

Recommended Investments

Michael Hill International reports nine month sales revenue up 10.5% to A\$372.1 million, plus *Professional Care Plan* revenues 22.6% higher at A\$24.5 million (of which A\$13.2 million - up 99% - will be taken into earned revenues in the current period).

Canada revenues - aided by new stores - rose 30.6% to C\$52.5 million or up 39.6% in Australian currency terms at A\$54.2 million.

The company has also announced a new concept

store that will be branded *Emma & Roe*. These stores will focus upon bracelets and charms and require only about half the capital investment (and about half the profit) of the regular Michael Hill stores (which will continue to focus upon diamonds, bridal and jewellery). The company has trialled the concept in five Queensland shopping centres and these stores will be rebranded during 2014. The company will then assess their performance and decide upon expansion in 2015.

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Portfolio of Recommended Investments

CURRENT ADVICE	Company		Initial Recommendation	Performance	Issued	Vola-	Price/	Price/	Gross	Recent	Cash	Total	
	NZ Shares	Code	- Date -	Price	Forecast	Shares	tility	Sales	Earnings	Dividend	Share	Dividends	Return
						(mil.)	Ratio	Ratio	Ratio	Yield	Price	Rec'd	%
BUY	CDL Investments Ltd	CDI	12/01/99	25	E	274.7	1.3	3.66	10	5.4	51	25.4	+206%
HOLD+	Cavalier Corporation	CAV	05/12/95	156*	C	68.3	1.1	0.52	16	3.7	155	282.0	+180%
HOLD	Colonial Motor Company	CMO	10/11/92	128*	A	32.7	0.5	0.28	12	8.2	525	405.3	+627%
HOLD	Lyttelton Port Company	LPC	12/12/00	150	B	102.2	0.8	2.86	19	Nil	310	79.7	+160%
HOLD+	Michael Hill Int'l Ltd	MHI	11/06/91	5*	C	382.8	1.0	0.92	13	4.9	132	50.9	+3558%
HOLD	Nuplex Industries Ltd	NPX	11/02/97	523*	C	198.1	1.1	0.40	12	6.2	340	451.0	+51%
HOLD	Renaissance Corp	RNS	13/08/96	85*	D	43.6	4.2	0.14	NE	Nil	14	53.9	-21%
HOLD	Smiths City Group	SCY	09/10/06	64	C	52.7	1.2	0.13	14	6.5	54	22.0	+19%
HOLD	South Port New Zealand	SPN	13/02/96	120	A	26.2	0.6	3.06	14	9.1	345	202.3	+356%
HOLD+	Steel & Tube Holdings	STU	08/08/00	146	C	88.4	0.9	0.69	17	7.0	306	281.6	+302%
	<u>Australian Shares</u> (in Aust cents)												
BUY	Acrux Limited	ACR	12/05/14	99	A	166.5	0.9	9.90	24	8.1	99	Nil	
HOLD+	AJ Lucas Group	AJL	13/05/03	107*	E	211.5	0.9	0.61	NE	Nil	85	36.4	+13%
HOLD+	ALS Limited	ALQ	12/10/99	77*	B	374.8	0.4	1.89	12	6.1	788	244.5	+1241%
BUY	AtCor Medical Ltd	ACG	11/11/13	15	C	150.8	2.6	2.00	7	Nil	12	Nil	-20%
HOLD+	Atlas South Sea Pearl	ATP	14/05/96	73	C	281.7	3.4	2.73	NE	Nil	7	17.5	-67%
BUY	Ausenco Ltd	AAX	10/06/13	191*	C	168.4	1.3	0.21	NE	3.5	57	1.8	-69%
HOLD+	Brickworks Ltd	BKW	12/11/12	1115	B	147.8	0.3	3.26	20	3.0	1338	54.5	+25%
HOLD	Cardno Ltd	CDD	14/12/09	391*	A	143.7	0.5	0.85	13	5.1	711	134.3	+116%
HOLD	Cellnet Group Ltd	CLT	12/02/02	147*	B	55.7	2.1	0.12	8	Nil	17	55.9	-51%
BUY	Chandler Macleod Group	CMG	14/08/01	51*	B	450.9	1.5	0.12	9	8.3	39	30.3	+35%
BUY	Circadian Technologies	CIR	10/02/04	188	D	48.6	2.1	7.17	NE	Nil	17	65.0	-56%
HOLD+	Clarius Group Ltd	CND	08/04/03	82*	C	89.6	1.7	0.11	NE	Nil	28	70.5	+20%
BUY	CPT Global Ltd	CGO	10/03/08	88	B	36.7	1.1	0.83	90	Nil	79	14.3	+6%
HOLD	CSG Limited	CSV	11/10/10	175	C	278.2	1.1	1.29	27	Nil	86	41.0	-28%
HOLD	Devine Ltd	DVN	13/11/06	334*	E	158.8	1.1	0.40	NE	Nil	70	79.6	-55%
BUY	Ellex Medical Lasers	ELX	14/03/06	49	D	84.9	1.7	0.64	NE	Nil	33	Nil	-34%
BUY	Fiducian Portfolio Ser	FPS	11/02/08	260	A	31.5	0.7	2.67	18	3.8	185	47.9	-11%
BUY	Finbar Group Ltd	FRI	12/04/10	106	B	218.0	0.8	2.55	12	5.7	168	34.5	+91%
HOLD+	Iluka Resources Ltd	ILU	12/10/04	471	B	417.8	0.6	4.24	0	1.0	865	191.0	+124%
BUY	Integrated Research	IRI	14/01/08	40	B	168.4	0.8	3.65	20	4.7	106	26.5	+231%
HOLD	M2 Telecommunications	MTU	09/10/06	33	B	178.3	0.4	1.52	23	3.4	580	79.0	+1897%
BUY	Melbourne IT	MLB	10/02/04	53	C	83.2	0.7	1.17	19	Nil	145	229.0	+606%
HOLD	Nomad Building Solutio	NOD	16/08/10	13*	C	277.5	4.2	0.17	3	Nil	5	Nil	-62%
HOLD	Novarise Renewable Res	NOE	14/03/11	25	B	415.1	2.1	0.85	8	Nil	20	Nil	-22%
HOLD+	Probiotec Ltd	PBP	11/02/08	116	B	52.9	1.3	0.36	23	Nil	46	9.3	-52%
HOLD+	Prophecy International	PRO	08/09/08	26	B	55.4	1.4	3.58	19	7.1	49	15.0	+146%
HOLD	Skilled Group Ltd	SKE	12/03/02	126	B	233.5	0.8	0.33	11	5.9	270	164.0	+244%
HOLD+	Technology One Ltd	TNE	11/11/03	44	A	307.2	0.5	4.36	29	2.2	256	42.7	+579%
HOLD+	TFS Corporation Ltd	TFC	08/01/07	45	A	279.6	0.6	4.05	9	1.7	178	17.2	+334%
HOLD+	The Reject Shop Ltd	TRS	11/01/05	257	B	28.8	0.4	0.47	15	3.7	1012	367.0	+437%
HOLD	Village Roadshow	VRL	10/08/09	77	B	159.5	0.4	1.24	23	3.6	729	224.0	+1138%

The average Total Return (i.e. both Capital Gains/Losses plus Dividends received) of all current investments from initial recommendation is +313.3%. This is equal to an average annual rate of +31.7%, based upon the length of time each position has been held.

The average annual rate of gain of ALL recommendations (both the 41 current and 155 closed out) is +31.1%, compared with a market gain of +4.0% (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.

Circadian Technologies' OPT-302, an inhibitor of VEGF-C, has been shown to prevent the formation of wet AMD and to reduce the size of existing lesions, according to a recently published study by Dr Kameran Lashkari of **The Schepens Eye Research Institute/Massachusetts Eye & Ear at Harvard Medical School**.

The study found that OPT-302 was as effective as EYLEA, a VEGF-A inhibitor released by **Regeneron/Bayer** in November 2011. EYLEA recorded sales of US\$1400 million in 2012 and US\$1700 million in 2013, but at least 45% of patients have some resistance to the VEGF-A therapy. OPT-302 could therefore be an alternative treatment or, more likely, used together with EYLEA to block both VEGF-A and VEGF-C.

Phase I/II clinical trials on human patients with wet AMD will commence in early 2015 which could reach a “value inflection point” with the potential for a strategic partnership and/or licencing deal.

Circadian Technologies is focusing its research on this wet AMD treatment, but it is just one *potential* medical product that it is developing. Ultimately its VEGF-C blocking molecule will probably be most valuable as an anti-cancer treatment - blocking VEGF (i.e. vascular endothelial growth factor) signal proteins that build the new blood vessels necessary to feed the growth of cancer tumours. The commercially very successful cancer drug *Avastin* is a VEGF-A inhibitor and (as with EYLEA) is only partially successful *and* patients develop resistance after about 6-12 months, indicating the need to also block VEGF-C over which Circadian Technologies owns patents and Intellectual Property.

The EYLEA product indicates the “multi-billion dollar market opportunity” for OPT-302 to treat wet AMD - and EYLEA's *partial* success indicates the need for a wider range of VEGF blocking treatments. So OPT-302 *could* generate similar product revenues - or 8-9 figure annual royalties (i.e. tens or hundreds of millions of dollars) if licenced to a large drug company. Obviously there is still more work and clinical trials ahead . . . but at 17 cents the stockmarket is valuing Circadian Technologies at just \$8¼ million.

At December 2013 the company had cash (\$10.2 million) and listed shares (\$2.8 million) totalling \$13.0 million or 26.7 cents per share - although much of this will be spent further developing OPT-302.

An investment in Circadian Technologies involves high risks, but OPT-302 could generate significant value from a licencing deal and future royalties. We feel the market is significant undervaluing its (risk adjusted) potential value. Therefore we are upgrading the shares to a “Buy” and plan to add to our holding in this company.

At the current share price a large drug company is more likely to make a full takeover bid - perhaps at 50-100 cents (i.e. \$25-50 million) and gain full ownership of Circadian Technologies' VEGF-C (and other) technology and IP, rather than a licencing deal for a single product which might cost hundreds of millions in upfront and milestone payments plus many hundreds of million in on-going royalties.

This is what happened in 1998 when **JNA Telecommunications** developed an internet switching device and sought to form a strategic alliance with a large international telecommunications equipment company to accelerate sales growth. JNA Telecommunications' share price rose rapidly from 150 cents to 250 cents on completing its device and while holding discussions - when *two* companies indicated an interest in buying the whole company, rather than licencing the technology. **Lucent Technologies** offered 375 cents (\$111 million) in a successful takeover.



Clarius Group's Chinese business has won a *Best Talent Search Service Provider* award out of 120 HR companies.

CSG Ltd has announced plans for an on-market buy-back of up to 10% of its capital (i.e. up to 27.8 million shares, costing up to \$25 million).

The company had previously announced plans to repeat last year's \$25 million capital repayment (i.e. to pay 9.0 cents per share to all shareholders) and now “may take into account the on-market buy-back when determining the structure of the return”. In plain English that means the on-market buy-back *may* fully or partially replace the previously announced capital return.

Fiducian Portfolio Services is to acquire a financial planning business for \$1,310,000 in cash, payable over two years. This will bring in a further \$66 million of funds under management. With cost synergies, the company estimates that this acquisition “could add up to \$400,000 per annum to net profits within 2-3 years”.

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