115 -2.3 -13.4 43 0·0 - 0.8 4 0.8 19 Nil 5.40 25	Aussie Online 3 -29.6 -0.3 94 0-3 2.0 NE Nil N/A 10
FlowCom Limited	30 -17.6 -2.0 80 0·0 1.0 NE Nil 5.24 27	Smart Comm. 20 -29.6 -2.6 94 0-0 - 4.0 7 1.1 56 Nil 1.07 12
Fleet Capital	129 -21.9 -7.3 86 0·0 - 1.1 - 0.7 NE Nil 5.14 5	Davnet Limited 55 -29.2 +0.3 94 0-0 - 3.1 3 0.8 98 3.2 1.29 263
Gold Mines Sard	36 -9.9 +1.3 65 0·0 - 2.3 - 1.0 NE Nil 5.09 85	Technology One 128 -29.1 -11.8 94 0-3 -25.6 - 0.7 22 1.2 4.49 406
E-Bet Limited	20 -22.6 +0.3 86 0·0 - 2.2 - 1.1 NE Nil 5.09 17	New Tel Ltd 55 -29.1 -7.0 93 1-0 -55.0 - 0.8 NE Nil 6.14 55
Macquarie Leis.	72 -3.4 -1.2 47 0-0 - 0.8 10 0.8 8 14.6 4.95 99	Equico Corp Ltd 5 -29.0 -3.7 93 0-0 1.7 NE Nil 4.50 8
Objective Corpo	50 16.0 0.9 77 00 12.5 96 0.9 13 Nil 4.91 67	
Oil Search Ltd	155 -5.1 +0.8 52 0·0 13 - 0.7 49 Nil 4.85 894	INSIDER SELLING: Most Insider Selling, Relative Strength < 0
World.net Serv.	50 -7.7 +1.3 59 0·0 0.9 NE Nil 4.67 9	Union Capital 11 -28.0 +1.9 93 0-6 1.3 NE Nil 1.63 44
Canbet Limited	12 ·17.3 +0.4 80 0·0 · · · · 1.4 NE Nii 4.64 28	AMX Resources 38 0.5 +0.1 38 0.4 - 0.9 NE Nil N/A 85
Equico Corp Ltd	5 -29.0 -3.7 93 0-0 1.8 NE NII 4.50 8	Technology One 128 -29.1 -11.8 94 0-3 -25.6 - 0.7 22 1.2 4.49 406
Technology One	128 - 29.1 - 11.8 94 0-3 - 25.6 - 0.7 22 1.2 4.49 406	E.R.G. 260 6.2 -1.8 55 0-3 8 6.7 15 0.6 46 0.8 3.87 1,615
WORCT DEDECOS	MINC CHARTS, Weekert Charge D/C Datie - 0.25 Vield - Tudes Aver-	Aussie Online 3 -29.6 -0.3 94 0-3 1.9 NE Nil N/A 10
	MING SHARES: Weakest Shares, P/S Ratio > 0.25, Yield < Twice Average	Data 3 Ltd 67 -26.5 +1.8 91 0-2 1 - 0.8 22 3.7 0.07 10
Plexus Int'l	8 -47.1 +0.3%100 0-0 1.5 NE Nil 2.25 6 6 -41.7 +1.0%100 0-0 - 3.2 - 1.6 NE Nil 0.67 20	Westel Group 17 -26.7 -0.4 92 0-2 1.1 NE Nil 3.57 34
Liberty One Melbourne IT	6 -41.7 +1.0%100 00 - 3.2 - 1.6 NE Nil 0.67 20 101 -40.3 +0.0%100 00 - 5.3 11 0.8 50 1.9 3.38 51	Access 1 Ltd 15 -33.8 -0.4 97 0-2 - 1.7 - 1.1 NE Nil N/A 20 Formida Holding 165 -16.8 -5.3 79 0-2 - 7.9 - 0.7 NE Nil 3.78 38
Reckon Limited	19 -38.6 +1.3 99 00 - 0.7 - 1.1 NE Nil 1.00 20	E-Sec Limited 32 -13.7 +1.8 73 0-2 - 3.5 - 0.9 NE Nil N/A 11
Voicenet (Aust)	37 -38.4 -1.3 99 0-0 - 1.4 - 0.9 NE Nil 6.01 42	Sausage Softwar 58 -34.1 -1.0 97 0-2 - 3.2 - 0.8 NE Nil 2.75 167
voicement (must)	5. 55.1 1.5 77 55 1.1 5.7 NE NII 0.01 42	5335595 551 mil 50 51.1 1.0 // 52 5.2 5.0 14E 14II 2.75 10/

New Zealand Warrant / Option Analysis

Warrant	Share Price	Exercise Price	Years & Months to Expiry	Warrant Price (NZ cents)	Black-Scholes Valuation (NZ cents)	Warrant Over/Under Valued (%)	Share Vola- tility	Warrant	No. Warrants to Buy One Share	Even
NZ Oil & Gas Options	\$0.30	\$0.70	0-8	3.1	0.6	+381	0.647	4.9	1.0000	+280%
Otter Gold Mines 1999/2003	\$0.35	\$2.00	2-4	2.0	0.1	+1444	0.433	5.1	1.0000	+112%
Otter Gold Mines 2001	\$0.35	\$2.75	0-8	0.5	0.0	+99999	0.433	999.9	1.0000 -	+2108%

Australian Warrant / Option Analysis

, ,	Yr/Mth share Exercise to Price Price Expiry	Black Option Share Option Option Scholes Over/ Vola- Lever- Price Valuation Under- tility age	Options Break- to Buy Even 1 Share Rate	Tyr/Mth Black Option Share Option Options Break- Company Share Exercise to Option Scholes Over/ Vola Lever to Buy Even Price Price Expiry Price Valuation Under tility age 1 Share Rate
AP Eagers Ltd Adultshop.com Adultshop.com Advanced Engine Allegiance Mining Allstate Exploration Amadeus Petroleum Ambition Group Amity Oil Amlink Technologies Analytica Ltd Arrow Energy Asset Backed Astro Mining NL Audax Resources Auridiam Consolidated Auridiam Consolidated Auridiam Consolidated Auspine Ltd Aust Kimb Diamonds Bara Resources Beach Petroleum NL Beaconsfield Gold Bionomics Ltd Biotech Capital Bolnisi Gold NL Bullion Minerals Burns Philp CMC Power Systems Canbet Cardia Technologies Carnarvon Petroleum Carnarvon Petroleum Carnarvon Petroleum Carnarvon Petroleum Carnarvon Petroleum Carnarvon Petroleum Centamin Chariot Internet Charter Pacific Chiquita Brands Citie Centre Ltd Citistate Corp Clover Cluff Resources Cobra Resources Deepgreen Minerals Defiance Mineral Cranswick Premium Craton Resources Deepgreen Minerals Defiance Mineral Dioro Exploration	hare Exercise to hirder Price Expiry 85 400 1-11 32 20 3-4 32 175 2-10 21 50 0-4 12 20 2-9 88 20 1-1 20 3-8 8 35 1-7 16 45 3-4 20 50 4-8 8 20 1-4 20 35 1-6 21 25 8-10 21 120 1-10 20 50 0-9 88 20 0-11 23 400 1-10 3 20 1-7 3 20 1-7 3 20 1-7 40 30 3-7 50 1-8 8 20 3-4 4 20 3-2 30 125 1-1 8 20 3-4 4 20 3-2 30 125 1-1 31 3 25 1-5 12 20 1-1 8 20 3-4 4 400 0-5 6 20 2-1 57 100 1-10 79 50 1-8 8 20 3-4 4 400 0-5 12 20 1-1 8 20 3-4 4 20 3-5 12 20 1-1 8 20 3-4 4 20 3-6 12 20 1-1 8 20 3-7 40 30 3-5 3 20 0-10 44 20 1-1 15 195 1-4 34 25 2-1 17 20 2-11 37 20 2-11 37 20 2-11 37 20 2-11 37 20 2-11 37 20 2-11 37 20 2-11 37 20 2-11 37 20 2-11 37 20 2-11 38 20 1-4 37 20 2-1 39 20 2-4 39 20 2-4 39 20 2-4 39 20 2-4 30 30 3-5 30 3-5 30 20 0-10 40 20 1-1 41 20 2-1 41 20 2-1 41 7 20 2-1	Option Scholes Over/ Valuation Volar Lever- tillity Lever- tillity 20.0 54.4 -63 0.20 4.62 20.0 26.2 -24 1.30 1.31 1.5 15.2 -90 1.30 1.35 5.6 13.1 -57 1.02 1.51 3.2 1.6 +95 0.62 2.15 1.5 0.04+999 0.56 9.99 3.3 2.3 +44 0.50 2.39 22.0 22.5 -2 0.39 2.25 57.0 63.7 -11 1.06 1.27 3.0 6.6 -54 0.90 1.52 4.9 2.2+127 0.35 2.91 1.6 0.4+302 0.58 3.62 5.5 1.1.2 -1.1 1.06 1.22 1.0 0.9+999 0.95 9.99 1.8 1.22 1.02 1.1 0.0 1.999 1.02 1.03 <td>to Buy Even Rate 1 Share Rate 1 1.00 +5 1.00 +7 1 1.00 +84 1.00 +24 1.00 +29 1.00 +12 1.00 +3 1.00 +39 1.00 +29 1.00 +11 1.00 +60 1.00 +6 1.00 +17 1.00 +999 1.00 +76 1.00 +203 1.00 +38 1.00 +244 1.00 +31 1.00 +38 1.00 +244 1.00 +38 1.00 +244 1.00 +5 1.00 +70 1.00 +312 1.00 +38 1.00 +24 1.00 +6 1.00 +70 1.00 +38 1.00 +24 1.00 +70 1.00 +88 1.00 +2 1.00 +77 1.00 +88 1.00 +26 1.00 +77 1.00 +88 1.00 +40 1.00 +615 1.00 +77 1.00 +88 1.00 +999 1.00 +86 1.00 +999 1.00 +86 1.00 +999 1.00 +86 1.00 +999 1.00 +88 1.00 +999 1.00 +88 1.00 +999 1.00 +88 1.00 +999 1.00 +88 1.00 +999 1.00 +88 1.00 +999 1.00 +88 1.00 +999 1.00 +114 1.00 +7 1.00 +88 1.00 +999 1.00 +999 1.00 +999 1.00 +999 1.00 +999 1.00 +999 1.00 +999 1.00 +999 1.00 +999 1.00 +999 1.00 +999 1.00 +999 1.00 +92</td> <td> Company Share Exercise Defice Price Expire Price Price Expire Price Price</td>	to Buy Even Rate 1 Share Rate 1 1.00 +5 1.00 +7 1 1.00 +84 1.00 +24 1.00 +29 1.00 +12 1.00 +3 1.00 +39 1.00 +29 1.00 +11 1.00 +60 1.00 +6 1.00 +17 1.00 +999 1.00 +76 1.00 +203 1.00 +38 1.00 +244 1.00 +31 1.00 +38 1.00 +244 1.00 +38 1.00 +244 1.00 +5 1.00 +70 1.00 +312 1.00 +38 1.00 +24 1.00 +6 1.00 +70 1.00 +38 1.00 +24 1.00 +70 1.00 +88 1.00 +2 1.00 +77 1.00 +88 1.00 +26 1.00 +77 1.00 +88 1.00 +40 1.00 +615 1.00 +77 1.00 +88 1.00 +999 1.00 +86 1.00 +999 1.00 +86 1.00 +999 1.00 +86 1.00 +999 1.00 +88 1.00 +999 1.00 +88 1.00 +999 1.00 +88 1.00 +999 1.00 +88 1.00 +999 1.00 +88 1.00 +999 1.00 +88 1.00 +999 1.00 +114 1.00 +7 1.00 +88 1.00 +999 1.00 +999 1.00 +999 1.00 +999 1.00 +999 1.00 +999 1.00 +999 1.00 +999 1.00 +999 1.00 +999 1.00 +999 1.00 +999 1.00 +92	Company Share Exercise Defice Price Expire Price Price Expire Price Price
E-Star Online E-Tick Limited E-CAT Development Eftnet Technologies Empire Oil & Gas Euroz Federation Res. 10 Fimiston Mining NL FlowCom Ltd Franked Income Fd GPS Online.com Gemeral Gold Res. Giants Reef Mining Glengarry Resources Global Business Global Business Global Business Global Furiness Global F	15 50 2-4 34 30 1-4 6 30 0-6 31 20 3-7 8 20 1-10 54 50 3-9 65 400 1-2 18 30 0-7 30 63 0-10 36 580 1-10 15 40 1-4	6.0 3.3 +79 0.31 4.01 4.0 1.8+117 0.67 2.41 11.5 11.1 +4 0.54 2.26 0.3 0.1+145 1.19 3.58 12.5 24.0 -48 1.10 1.16 2.5 1.0+157 0.62 2.70 10.0 38.4 -74 0.99 1.22 41.0 21.0 +95 0.84 2.55 2.9 4.1 -30 1.31 2.11 4.0 0.1+999 0.40 7.83 96.0 142.2 -33 0.23 3.49 1.1 3.6 -70 1.12 1.86 1.8 5.9 -69 1.45 1.45 1.3 0.0+999 0.47 7.17 0.3 0.0+999 0.47 7.17 0.3 0.0+999 1.09 3.15 1.3 0.0+999 1.08 8.88 0.0+999 1.09 3.15 1.0 0.2+396 1.08 2.78 3.5 5.2 -33 1.08 1.20 1.9 2.5 -25 1.06 1.47 0.6 0.7 -18 1.28 1.88 2.0 3.6 -44 1.10 1.58 1.4 0.3+439 0.89 2.71 0.9 0.7 +34 1.00 2.20 2.5 23.0 +11 0.64 1.76 1.0 0.5+100 1.13 1.95 5.0 1.9+164 0.41 4.87 0.5 0.8 -40 1.44 2.82 6.0 17.4 -66 1.05 1.52 0.5 0.2+233 0.54 9.11 3.0 1.2+150 0.51 2.76 2.10 14.5 +45 0.33 3.47 6.6 8.8 -25 0.18 6.39 1.5 0.4+239 0.70 2.77 1.1 0.4+169 0.77 2.33 0.3 0.0+999 1.08 1.00 5.0 10.4 -52 0.83 1.31 1.5 0.1+999 0.78 3.86	1.00 +73 1.00 +16 1.00 +999 1.00 +2 1.00 +3 1.00 +18 1.00 +195 1.00 +165 1.00 +3 1.00 +18 1.00 +61 1.00 +272 1.00 +999 1.00 +58 1.00 +684 1.00 +262 1.00 +684 1.00 +262 1.00 +718 1.00 +178 1.00 +178 1.00 +178 1.00 +178 1.00 +179 1.00 +999 1.00 +910 1.00 +999 1.00 +999 1.00 +910 1.00 +999 1.00 +911	Rand Mining 110 20 0.4 78.0 90.4 -14 1.02 1.22 1.00 -29 Redflex Holdings 173 350 1-10 50.0 10.7+368 0.43 3.78 1.00 +47 Redfon Mining NL 8 20 2-9 2.8 3.6 -23 1.05 1.44 1.00 +47 Ridley Corporation 77 65 1-2 25.0 21.5 +17 0.40 2.79 1.00 +14 SSH Medical 74 40 1-4 42.0 43.5 -4 0.84 1.50 1.00 +8 Seafood Online.com 8 20 2-6 2.7 1.4 +98 0.63 2.29 1.00 +52 Senetas Corporation 25 30 3.3 11.5 15.4 -26 1.00 1.29 1.00 +32 Simon Gilbert 55 100 3-10 10.0 3.4 -70 1.00 1.29<

Australian Company Reviews: Cellnet Telecommunications Group and Mobile Innovations

Telecommunications is an industry that offers significant growth potential, but there are many factors that make telecommunications shares unattractive for investment: Firstly, the high growth expectation has resulted in high valuations for many of these shares. Secondly, rapid growth requires massive capital expenditure to expand network capacity, which increases operating costs. Technology change also requires companies to regularly update their network infrastructure. Thirdly, increased competition is rapidly lowering prices that companies can charge for their services. In many cases, prices are falling faster than the growth in demand for services, resulting in a drop (or very slow growth) in total revenues.

Future Wealth (Francis McInerney and Sean White, see our review in *Market Analysis* Issue 336, June 2000) describes this situation of rising costs and falling revenues as "Terminal Velocity" - from where many Telecommunications companies will be sucked into the "Black Hole in Cyberspace", never to escape.

So, how can one invest successfully in this sector? The answer involves "Dematerialisation": Invest not in the companies that *provide* telecommunications services (and must finance network upgrades and new technology from rapidly falling revenues) but invest in the companies that provide *niche services* in this growing industry.

Two interesting companies that operate businesses servicing the mobile telecommunications industry are **Cellnet Telecommunications Group** and **Mobile Innovations**.

Cellnet Telecommunications Group

Company History

Cellnet Telecommunications was formed in 1992 and listed on the Australian stockmarket in late 1999 following the public issue of shares at A\$1.50 - raising A\$9.0 million cash for the company and A\$20.2 million for existing shareholders who reduced their stake in the company. The company successfully took advantage of the boom in technology shares to raise a further A\$9.75 million in new equity from the private placement of 3.0 million new shares at A\$3.25 in March 2000.

Current Business

Cellnet Telecommunications' main business is the *wholesale distribution of* mobile phones and accessories (earning a profit margin on products sold) to both service providers and over 2000 retailers in Australia and N7

In October 2000, Cellnet Telecommunications sought to expand and diversify its business with the acquisition of **IT Wholesalers** for A\$7.0 million (A\$2.5 million in cash and the issue of 2,003,082 Cellnet shares at A\$2.35). This Brisbane and Sydney based company distributes IBM and ACER laptop computers and other hardware and consumables. IT Wholesalers generated revenue of A\$39 million in the year to June 2000, so was acquired on a relatively low Price/Sales ratio of 0.18. Cellnet Telecommunications plans to expand IT Wholesalers to operate throughout Australia and sees synergy from shared warehousing and distribution, as well as from the convergence of telecommunications and information technology products.

Cellnet Telecommunications also seeks to grow internally by expanding its product range into the Small Office Home Office market (with phones, answering machines and computer accessories) and its B2B (business to business) and B2C (business to consumer) internet business which sends 6000 parcels per month to retailers and end users.

Recent Results

For the year to June 2000, Cellnet Telecommunications slightly exceeded its prospectus forecasts by lifting revenues 71.3% to A\$192.4 million. Profits rose 75.3% to A\$6,978,000 (15.2 cents per share) and an annual dividend of 7.0 cents was paid.

The company's results for the six months to December 2000 will be released within the next few days. In November the company reported that the first quarter revenues were ahead by "more than 50%" (excluding IT Wholesalers that was acquired in October). Profit for the year to June 2001 is expected to be around A\$10.8-11.4 million (24-25 cents per share) - a very healthy 55-63% growth rate.

Investment Criteria

Cellnet Telecommunications is a wholesaler and distributor, so its revenue benefits from the rapid growth in mobile telecommunications but without the technology risk involved in manufacturing equipment and avoids the "Terminal Velocity" situation involved in operating a telecommunications network. Today it imports from companies like Nokia and Motorola, selling to operators like Telstra, C&W Optus, Vodafone and Telecom NZ. Regardless of who become the leading equipment manufacturers in ten years time - and who still operates a mobile network - Cellnet Telecommunications should still be around servicing this market. Its ability to survive and grow depends upon running an efficient, low cost wholesale business. This is achieved by investing in the latest technology to (Continued on Page 12) maintain inventories

Cellnet Telecommunications (Cont'd from Page 11) and run warehousing and distribution. <u>Cellnet Telecommunications</u> is a low cost wholesaler - and this is exactly the competitive advantage needed to prosper in its business.

At A\$1.86 the shares trade on a Price/Sales ratio of 0.44, a Price/Earnings ratio of 12 and offer a Dividend Yield of 3.8%. Those statistics appear to offer very good value - especially with the company's high revenue and profit growth. This year's profit forecast would reduce the P/E ratio to a low 7-8.

The market capitalisation is A\$90 million, which makes this a medium sized Australian company.

At present the shares are *neglected*. No brokers follow the company closely enough to publish profit forecasts and institutions have relatively small holdings. *Neglected* shares tend to be under-valued. Furthermore, if Cellnet Telecommunications continues to grow rapidly it will be *discovered* by brokers and institutions - at which time the share price could rise very strongly.

Management have significant holdings in the company, so it is in their interests to grow the business and increase its value (for *all* shareholders), rather than seeking to maximise their personal salaries and bonuses (at the expense of the shareholders). Managing Director, MAM Brookman, owns 6,404,817 shares (14.0% of the company) and another director, S Harrison, has 4,055,791 shares (8.8%). Other founding shareholders continue to own a further 28.8% of the company.

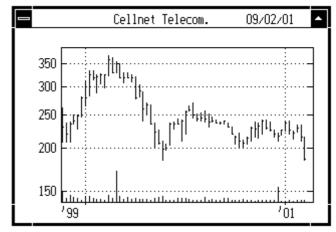
There has been no insider buying or selling.

Initially issued to the public at A\$1.50, Cellnet Telecommunications shares rose to a peak of A\$3.69 in February 2000 - then dropped to a low of A\$1.85 over the next three months. This decline appears to simply reflect a change in investor sentiment towards the technology sector as Cellnet Telecommunications business has continued to grow rapidly. Over the last

6-9 months the share price has fluctuated mainly between A\$2.00 and A\$2.50 - but dropped 42 cents over the last two weeks to a new low of A\$1.86. The Relative Strength Rating is -4.3%, ranking the shares at 50 (i.e. exactly in the middle of the market). The recent decline suggests the shares may still be vulnerable to negative investor sentiment towards the technology sector. When the share price trend eventually improves, lifting the Strength Rating to a *positive* value, <u>then</u> the shares should qualify as a "Buy" under our *Comprehensive Share Selection Criteria*".

Summary and Recommendation

Cellnet Telecommunications shares now offer good value and this is a well managed company, generating strong growth from its involvement in the telecommunications sector. We would seriously consider formally recommending these shares for investment (i.e. including them in our *Recommended Portfolio*) when the share price trend improves. Such an improvement is probably still 6-12 months away. We believe that technology shares will remain out of favour and may perform poorly over the next several months, so it is probably still a *little early* to be aggressively buying into Cellnet Telecommunications shares.



Mobile Innovations

Company History

Mobile Innovations commenced operations in 1994 as a 50% owned joint venture between the direct marketing company, **Innovations**, and management. The company listed on the stockmarket in mid 1999 following the public issue of 32.3 million shares at A\$1.00. All of this A\$32 million went to existing shareholder vendors.

Current Business

Mobile Innovations is principally a *service* company acting as an Agent Service Provider for **Vodafone** under a ten-year contract. The company uses its direct marketing skills and the database of its major shareholder to acquire new mobile phone users on which it earns a small commission, but most of its income is earned as a monthly service fee per account from the on-going management and billing of mobile subscribers on behalf of Vodafone.

Mobile Innovations has sought expansion from its

Vodafone service business, non-competing services (i.e. long distance services and internet services) and from expansion into NZ. <u>This expansion has had mixed success</u>.

The test marketing of Vodafone mobile phones (including pre-paid mobiles) in NZ in late 1999 appears to have been unsuccessful. Increased competition during 2000 saw the company fall short of its planned growth in Vodafone customers in Australia. This situation has improved recently with strong sales of *Vodafone Direct* (i.e. mobile phones sold from its internet site - a low cost method of acquiring customers) and the launch of *v.mobile* (where the user buys the handset, then pays only for calls with no monthly fees).

In September 1999 the company paid A\$700,000 to acquire 6000 long distance customers from **G3 Communications** (in administration) and began reselling **Optus** long distance telephone services. This subscriber base shrank to 2000 over the next year, and

in January 2001 this business was effectively given away to **Worldxchange Telecommunications**.

Mobile Innovations re-entered the NZ mobile phone market in July 2000 - this time selling mobile services provided by **Telecom NZ** - and quickly became the largest external source of new mobile customers for Telecom NZ. Mobile Innovations is running a direct marketing campaign to acquire mobile users and is paid a *percentage of revenues* generated. This venture is expected to become cashflow positive for the company by June 2001.

In August 2000 a *Look Mobile* joint venture was formed with Queensland based **Clarinet Communications** to market Vodafone services through independent retailers throughout Australia. Clarinet's expertise is in marketing, dealer management and sales, while Mobile Innovations will provide customer management and related back office systems. This venture hopes to acquire 10-20,000 new customers by June 2001 and to become profitable in the following year.

Recent Results

In the year to June 1999, Mobile Innovations generated revenues of A\$41.6 million and a trading profit of \$5,691,000 (5.2 cents per share).

The six months to December 1999 produced revenues of A\$22.4 million and a profit of A\$2,162,000. Severe competition in the mobile phone market in late 1999 and early 2000 resulted in the company falling short in its projected growth in Vodafone subscriber numbers. By June 2000 the company was billing 130,000 subscribers, 20% less than the 160,000 it had expected. As a result, full year revenues for the year to June 2000 grew only 13.6% to A\$47.2 million while trading profits fell 48.4% to A\$2,935,000 (2.6 cents per share). Again, no dividend was paid.

Mobile Innovations, however, appears to be recovering strongly from that sales glitch, picking up 51,000 new customers in the six months to December 2000 (i.e. 40,000 in their core business for Vodafone, 9000 in the NZ joint venture and 2000 in the *Look Mobile* joint venture). This upturn in customer numbers is also reflected in new profit projections from the company which now expects a 24% rise in earnings (before interest, tax and depreciation) for the six months to December 2000 and has indicated that it will pay a maiden interim dividend of 1.0 cent.

Full benefits of the higher customer base will flow through in the second half of the current financial year, with the full year profit (to June 2001) now forecast to be A\$4.0-4.5 million (3.6-4.1 cents).

Investment Criteria

As Mobile Innovations provides billing services for Vodafone and direct marketing for Telecom NZ it can benefit from growth in the mobile phone market but without the capital investment in a telephone network. The long term success of Mobile Innovations depends upon its ability to provide a low cost billing service and its ability to run successful direct advertising to obtain new mobile customers.

At 27½ cents, Mobile Innovations shares trade on a Price/Sales ratio of 0.65, a Price/Earnings ratio of 10 but have a Dividend Yield of Nil. That looks to be *fair value*,

but nothing too exciting. A profit recovery (as forecast by the company) would improve the P/E ratio to 7-8 and lift the Yield to 3.6%, which starts to look more attractive.

The market capitalisation is only A\$30.5 million, making Mobile Innovations a very *small* Australian listed company.

The shares are *neglected* by brokers (i.e. none publish profit forecasts), although several institutions have small shareholdings totalling about 10% of the company.

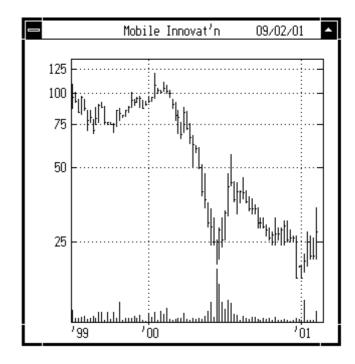
Innovations (one of the founding shareholders) retains 38,850,050 shares (35.0% of the company). Management has a large shareholding, with **Haley BV** (the other founding shareholder, owned by Mobile Innovations' management) also retaining 38,850,050.

Of significance are four *insider* buys over the last year. Non-executive Chairman W Jephcott purchased 160,000 shares in May 2000 and a further 100,000 shares in October 2000. Managing Director N Bramwell purchased 33,795 shares in November 2000 and director C Shaw purchased 162,300 shares that same month.

Mobile Innovations shares are very weak, with a Relative Strength rating of -23.3% and ranked 88 (on a scale of 0-99). The shares lost 85% of their value from a peak of A\$1.20 in January 2000 through to their recent lows of 18 cents in December 2000 and January 2001. On the recent announcement of a recovery in profitability the share price jumped to 33 cents, before slipping back.

Summary and Recommendation

With the fall in technology share prices and a sales glitch last year, Mobile Innovations shares fell significantly in price and are now worth monitoring as a possible recovery investment. Management have made some mistakes in the past and although the company reports improved operating results, profits still remain 20-30% below levels experienced in 1999. Insider buying is a positive sign, but the low Strength Rating suggests it is still far too early to be buying. Weak shares tend to underperform the general market, so Mobile Innovations shares may remain depressed for many more months.



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"Insider" Insights

(A summary of buying and selling by major shareholders)

Company	Shareholder	Buy/ Sell	Shares (Mill)	% of Coy Held Before After	
12/01/2001					
FC - Energy	The Capital Group	Sell	-2.410	5.46% 4.76	%
19/01/2001					
Baycorp Holdings	Deutsche Australia	Buy	+0.867	14.70% 15.73	1%
Capital Properties	Courtenay Nominee	s Sell	-3.670	9.88% 8.37	1%
Nuhaka Farm Forestry	Evergreen Forests	Buy	+0.018	28.40% 29.42	2%
RadioWorks NZ	Media Investments	Buy	+0.265	71.79% 73.95	%
Waste Mgmt (NZ)	AXA Asia Pacific	Buy	+1.092	5.14% 6.26	%
26/01/2001		,			
Designer Textiles	Canterbury Ltd	Sell	-4.001	11.41% 0.0%	0
Designer Textiles	Napoleon Trust	Buy	+4.091	0.0% 11.44	%
Infrastructure, Utilities	Hettinger Nominees	Buy	+1.981	5.16% 6.23	3%
Lyttelton Prt Company	AMP	Sell	-2.862	14.68% 13.65	%
Selector Group	AP Bishop	Buy	+3.184	0.0% 4.31	%
02/02/2001	•	,			
AMP NZ Office Trust	AMP	Sell	-4.776	27.83% 26.87	1%
Seafresh NZ	Lim Family	Sell	-5.000	65.45% 57.87	%
Seafresh NZ	Qin Ju Su	Buy	+5.000	0.0% 7.57	%
		-			

Total Ret	urn Index f	for All Lis	ted Shares
Jan 15	2080.65	Jan 22	2110.39
Jan 16	2081.53	Jan 23	2108.78
Jan 17	2085.11	Jan 24	2116.39
Jan 18	2091.36	Jan 25	2118.89
Jan 19	2102.54	Jan 26	2102.16
Jan 29	2100.20	Feb 5	2108.57
Jan 30	2104.00	Feb 6	Holiday
Jan 31	2100.48	Feb 7	2120.08
Feb 1	2105.88	Feb 8	2125.26
Feb 2	2103.54	Feb 9	2132.20

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Dividend S

Cents per Share	Ex- Date		
1.6597	26-02	08-03	Nil
16.00	05-02	16-02	Full
5.50	19-03	28-03	Full
2.50	19-03	23-03	Full
17.00	02-04	05-04	Full
	1.6597 16.00 5.50 2.50	ShareDate1.659726-0216.0005-025.5019-032.5019-03	Share Date able 1.6597 26-02 08-03 16.00 05-02 16-02 5.50 19-03 28-03 2.50 19-03 23-03

Current Issues

CAPITAL RECONSTRUCTIONS ...

Ex-Date

Brierley Investments (1)

(1) Brierley will consolidate 2 existing shares into 1 new share.

SHARE REPURCHAS	ES Details
Contact Energy	5%, on-market
Hellaby Holdings	5%, on-market
Infratil Australia	15%, on-market
Infratil NZ	5%, on-market
Lion Nathan	5%, on-market
Newmarket Properties	10%, on-market
Nufarm	5%, on-market
Warehouse Group	21/2%, on-market

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