T·D·SCOTT & CO
chartered accountants
& business consultants

Independent Advisor's Report In Relation to Share Allocation by Submarine Australasia Limited to International Marine Services Limited

T·D·SCOTT & CO
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TABLE OF CONTENTS

11 November 2002

The Shareholders
Submarines Australasia Limited
C/- Deloitte Touche Tohmatsu
PO Box 1245
DUNEDIN

Independent Advisor's Report Pursuant to the Takeovers Code (Rule 18) in Relation to the International Marine Services Limited purchase of 49% interest in Submarines Australasia Limited by the Company issuing a further 10 million ordinary shares.

1 *Introduction*

1.1 Introduction and Background

On 4 September 2002 International Marine Services Limited (IMS) (or nominee) signed an agreement with Submarines Australasia Limited (SAL) and Submarine Adventures Limited (Adventures) (a subsidiary of SAL) to acquire a 49% interest in SAL.

The principal features of IMS's offer are summarised as follows:

- IMS will acquire a 49% shareholding in SAL. SAL will issue 10,000,000 shares in SAL at 5 cents per share, being a total purchase price of $500,000. The equity is payable in cash to SAL seven days after SAL obtains necessary shareholder consents under NZSE Listing Rules, the Companies Act 1993 and SAL's constitution to the issue of the shares within 90 days of date of agreement.
- The proceeds from IMS share placement will be used by SAL as follows:
  - $250,000 shall be applied in reduction of Adventures and/or on SAL loan facility with Bank of New Zealand.
  - Balance will be used to pay existing creditors and as working capital.

IMS presently has no direct shareholding is SAL.

This report presents T D Scott & Co's *assessment of the merits* of the IMS offer, for the purpose of assisting SAL shareholders to determine whether or not to vote for the IMS share allotment.

1.2 Requirements Under the Takeovers Code

The requirements of the Takeovers Code, which came into effect on 1 July 2001, govern the process and timetable for the company to allow a share issue to IMS.

The appointment of T D Scott & Co as independent advisor to assess the merits of the IMS share allotment was confirmed by the Takeovers Panel ('the Panel') on 6 November 2002.

1.3 Purpose of Report

The purpose of the report is primarily to assist SAL shareholders to evaluate the IMS share allotment by presenting our assessment of the merits of the IMS allotment, and in so doing, to assist shareholders in forming their own opinions as to whether or not they should accept the IMS share allotment of a 49% interest in SAL.

We note that each shareholder's circumstances and investment objectives will be different. It is therefore not possible to prescribe or advise what action an individual shareholder should take in response to the IMS share allotment. Our advice will necessarily be general in nature and is intended to assist each shareholder to form their own opinion as to what action they should take in the circumstances.

1.4 Overview of Approach to Assessing the Merits of the Offer

Rule 18 of the Code requires that the Report assess *'the merits of the allotment'*. There are no authoritative New Zealand guidelines as to how the merits of an allotment should be assessed, and accordingly we believe that an allotment must be assessed in light of its own features and the prevailing circumstances surrounding the allotment and the target company's situation.

Our assessment has been firstly to forecast the current value of the shares, then relate this to the allotment price stipulated in the IMS agreement, and secondly then evaluated other considerations relevant to a shareholder's assessment of the IMS allotment.

Our analysis of the merits of the allotment price has been undertaken by comparing our assessment of the current of SAL shares against the consideration stipulated in the IMS agreement to purchase shares. Our assessment of the current fair market value of shares in SAL is set out in section 2 of this report.

1.5 Information

The sources of information which we have had access to and relied upon are listed in Appendix 1.

1.6 Declarations, Qualifications, Disclaimer, Restrictions and Limitation of Liability

This Report should be read in conjunction with the statements and declarations set out in Appendix 2, regarding our independence, qualification, restrictions upon the use of this report, reliance on information, general disclaimer and indemnity.

1.7 Note

All monetary amounts in this report are expressed in New Zealand currency and are stated exclusive of Goods and Services Tax ('GST') unless indicated to the contrary. SAL has a 30 June year end.

2. *Summary of Findings and Opinion as to the Merits of the IMS Allotment*

2.1 Valuation of SAL

In assessing a suitable method for valuation of shares in SAL, we have concluded an earnings based valuation method is not appropriate as SAL is not trading and has previously generated losses. We have valued the shares of SAL on a notional liquidation basis with a resulting value of nil. Refer to Appendix 4 for calculations.

Our assessed value on liquidation for SAL is a deficit between $(858,915) and $(206,746) depending on assumptions made. This notional liquidation value is highly dependent upon the assessment of the market value of the submarine that is the most valuable asset of SAL.

2.2 Overall Conclusions Regarding the Merits of the IMS Allotment of Shares

The decision to be made by each shareholder is whether to vote for the IMS allotment of shares or against it. There will be different consequences for SAL depending on whether the allotment is approved or not. Our overall conclusions regarding the merit so the IMS allotment for a 49% interest in SAL are:

- The existing business is currently not trading and has no viable trading business plan going forward. Without a plan or future action SAL will not operate again and without further equity go into liquidation.
- SAL has been unsuccessful to date in receiving any other offer to purchase the business, its assets or raise further equity. The IMS allotment is the only offer to date to inject equity.
- On liquidation our liquidation calculation shows there most likely would be a deficit after selling assets and paying creditors and liquidation costs. This means that the shareholders would receive no money for their shares. This would be very dependant on the sale price achieved for the Submarine. It is very difficult to forecast the submarine's realisable value with a high degree of accuracy due to its specialist nature. If the company was placed in formal liquidation this would potentially further depress the sale value of assets. Therefore at present the shares have a nil value to shareholders.
- The current cash burn is approximately $12,000 a month or $144,000 a year, excluding the guarantee fee to Skeggs Group Limited. The company is at the limit of its bank facility and the bank will not extend any further credit.
- The existing shareholders will not inject further equity, prior equity raising attempts from third parties have been unsuccessful. The Directors will have to place the company in liquidation immediately if an appropriate solution is not found now. This would crystalise the liquidation calculation.
- The Bank of New Zealand does not require IMS equity of $500,000 to all be applied to reducing their debt. $250,000 will be available to the company as working capital to allow the company to continue to trade, look for opportunities and implement IMS re-structure.
- IMS has industry experience and expertise that should be focused on maximising its $500,000 investment. It would be in the interests of IMS to

make the company viable and increase the share price. An increase in share price would be of benefit to all shareholders.
- IMS would effectively control the company. The proposal for SAL after the allotment is the Board of Directors be reduced to three with IMS having the right to appoint two of these directors.

Accordingly we believe without further equity injections the company will go into receivership/liquidation. On liquidation it is most unlikely the shareholders will receive any return of capital. At present the only potential for shareholders to realise some value in their shares is to agree to IMS share allocation.

3 *SAL Background*

3.1 History and Structure

The company was established in September 2000.

The group structure is illustrated in the diagram below:

Submarines Australasia Limited

Submarine Adventures Limited

Principal trading operations were undertaken by Submarine Adventures Limited. Submarine Adventures Limited is a fully owned subsidiary of Submarines Australasia Limited.

A summary of key historical events of SAL and Adventures is set out below:

Date	**Event**
July 1999	Submarine Adventures Limited Incorporated.
December 1999	Submarine purchased to undergo four months re-furbishment.
September 2000	Submarines Australasia Limited Incorporated.
December 2001	Commenced operations at Milford Sound.
April 2002	Ceased operations at Milford Sound.
May/June 2002	Investigate option of tours around wrecks around Kingston.
May 2002	Submarine placed on market to sell through American broker.

September 2002	IMS signed agreement with SAL and Adventures to acquire 49% interest in company.

3.2 Ownership and Capital Structure

SAL's issued share capital consists of 10,328,321 fully paid ordinary shares.

Shareholders as at 30 June 2002

	Number of Ordinary Shares	**Percentage of Issued Shares**
Skeggs Group Limited	1,531,250	14.83%
Mladenov Family Trust	1,061,667	10.28%
Arica Investments Limited	533,750	5.17%
R & K Rowley	436,067	4.22%
D G Skeggs	280,000	2.71%
A A Graham	219,500	2.13%
NZIJ Stockbrokers Limited	217,779	2.11%
P Hangartner	205,333	1.99%
The John Reuhman Family Trust	204,167	1.98%
Radial Imports (NZ) Limited	153,000	1.48%
Aorangi Laboratories Limited	140,000	1.36%
J G Forster	140,000	1.36%
T J Catterson	137,500	1.33%
U Ginster	137,500	1.33%
Fairburn Holdings	137,160	1.33%
S & K Brooker	122,500	1.19%
Wyndam Holdings Limited	111,999	1.08%
Wyndam Holdings Limited	111,999	1.08%
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Wyndam Holdings Limited	111,999	1.08%
Total Top Twenty Shareholders	6,105,169	59.12%
Balance	4,223,152	40.88%
Total	10,328,321	100.00%

3.3 Governance and Management

Board of Directors

The Board of SAL is as follows:

Name	Role	Date Appointed
Paul Winter	Chairman	March 2001
David Skeggs	Director	September 2000
Philip Mladenov	Director	September 2000
Alan Graham	Director	September 2000
John Forster	Director	September 2000

3.4 Executive Management

The company has no employees.

3.5 Financial Position

SAL's financial position as at 30 June 2002 is set out below.

Submarines Australasia Limited
Consolidated Statement of Financial Position
As at 30 June 2002-11-08

	Group 2002 $	Group 2001 $	Parent 2002 $	Parent 2001 $
EQUITY				
Share Capital	4,816,613	4,226,423	4,816,613	4,226,423
Revaluation Reserve	-	652,631	-	-
Retained Earnings	(4,376,294)	(576,961)	(4,467,708)	(70,239)
TOTAL EQUITY	440,319	4,302,093	348,905	4,156,184
Represented by:				
Current Assets				
Cash & short term deposits	-	93,316	438	87,322
Accounts receivable	10,722	8,228	-	-
Inventories	1,000	3,955	-	-
Other current assets	5,000	24,854	5,000	5,168
Taxation refund	852	7,210	845	5,295
Intercompany advance	-	-	342,808	845,000
	17,574	137,563	349,091	942,785
Non Current Assets				
Fixed Assets	1,795,660	3,158,229	-	-
Intangible Assets	-	260,000	-	-
Investments	-	-	-	3,426,423
Goodwill on consolidation	-	1,673,452	-	-
	1,795,660	5,091,681	-	3,426,423
TOTAL ASSETS	1,813,234	5,229,244	349,091	4,369,208

	Group 2002 $	Group 2001 $	Parent 2002 $	Parent 2001 $
Current Liabilities				
Accounts payable	145,906	215,776	186	2,844
GST payable	9,330	-	-	-
Current portion of term liability	170,187	50,000	-	-
Bank	62,492	-	-	-
Other current liabilities	-	211,375	-	210,180
CURRENT LIABILITIES	387,915	477,151	186	213,024
Non Current Liabilities				
Long term loan	985,000	450,000	-	-
TOTAL LIABILITIES	1,372,915	927,151	186	213,024
NET ASSETS	$440,319	$4,302,093	$348,905	$4,156,184

Key issues to note regarding the financial position of SAL are as follows:

- In fixed Assets the Submarine is written down to $1,500,000, ROV to $25,000 and the Barge to $250,000.
- The company has available tax losses to the year ended 30th June 2002 of $1,714,063.
- Financing is with the Bank of New Zealand and the loan is guaranteed by Skeggs Group Limited.

3.6 Financial Performance

SAL's historical financial performance for the year ending 2002 is set out below:

Submarines Australasia Limited
Consolidated Statement of Financial Performance
For the Period Ended 30 June 2002

	Group 2002 $	Group 2001 $	Parent 2002 $	Parent 2001 $
Revenue	187,803	20,915	2,170	14,345
Expenses	3,987,134	597,876	4,399,639	84,585
Surplus (Deficit) before Taxation	(3,799,333)	(576,961)	(4,397,469)	(70,239)
Less provision for Tax	-	-	-	-
Surplus (Deficit) After Taxation	$(3,799,333)	$(576,961)	$(4,397,469)	$(70,239)

Key issues to note in respect of SAL financial performance are:

- Company no longer trading.
- Included in 2002 result is a write down of fixed assets of $747,741 for impairment.

4. *INTERNATIONAL MARINE SERVICES LIMITED BACKGROUND*

4.1 History and Structure

The company was established in October 1995. The company was previously called ACR Services Limited and changed its name to International Marine Services Limited on 8 September 1997. The constitution of the company is according to the provisions in the Companies Act 1993.

IMS principal trading activity is providing marine consultancy and project management services. IMS is also part of the Networkmarine Group of marine companies that promotes and fosters innovative marine solutions. There are currently seven companies contributing to advancing not only the group's products and services but also assisting New Zealand marine companies take their products to marketplace.

The Networkmarine group of companies includes:

- NTNZ Limited (100% subsidiary of IMS). NTNZ Limited is currently registering with Odense Steel Shipyard Limited, part of the AP Moller Group (Denmark's largest group of companies), in Project Protector, the New Zealand Royal Navy's vessel replacement project, nominally having a capital expenditure value of $500m.

- John Harrhy Consulting Limited (IMS has no interest) – John Harrhy Consulting Limited are professional naval architects and provide marine compliance and approval services eg assisting companies such as Mooring 4U in obtaining authority approvals so it can take its leading edge boat mooring system to the marketplace.

- IPM Group Limited – IPM Group Limited provides and develops marine software packages.

- Saba Yachts Limited (100% owned by Wayne Shaw director and shareholder IMS). Saba Yachts Limited is a superyacht builder specialising in Expedition ships.

- Smartships Limited (100% subsidiary of IMS). Smartships Limited is an innovative ship design company. Some of its past achievements are the design of Wellington's self righting Police Rescue vessel "Lady Elizabeth", "Seaworks", innovative dynamic positioning catamaran "Seaworker", and 60 Kevlar assault boats for the NZ Army.

- Advanced Composites limited (IMS has no interest). Advanced Composites Ltd specialises in the use and application of composite materials.

- International Marine Services. International Marine Services Ltd provides marine consultancy and project management services.

Registered office is 132 Hasley Street, Viaduct Basin, Auckland.

4.2 Ownership and Capital Structure

Submarine Australasia Limited's issued share capital consists of 10,328,321 fully paid ordinary shares.

	Number of Ordinary Shares	**Percentage of Issued Shares**
Wayne Shaw	100,000	100.00%

4.3 Governance and Management

Board of Directors

The Board of IMS is as follows:

Name	Role	Date Appointed
Wayne Shaw	Director	October 1995

4.4 Key Elements and Issues of Contract

Agreement was signed on 4 September 2002.

SAL will allot a 49% shareholding in SAL. SAL will issue 10,000,000 shares in SAL at 5 cents per share, being a total purchase price of $500,000. Allotment price is payable in cash to SAL seven days after SAL obtains necessary shareholder consents under NZSE Listing Rules, the Companies Act 1993 and SAL's constitution to the issue of the shares within 90 days of date of agreement.

The proceeds from IMS share placement will be used by SAL as follows:
- $250,000 shall be applied in reduction of Adventures and/or on SAL loan facility with Bank of New Zealand.
- Balance will be used to pay existing creditors and as working capital.

IMS is to advance to SAL $25,000 per month up to a maximum of $50,000 for working capital to be offset against allotment price of shares. To date IMS have advanced the first $25,000 to SAL. The second $25,000 payment is due now under the agreement but has not being received. Security provided by SAL for the advance of $50,000 is over the Companies Intellectual Property.

The agreement provides for a subsequent share placement. A summary of the clause is following the acquisition of the shares by IMS, SAL and IMS shall work in good faith with the New Zealand Stock Exchange with a view to completing a subsequent placement of shares in SAL at 6 cents per share being for non-cash consideration with settlement prior to 31 July 2003. The contract in "Background A" refers to the non-cash consideration being acquiring the business and assets of the Networkmarine grouping of companies of which IMS is a part (group outlined above) in consideration for the share issue. The exact businesses and assets to be purchased by the share placement have not been defined by IMS to date. There is no formal agreement between SAL and any other Networkmarine Group companies except IMS.

4.5 Issues within the Contract

The contract is silent on Director representation by IMS. We have discussed this with the Directors of SAL and it was proposed the total number of Directors in SAL be reduced to three of which IMS would have the right too appoint two Directors. This would give IMS effective control of SAL by being able to control the Board of DirectorsIf the subsequent placement were to proceed IMS would appoint all directors.

We have discussed the contract and plans for SAL going forward with Wayne Shaw, Managing Director of IMS. He is of the opinion that not all the conditions in the contract have been fulfilled by IMS. The condition he believes has not been fulfilled is that no agreement has been reached on a subsequent placement at 6 cents per share. The directors of SAL and Anderson Lloyd Caudwell (SAL lawyers) believe this condition has been meet as SAL has acted in Good Faith to achieve this. Therefore Anderson Lloyd Caudwell believe the contract is enforceable against IMS to pay for their 49% interest in the company for $500,000 as long as the shareholders approve the increase in capital at the 29 November 2002 meeting. Funding the enforcement of the contract will be an issue for SAL as the company has no money.

No formal due diligence has been completed on IMS to ensure the company has the resources to complete the transaction.

From our discussions with Wayne Shaw, IMS, it appears their main strategy for SAL going forward was to purchase businesses and assets from the Networkmarine Group of companies at independent valuations. The purchase of the businesses and assets is to be financed by the issue of SAL shares at 6 cents per share. IMS would then control and manage the company. SAL's benefit from this would be potential the shares may have some value in future.

5. *Other Considerations*

Prospects of an Alternative Takeover Offer for SAL.

The directors of the company do not believe an alternative offer will be forthcoming for the following reasons:

- The Company has ceased trading.
- The very precarious financial situation the company is presently in.
- The specialist nature of the business and hence limited opportunities.

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TD Scott & Co agree with the Directors conclusions that there will be limited prospects of another offer and this offer is potentially the best option for shareholders.

Prospect of IMS Offer Becoming Unconditional

The directors are of the opinion the agreement is only conditional on shareholder approval and that all other conditions have been met.

Yours faithfully
TD Scott & Co

Chris Swann
Principal

Trevor Scott
Consultant

Appendix 1

Sources of information

1. Key data summary from Deloitte Touche Tohmatsu.

2. NZ Companies Office.
   Search details for Submarines Australasia Limited, Submarine Adventures Limited, International Marine Services Limited, NTNZ Limited, John Harrhy Consulting Ltd, IPM Group Limited, Saba Yachts Limited, Smartships Limited, and Advance Composites Limited.

3. Audited financial statements for the period ended 30 June 2001 and 2002.
   Workpapers supporting statement of financial position balances.

4. Discussions with SAL's Directors.

5. Skeggs Group guarantee to Bank of New Zealand for $1,250,000.

6. Agreement dated 4th September 2002 between International Marine Services Limited and Submarine Australasia Limited and Submarine Adventures Limited with details of share placement.

7. Discussion with Murray Frost of Deloitte Touche Tohmatsu, financial advisor to SAL.

8. Discussions with Anne Wilson and Paul Hubbard of Anderson Lloyd Caudwell, legal advisors to SAL.

9. Takover Panel website.

10. Constitution of Submarines Australasia Limited and Submarine Adventures Limited.

11. Letter to the Market Information Services Section, The New Zealand Stock Exchange Wellington, dated 12 September 2002.

12. Directors meetings minutes.

Appendix 2

Declarations

This Report dated 7 November 2002 and accompanying summary letter of the same date have been prepared by TD Scott & Co at the request of the Directors to fulfil the reporting requirements under the Takeover Code (Rule 18) in relation to a Notice of Takeover issued by IMS on 14 August 2002. This report should not be used for any other purpose.

This Report is provided for the benefit of the shareholders of SAL and TD Scott & Co consents to the distribution of this Report to the shareholders of SAL.

Qualifications

This report has been prepared by TD Scott and Co Chartered Accountants Dunedin. The report has been complied by Trevor Scott (BCom, FCA(PP), FNZIM, F Inst D) who has considerable experience in advisory matters, valuations and strategic corporate advice and Chris Swann (BCom, CA(PP), MBA) who has considerable experience in business advisory and valuation.

Independence

We consider ourselves to be independent in terms of the Takeovers Panel's policy for the appointment of independent advisors. Our appointment has been approved by the Takeovers Panel.

As at the date of issuing this Report neither TD Scott & Co or any personnel involved in the preparation of this Report:

(a) have had, or will have, any relationship with the parties to the proposed transaction except as disclosed below;
(b) will receive any fees for the preparation of this Report contingent on the success or implementation of the proposed transaction; and
(c) have had any involvement in the formulation of the proposed transaction.

TD Scott & Co confirms that it has no conflict of interest that could affect our ability to provide an unbiased report.

Disclaimer and Restrictions on Scope of Our Work

The statements and opinions expressed in this Report are based on information available as at the date of the Report. In forming our opinion, we have relied on forecasts and assumptions prepared by SAL management, about future events which by their nature, are not able to be independently verified. Inevitably, some assumptions may not materialise and unanticipated events and circumstances are likely to occur. Therefore, actual results in the future will vary from the forecasts upon which we have relied. These variations may be material.

The statements and opinions expressed in this Report have been made in good faith and on the basis that all relevant information for the purposes of preparing this Report has been provided by SAL management and that all such information is true and accurate in all material aspects and not misleading by reason of omission or otherwise. Accordingly, neither TD Scott & Co or its personnel, employees or agents, accept any responsibility or liability for any such information being inaccurate, incomplete, unreliable or not soundly based or for any errors in the analysis, statements and opinions provided in this Report resulting directly or indirectly from any such circumstances or from any assumptions upon which this Report is based providing unjustified.

Our opinion has been arrived at based on economic, market and other conditions prevailing at the date of this Report. Such conditions may change significantly over relatively short periods of time.

We reserve the right, but will be under no obligation, to review or amend our Report, if any additional information, which was in existence on the date of this Report was not brought to our attention, or subsequently comes to light.

Advance drafts of this Report were provided to management of SAL, solely for the purpose of verifying factual matters contained in the Report. Minor changes were made to the drafting of the Report as a result of the circulation of the draft Report. However, there was no alteration to any part of the substance of this Report, including the methodology, valuations or conclusions as a result of issuing these drafts.

Appendix 3

Valuation of Submarines Australasia Limited

Valuation Methodologies

There are four principal methodologies commonly used for valuing a business or shares in a trading enterprise:

- discounted cash flow analysis ("DCF");
- capitalisation of earnings;
- industry rules of thumb; and
- estimation of the aggregate proceeds from the orderly realisation of assets.

Each of these valuation methodologies has an application in different circumstances. A key factor in determining which methodology is most appropriate in any particular instance is the actual practice adopted by purchases of the type of business involved.

DCF Analysis

DCF valuations involve calculating the net present value ("NPV") of projected cash flows using a discount rate, which reflects the risk associated with the projected cash flow stream.

The DCF methodology relies heavily on:

- the availability of a reliable cash flow projection covering at least a medium term duration;
- assumptions about the prospects of the business beyond the discrete forecast period;
- the capital expenditure requirements during the forecast period and beyond;
- identification of any surplus assets; and
- changes in working capital.

Considerable judgement is required to estimate future cash flows. Generally reliance is placed on the medium to long-term projections prepared by management. Typically the NPV produced by a DCF analysis is very sensitive to relatively small changes in underlying assumptions, some of which cannot be predicted with a high degree of accuracy.

Typically an enterprise's weighted average cost of capital ("WACC") is used as the discount rate. WACC represents an amalgam of the returns required by debt and equity providers to the enterprise, and incorporates both the time value of money and the particular risk profile of the subject business and its cash flows.

Capitalisation of Earnings

Capitalisation of earnings is probably the most commonly used method for valuation of companies with an operating history and an earnings trend that is sufficiently stable to be indicative of on-going earnings potential. This method involves capitalising the earnings of a business by a market-derived multiple that can be applied to either earnings before interest, tax and depreciation and amortisation (EBITDA), earnings before interest and tax (EBIT), or net profit after tax (NPAT).

EBITDA is a useful measure because, for a relatively stable business, it represents the accounting measure most likely to correlate to operating cash flow over the long term. Its use eliminates the risk of distortions between comparisons due to differing depreciation and amortisation policies.

EBIT measures earnings after non-cash items such as depreciation and amortisation, but reflects the aggregate economic earnings before payments due to any capital providers, whether they be equity or debt providers. This measure also eliminates the risk of distortions from differing tax rates and levels of borrowing.

NPAT represents earnings available before distributions to shareholders but is usually the least desirable earnings figure to apply for the capitalisation of earnings methodology. NPAT can be distorted by differences in accounting policies with respect to depreciation and amortisation, as well as differing levels of debt and therefore interest costs in comparable companies.

The application of the capitalisation of earnings methodology involves:

- The selection of the future maintainable earnings level, having regard to historical and forecast operating results, non-recurring items of income and expenditure and other factors likely to impact on future performance.

- Determination of an appropriate capitalisation multiple, having regard to the share market ratings of comparable companies, the extent and nature of competition, quality of earnings, growth prospects and relative business risk.

In practice, it is often difficult to obtain accurate forecasts of future cash flows and the capitalisation of earnings methodology is sometimes used as a surrogate for the DCF methodology.

Under both the DCF and capitalisation of earnings methodologies, any surplus assets are included at their net realisable value.

Industry Rules of Thumb

In some industries businesses are valued using well established "rules of thumb". Generally these rules of thumb are used as a cross-check against a primary valuation methodology such as capitalisation of earnings or DCF. While they are only used as a "check" in most cases, in some industries they are the primary basis on which buyers determine prices.

Notional Realisation

In the event that a company has a poor earnings record or faces an uncertain future earnings outlook its value may have to be established by assessing the results of a notional winding up. The notional realisation assumes an orderly realisation process, or the sale of the company as a going concern.

This method would typically be used if an earnings based valuation would give a lesser total value, implying that a rational owner or controlling shareholder would liquidate in order to maximise value. This approach can also be used to complement the primary valuation approach for the purpose of providing an assessment of minimum value.

This method involves valuing self sufficient businesses on a going concern basis, with remaining assets and liabilities valued at their net realisable value. Potential liquidation costs, timing issues and tax consequences are taken into account.

Appendix 4

SUBMARINES AUSTRALASIA LIMITED
LIQUIDATION
AS AT 7 NOVEMBER 2002

$US995,000 @$0.495

$US30,000 @$0.495

	$NZ Book Value	$NZ Asking Price	Worst Case Realisation %	Best Case Realisation %	Worst Case Realisation	Best Case Realisation	Average Value	Notes
Submarine	1,500,000	2,010,101	30%	60%	603,030	1,206,061	904,545	1
ROV	25,000	60,606	30%	60%	18,182	36,364	27,273	2
Barge	250,000		40%	50%	100,000	125,000	112,500	3
Linkage Arms		10,000	30%	60%	3,000	6,000	4,500	4
PCs, Printer etc	3,688		30%	60%	1,106	2,213	1,660	5
Caravans	6,168		30%	60%	1,850	3,701	2,776	6
	1,784,856				727,169	1,379,338	1,053,253	
Resource Consents	0							
Intellectual Property	0							
Prepayments						0	0	
Deposit BNZ						0	0	
Interest in Advance						0	0	
Sundry Debtors						0	0	
Cash Float						0	0	
Stock - Raw Materials						0	0	
Stock - Finished Goods						0	0	
Term Liabilities	1,250,000				1,250,000	1,250,000	1,250,000	
Creditors	192,834				192,834	192,834	192,834	
	1,442,834				1,442,834	1,442,834	1,442,834	
Net Assets	342,022				-715,665	-63,496	-389,581	
Six Months Operating Costs					72,000	72,000	72,000	7
Liquidators Fees - Legal					10,000	10,000	10,000	8
Liquidators Fees -Accounting					30,000	30,000	30,000	9
Guarantee Fee					31,250	31,250	31,250	10
					143,250	143,250	143,250	
Shareholder Tax on Distribution								
Net Assets for Distribution					-858,915	-206,746	-532,831	

Notes assume no Share Options are exercised

1 Very limited market and submarine specifications may not suit other uses. Realisation calculations are based on the current asking price for the submarine.
2 Very limited market and ROV specifications may not suit other uses. Realisation calculations are based on the current asking price for the submarine.
3 Very limited market and barge specifications may not suit other uses. Worst case realisation is based on an offer that has been turned down, whereas best case represents a small premium above this price.
4 Linkages currently have no book value, so we have used an estimated $10,000 as a starting price.
5 Computing equipment market is heavily discounted due to the high obsolescence rate.
6 Limited market
7 Estimated running costs of keeping the venture running
8 Estimated
9 Estimated
10 Calculated at five percent on outstanding amount for six months
11 All realisation amounts are net of commission