Huntleys'
SMALLER COMPANIES GUIDE

THE LEADING INVESTMENT GUIDE TO AUSTRALIA'S SMALLER COMPANIES ISSUE NO. 23 • JUNE 20 2007

UP, UP AND...

OVERVIEW

I am quite bullish on the market but the current strength continues to surprise me. With a bit of luck it's that whooshker movement that sets up for a nice correction come late July early August.

I would like that correction, for then I would to buy some better value, and see our customers benefit too! I would only look for a correction in an ongoing bull market incidentally.

Meanwhile with reasonably well invested positions it is relatively easy to hang in for the ride, with a close eye on any speculative situations that have gone deep blue sky, and thus need to be money in the bank.

In looking at the mining scene it troubles me that to justify value one has to project current metal prices or better out many years. I can actually get my head around the exercise and justify it, but then my value investor instincts grapple with which floor I am entering at! I like the lower ground floors.

I can see that this type of arithmetic can offer some stretch upside targets for holding the stocks longer, on the pretty strong argument that the Chindia syndrome will be stronger for longer. But we will return to this theme.

Meanwhile we carefully peruse our stock coverage for value, and it does come up. And we are living in a powerful economic climate, luckily with still low inflation, and that does bring many opportunities for our companies.

I would certainly pencil in further interest rate increases ahead in Australia, whether before or after the election is a moot point.

I would also warn on using margin debt to finance your stocks. I do not like the practice, though I do realise it is an extremely quick, easy and practical way to borrow money against a blue chip portfolio. I would only borrow to a small degree – 20/25% maybe in this kind of market, and preferably none at all. Using margin lending to finance high flying speculative stocks is madness.

REX – MORE UPSIDE

In this issue we upgrade our valuation of Regional Express Holdings (REX) and maintain our Buy recommendation after management lifted NPAT growth guidance from 20% to 40%. We increase our growth forecast from 35% to 45%. The main driver of this pleasing increase was a 20% rise in passengers on only a 14% expansion in capacity. Strong growth in regional passenger numbers is ongoing and REX's chairman predicts passenger increases of 20% plus for the next 5-10 years. REX has created a cost structure that no other Australian airline can compete with in smaller passenger markets. When investors overcome their conditioning to avoid airline stocks – a process no doubt assisted by Qantas' current strong form – we expect a further re-rating of the stock.

EQUIGOLD – VALUATION UP

We have increased our valuation of gold miner Equigold (EQI) by 19% to $1.90 after extending forecast life at Bonikro and Mt Rawdon to 2020 to reflect expected resource additions. We also credit it with an additional 12c of exploration value, which could prove conservative given the number of targets being drilled in its under-explored Cote d'Ivoire tenements. The stock pays a reasonable fully frank dividend yield, a good habit which no doubt helps prevent gratuitous exploration. EQI expects Bonikro and Mt Rawdon to sustainably throw off $90m a year, translating to an attractive cashflow multiple of less than five.

AVEXA – POTENT

On the biotech front we bring Avexa again to readers' attention. The stock has been sold down quite sharply following the initial euphoric response to positive data from the early Phase II trial of its lead anti-HIV compound apricitabine. Institutional selling has been a factor, while the falling price has probably also led to tax loss selling. Given compelling

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evidence of the potency of this drug and the company's ability to fund it to market, we view the price weakness as an attractive buying opportunity in this admittedly higher-risk stock.

ACRUX – SUBSTANTIAL SUB-LICENSING DEAL IN US UNDERSCORES POTENTIAL!

We look at Acrux (ACR), another biotech stock, whose recent deals and collaborations with major Northern Hemisphere partners have provided strong endorsement of its platform transdermal drug delivery technology. On first pass the little Aussie R&D company looks to have been taken to the cleaners by their US licensee who has managed to extract close to $150m sub-licensing the menopause product to a distributor, while Acrux is left with only a moderate royalty stream. Worse Acrux must now negotiate with the distributor for trial data before it can commercialise the product in Europe. On the other hand this is the first of hopefully many deals and opens the curtain on the technology in the world's most valuable market. It can be unrewarding using your bootstraps to pull yourself onto the world stage. As management also pointed out, VIVUS funded the Phase III trial to the tune of US$30m and is registering the product with the stringent US Federal Drug Authority. Well funded the company now appears brimming with potential and could deliver impressive gains over the next five years. Its Board is one of the better we've seen in the sector.

IMPORTANT NOTICE - PLEASE READ

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- In providing this advice the publisher does not take into account the investment objectives, financial situation and particular needs of any particular person; and
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DECLARATION

Personal and HIC shareholdings - disclosure list for SCG 23

AAN, AAX, ACL, AFG, AGK, AHI, ALS, ALZ, ANE, ANP, ANZ, APA, ARU, ASX, AVX, AWB, AXA, BHP, BKN, BKW, BVA, BXB, CAB, CBA, CBH, CDR, CDU, CEY, CMR, COA, CQT, CYG, DOM, DOW, EGL, EQN, ERA, FXL, GDA, GNS, GWT, HIC, HIL, HIT, HVN, IAG, IGO, IIN, IVC, MAH, MBL, MGX, MIG, MRE, MTS, MXL, NAB, NLB, PCG, PGL, PPT, PTM, PTS, QBE, REX, RHC, RIN, RIO, SAI, SBP, SEK, SFH, SGB, SGT, SHL, SMX, STO, STW, SUN, TAH, TLS, TOL, TSE, UGL, UXC, VEA, VGH, WBC, WES, WOR, WOW, WPL

These positions can change at any time and are not additional recommendations

INFORMATION

Information in this publication is largely based on company reports to the Australian Stock Exchange and is supplied courtesy of the Australian Stock Exchange Limited. SCG, of course, is responsible for additional information, background and analysis. Charts are sourced from Moneyline Telerate through their Active Broker market data system.

GLOSSARY

Buy - Suitable for purchase now.
Accumulate - Undervalued, but there is time to purchase.
Hold - Appropriately priced, neither a buy or a sell.
Avoid - Do not commit new funds.
Reduce - Overpriced. Better value elsewhere.
Sell - Sell all holdings now.

INDUSTRIAL REVIEWS AND UPDATES

MAXITRANS INDUSTRIES (MXI) $0.61

RECOMMENDATION: ACCUMULATE

ROAD TRANSPORT EQUIPMENT

NO. SHARES:	171.7 m
AVG. MONTHLY T/O:	9.5m
MKT CAP:	$104.7m
LAST REVIEW:	28/2/07(SCG8)
ROLLING YEAR HIGH:	$0.76
LOW:	$0.44
BUSINESS RISK:	Medium/High
SHARE PRICE RISK:	Medium

F/Y	NPAT	EPS	%CHG	DPS	FR.%	YLD	PER
6/04(a)	9.2	6.0	+24.7	3.5	100.0	5.8	10.1
6/05(a)	12.1	7.1	+24.1	4.0	100.0	6.6	8.5
6/06(a)	10.7	6.1	-17.4	4.3	100.0	7.0	9.9
6/07(e)	10.7	6.3	+4.4	4.5	100.0	7.4	9.6
6/08(e)	13.9	8.1	+28.9	4.7	100.0	7.8	7.5

** 5 year annual compound change in EPS (FY01-FY06): +49.0%*
** 5 year annual compound change in DPS (FY01-FY06): na*
**10 year annual compound change in EPS (FY97-FY06): +12.7%*
**10 year annual compound change in DPS (FY97-FY06): +11.5%*

MXI benefits from market leadership positions in road transport vans and trailer markets. Access to customers through their own retail outlets in Victoria and an Australia wide dealer network that surpasses other players is a key strength. The company can sell additional volumes and new products through this network. Large capex requirements have been a problem in the past. A broader product range, lower cost base and increased automation are positive moves. Despite an increased service component through the Parts business, there remains a cyclical element to earnings which dictates a conservative approach.

Leverage to improving rural and NSW economies

MXI is leveraged to a lift in haulage. It will benefit from improving rural and NSW economies. We expect FY07 NPAT of $10.7m, flat on last year. The first half was held back by the sluggish east coast and deepening drought. 2H should be stronger through increased orders in Vans, Tippers and Trailers. Margins will benefit from recent cost reductions. Our value of $0.75 is based on the expectation of 8% pa EPS growth over the next five years. The fully franked yield above 7.5% attracts. The FY08 PE of just 8 times understates the potential. A PE nearer to 11 is likely, longer term.

MXI has strong market shares in road transport vans and trailers. Access to customers is unsurpassed through the company's own retail chain in Victoria plus the Australia-wide dealer network. This is a strong platform to lift sales.

New product development provides the opportunity to extend market shares. High up-front capital expenditures to build factory capacity and relatively thin margins reduce the incentives for potential customers to enter the industry.

A degree of pricing power is reflected in the success in passing recent cost increases on to customers. There is now greater diversification of revenues. While in FY02 over 50% of revenue was from Trailers, there is now a more even spread between Trailers, Tippers, Vans and Parts. The key is to have them all performing well at once. Recent automation is helping reduce operating costs and the capex burden.

Despite the cyclical ups and downs, return on shareholder funds has remained around an impressive 15% in the last two years. We expect an increase to 17% in FY08. Cash generation is reasonably strong through efforts to reduce working capital and capital expenditure, providing funds for solid dividends. With a solid balance sheet, bolt on acquisitions are being sort. A conservative approach to this stock is required because earnings are cyclical despite an increased service component through the Parts business. Sales levels are volatile, impacted by factors outside the company's control, namely drought, fuel prices and construction activity. Only modest earnings growth can be expected over the longer term. Unit sales are lumpy which is why the success of the Parts business is vital to a smoothing of the earnings stream. Many costs are fixed, exaggerating the profitability swings. The slip in first half operating margins from 9.4% to 7.9% evidence the detrimental impact soft demand has on profitability. Lifts in demand, however, will cause a greater than proportionate lift in profit.

NUPLEX INDUSTRIES (NPX) $6.00

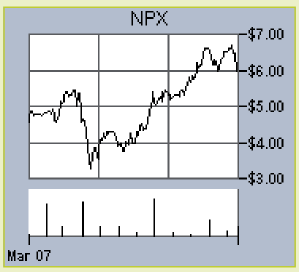
RECOMMENDATION: HOLD

BUY | ACCUM | HOLD | REDUCE | SELL

$5.55 | $5.95 | $6.83 | $7.35

RESINS PRODUCER

NO. SHARES:	79.9 m
AVG. MONTHLY T/O:	8.6m
MKT CAP:	$479.4m
LAST REVIEW:	Initiating coverage
ROLLING YEAR HIGH:	$6.69
LOW:	$5.09
BUSINESS RISK:	High
SHARE PRICE RISK:	Medium



F/Y	NPAT	EPS	%CHG	DPS	FR.%	YLD	PER
6/05(a)	29.5	39.6	n/a	23.6	100.0	3.9	15.2
6/06(a)	33.8	40.6	+2.6	29.8	100.0	5.0	14.8
6/07(e)	33.6	40.2	-1.0	28.1	100.0	4.7	14.9
6/08(e)	48.5	53.4	+32.7	35.7	100.0	6.0	11.2

NPX is one of the largest coatings and composite resins suppliers globally. It has relied on acquisitions for growth. Coating Resins, the biggest and most significant acquisition to date, has significantly expanded the company's geographical presence. It provides scale benefits and access to state of the art technology. While growth remains benign in NPX's principal geographic markets there is good scope for margin improvement from rationalisation and restructuring. These initiatives should lead to strong earnings momentum over the next two years. The stock also remains attractive for income orientated investors due to its attractive dividend yield.

Raw material and currency remain near term headwinds

NPX is an efficient producer of resins with a global footprint. The series of acquisitions made over last few years has catapulted NPX to be a world leading supplier of resins to the paint industry. Growth trajectory is likely to improve from FY08 as restructuring and expansion initiatives bear fruit. Asia, particularly China will underpin NPX's growth over the long term. Earnings are sensitive to exchange rates and raw material prices which are inherently volatile. Hence NPX will suit investors who understand higher risk.

Demand for paint worldwide is expected to grow at or above GPD growth in the western world and 2x GDP growth in emerging markets. NPX has established a solid manufacturing base with strong R&D capabilities in Europe, Asia, and Americas, through the acquisition of Coating Resins in FY06. In Australasia NPX has a strong competitive position in specialty resin products.

Restructuring programs currently underway could lead to significant improvement in margins. These include turning around loss making operations and exiting unprofitable businesses. The company could potentially gain over NZ$12-15m pre-tax over the next two years as a result of these initiatives. More than half of this profit accrual will come from its UK, Foshan and Brazilian subsidiaries which cumulatively suffered a loss of NZ$6.6m but are expected to break even by the end of FY07. Additionally NPX will close the underperforming Seven Hills business in Australia which offers specialty products to various industries. This will boost EBITDA margins and improve returns through release of working capital. Also labour cost rationalisation in Europe is likely to lower NPX's cost structure materially.

NPX faces challenges such as high raw material prices and subdued demand from developed markets. For example housing weakness in US is adversely impacting paint demand. European growth, while much better than last year, is still quite anaemic. Australasian demand remains lacklustre because manufacturers continue to relocate to Asia. A relentless increase in petrochemical prices on the back of high oil & gas prices is also playing havoc with margins. Although NPX will ultimately recover its margins through price increases, earnings will remain volatile in the intervening period.

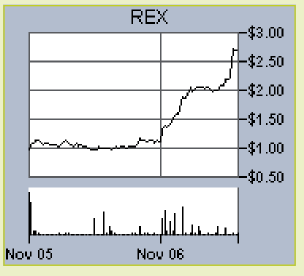
Our valuation of NZ$7.20 is built on the 15% free cash flow growth over the next five years. In PE terms we expect the company to trade at 11-12x prospective earnings, in line with its historical valuation. We see flat EBITDA growth in FY07 but a significant lift in FY08 propelled by restructuring gains. Dividend yield of 4.6% full franked for Australian investors also appeals.

REGIONAL EXPRESS HOLDINGS (REX) $2.68

RECOMMENDATION: BUY

AUSTRALIAN REGIONAL AIRLINE

NO. SHARES:	115m
AVG. MONTHLY T/O:	3.9m
MKT CAP:	$308.2m
LAST REVIEW:	23/5/07 (SCG19)
ROLLING YEAR HIGH:	$2.88
LOW:	$0.98
BUSINESS RISK:	Medium
SHARE PRICE RISK:	Medium



F/Y	NPAT	EPS	%CHG	DPS	FR.%	YLD	PER
06/05(a)	6.0	5.2	n/a	0.0	0.0	0.0	51.5
06/06(a)	16.0	13.9	+169.0	5.0	0.0	1.9	19.3
06/07(e)	22.8	19.0	+37.0	7.0	100.0	2.6	14.1
06/08(e)	28.0	22.0	+16.0	9.0	100.0	3.4	12.2

REX is Australia's largest independent regional airline, established in 2002 from the merger of Hazelton and Kendell. It is the sole provider in the majority of its routes. Airlines are capital intensive and have traditionally offered poor returns for investors. REX effectively holds monopoly positions in ~60% of its routes, many too small to be serviced by Qantas, Virgin Blue, or Jet Star. The planned payout ratio of 30-40% is at the high end given considerable capex requirements. Free float is small and share turnover low. Despite this we believe REX offers considerable value given its strong business model and attractive long term prospects.

FY07 NPAT to be more than 40% above FY06!

REX released encouraging 3Q results. Management flagged FY07 NPAT 40% above FY06, a considerable upgrade on the 20% growth guidance given in November 2006. We had forecast 35% NPAT growth for FY07 and now increase to 45%, or $22.8m. Our FY08 NPAT forecast increases by $4m to $28m. A higher A$/US$ exchange rate helps REX with leasing and significant fuel purchases all denominated in US$. A 1c change in the exchange rate adds ~1% to EBITDAR (R being aircraft lease expense).

Passenger growth for the nine months ending March 31 was 20% on a 14% increase in capacity, as measured by Available Seat Kilometers (ASK). This resulted in a strong 220bp improvement in Load Factor, the key driver of profitability for airlines, from 66.3% to 68.5%. The profit before tax margin expanded by 230bp to 15.6%. REX continues to lower fares, down 1.8% excluding fuel surcharge.

REX is increasing capacity by opening new routes, the most recent being a service between Griffith and Melbourne beginning July. It is also increasing services on existing routes, including between Adelaide and Mount Gambier. Local governments have given large incentives to increase or start services in their district, the latest being the partnership with Port Lincoln district council. REX Executive Chairman Kim Hai Lim expects phenomenal passenger growth for the group of 20% plus for at least the next 5-10 years.

No other Australian carrier can match REX's cost base on low ~60k passenger per annum per route levels. REX's cost per ASK did increase 3.4% on the pcp to 18.1 cents, or 2.1% excluding fuel to 18.4 cents. This is considerably below the 7% increase in revenue per ASK. Around 1% of this cost increase came from the initiation of the employee profit share agreement, the remaining from engineering and maintenance. REX is buying five SAAB planes, currently coming off lease, saving ~$2.6m p.a in lease costs. Further, new planes on order, up to 25 planes by FY09, operate under new lease agreements at 30% lower cost than existing. Current leases cost US$37k per plane per month. With SAAB340s priced at ~US$1.6m, this implies a purchase price equal to ~3.6 years of lease payments. REX would prefer to purchase all new planes but SAAB is not giving them this option.

AirLink remains strong and will likely post a profit before tax of ~$2m for FY07. Drought conditions were more than offset by resource activity with revenues up 36%. Wholly owned charter company PelAir had strong growth in revenues however unscheduled maintenance costs saw profit before tax fall 6%. Regardless it is expected to be on budget for the year.

REX is increasing charter and freight revenue which in FY06 accounted for only 1% or $2.1m of group revenue. Increasing numbers of SAAB aircraft are being placed in Pel Air. REX is yet to issue 6m shares at $1 to pay for the remaining balance of the company.

A number of sole NSW government license routes are up for renewal. REX is tendering for all routes open to competition. It needs ~55k passengers per annum for a route to be viable.

The share price has risen ~20% since initiating coverage 23/05/07 (scg19, BUY). We increase our valuation from $3.05 to $3.35 on stronger than expected passenger numbers and improved load factor forecasts, and alter our price bands ~~accordingly. REX is likely to finish the year with $25m in net~~ cash, or $15m post the acquisition of five planes. We believe our $3.30 valuation remains conservative despite being 25% above current share price.

RESOURCE REVIEWS AND UPDATES

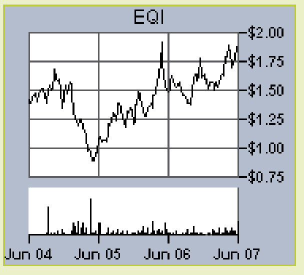
EQUIGOLD (EQI) $1.83

RECOMMENDATION: ACCUMULATE

BUY	ACCUM	HOLD	REDUCE	SELL
$1.70	$1.90	$2.45	$3.00	

GOLD MINER

NO. SHARES:	213.2m
AVG. MONTHLY T/O:	5.1m
MKT CAP:	$390.2m
LAST REVIEW:	14/3/07 (SCG10)
ROLLING YEAR HIGH:	$1.90
LOW:	$1.28
BUSINESS RISK:	High
SHARE PRICE RISK:	High



F/Y	NPAT	EPS	%CHG	DPS	FR.%	YLD	PER
6/04(a)	16.7	11.2	+28.7	7.0	100.0	3.8	16.3
6/05(a)	13.5	8.4	-25.0	6.0	100.0	3.3	21.7
6/06(a)	21.6	10.2	+21.4	6.0	100.0	3.3	17.9
6/07(e)	25.2	11.8	+15.7	7.0	100.0	3.8	15.5
6/08(e)	23.2	10.9	-7.6	7.0	100.0	3.8	16.7

** 5 year annual compound change in EPS (FY01-FY06): +16.9%*
** 5 year annual compound change in DPS (FY01-FY06): +19.1%*

EQI is a low cost, long life mid tier Australian gold producer. Frugal development delivery and solid operational performance attracts. Acquisitions are sought but only on a strict criteria which has proven difficult to meet recently. Management is well regarded, hailing from the successful 1990's miner Samantha Gold. Wholly owned Mt Rawdon in QLD is the core asset producing over 100,000oz of gold a year. Bonikro is 94% owned and shaping up as a robust growth project. Our enthusiasm is tempered by sovereign risk in Cote d'Ivoire, Africa. A suitable gold exposure for risk tolerant investors seeking value, yield and growth.

Bonikro Approved

We raise our valuation 19% to $1.90 a share after extending forecast life at Bonikro and Mt Rawdon to 2020 to reflect expected resource additions. We also attribute $25m or 12c a share for exploration upside. This may turn out to be conservative based on the number of targets being identified and drilled in EQI's under-explored Cote d'Ivoire tenements. Long term assumptions remain US$500/oz gold, an A$/US$ exchange rate of 0.76 and a 10% discount rate. Our standard 1.4x NPV premium for small gold companies applies. We use a 15% discount rate for Bonikro to reflect Cote d'Ivoire sovereign risk.

Despite the recent rise in the share price, we maintain our Accumulate recommendation due to the higher valuation. Near term sub 20 PE multiples remain attractive relative to gold mining peers. EQI continues to pay a solid fully franked dividend. The company is well placed to develop Bonikro and roughly double production by FY09. The balance sheet is sound with no debt and over $100m cash. Macquarie Bank recently supplied a $50m debt facility providing sufficient headroom for any cost overruns or potential upside options.

Our FY07 NPAT forecast is little changed at $25.2m, slightly ahead of recent $23.1m guidance. Production in 3Q07 was as expected. We upgrade our FY08 NPAT forecast by 35% to $23.2m after raising the gold price by 9% to US$590/oz. A minor amount of Bonikro gold is also added for FY08. Earnings will undergo a step change in FY09 with Bonikro at capacity. Guidance for FY09 is 250koz @ A$340/oz compared to 150koz @ A$390/oz in FY07. Expect earnings of around 24c a share to push EQI back into single digit PE territory. Management will then have the luxury of returning cash to shareholders or investing in the business.

Bonikro received board approval in May 2007 following an investment convention with the government. Other preconditions of finance and political risk insurance were satisfied by April. The investment convention freezes taxes, royalty rates and electricity prices over an initial 10 year period. The Ivorian government will receive a 10% free carried interest in the project as part of the deal, reducing EQI's share to 84%. A five year company tax holiday is included but withholding tax of 12-18% is payable on dividends.

Construction is underway with first gold expected in April 2008. Management anticipates production of 785koz over a minimum seven year life with average cash costs of US$251/oz. Capital costs of $95m are expected to be paid back in 18 months. EQI estimates the NPV at US$70m using a 10% discount rate and US$600/oz gold. We currently value the project at A$55m or 26c a share assuming US$500/oz long term gold, a 15% discount rate and a 1.4x NPV gold sector premium. The remainder of the valuation is split 60/40 between the Australian operations and the substantial net cash balance.

The exploration effort is stepping up in Africa with two drill rigs on site and another two to start soon. Upside is already identified with the 94% owned Hire permit hosting 267koz at a substantially higher grade of 3.4g/t gold compared to the 1.9g/t reserve. Numerous high quality targets are being generated. EQI has first mover advantage with substantial virgin ground locked up. The Bonikro base case will underpin group output of 200-250koz a year well into the next decade. EQI expects Bonikro and Mt Rawdon to sustainably throw off $90m a year, equating to a very attractive cashflow multiple of less than five.

SINO GOLD LIMITED (SGX) $5.71

RECOMMENDATION: HOLD

BUY	ACCUM	HOLD	REDUCE	SELL
$4.15	$4.60	$5.95	$7.35	

EMERGING GOLD PRODUCER

NO. SHARES:	190.3m*
AVG. MONTHLY T/O:	3.6m
MKT CAP:	$1086.6m
LAST REVIEW:	2/5/07 (SCG16)
ROLLING YEAR HIGH:	$8.31
LOW:	$3.78
BUSINESS RISK:	High
SHARE PRICE RISK:	High

Includes 9.0m options

F/Y	NPAT	EPS	%CHG	DPS	FR.%	YLD	PER
12/04(a)	-20.9	-15.4	n/a	0.0	0.0	0.0	n/a
12/05(a)	-18.3	-13.0	n/a	0.0	0.0	0.0	n/a
12/06(a)	-10.8	-6.7	n/a	0.0	0.0	0.0	n/a
12/07(e)	27.1	14.3	+lge	0.0	0.0	0.0	39.9
12/08(e)	54.0	28.4	+99.0	0.0	0.0	0.0	20.1

SGX has been active in China since 1996. Development of the new 82% owned Jinfeng mine in the south is complete. Jinfeng should produce 180kozpa with potential to expand to 300kozpa at modest cost. The 95% owned White Mountain project shows excellent promise. Group equity reserves of 3.0Moz and 4.6Moz in resources bodes well for mine life. SGX suits growth-oriented investors with a stomach for sovereign and development risk. Management is well regarded and has considerable China operating experience. The balance sheet is strong while modest hedging leaves SGX exposed to gold price movements with some downside protection. The Gold Fields exploration alliance and Gold Field's 17% equity stake add spice.

Commercial production and rigs aplenty

SGX's share price has continued to weaken from $8 highs in late February. Accordingly we once again upgrade our recommendation, this time from Reduce to Hold. The more positive stance is helped by a rise in our valuation from $4.35ps to $4.60ps, due to an upgraded exploration valuation, and from bringing forward first White Mountain production to beginning 2008 in line with recent company guidance. Long term assumptions remain US$500/oz gold, A$/US$ exchange rate of 0.76 and a 15% discount rate for sovereign risk. We retain a gold sector premium to NPV of 1.6 times.

We make no meaningful changes to earnings forecasts. Near term earnings multiples remain high. It will likely be 2010 before combined equity production levels of 300koz from Jinfeng and White Mountain can improve ratios. The market is pricing SGX for exploration success, not the earnings multiples. With net cash, SGX is well positioned for White Mountain funding, exploration spending and/or acquisitions or new development opportunities. Further, if China sovereign risk continues to diminish, our 15% discount rate could prove too harsh. Applying 10% would increase the valuation by 70 cents but the recommendation would remain Hold.

SGX's flagship Jinfeng mine is producing at commercial rates following approval for use of the tailings dam. Now operating on a 24 hour basis, 19kt of ore was processed in May for 2.1koz of gold recovered. Ramp up to 1.2Mtpa capacity will occur over the coming few months but the plant is already performing well at this early stage. The underground mine is in development. Operating concurrently with the open pit, it will maximise value through scheduling, blending and scale benefits. Jinfeng is a high grade, low-cost and long life operation designed with expansion in mind. Life of mine operating costs of US$220/oz compare favourably to a gold industry where in 2006 alone, average cash costs rose by US$45/oz to around US$300/oz.

Brownfields exploration drilling suggests any Jinfeng expansion will be well fed. A new zone along strike to the east boasts results including 11.5m @ 19g/t and 11m @ 17.6g/t. High-grade results down-plunge include 56m @ 6.1g/t. SGX recently upgraded Jinfeng's reserves from 2.9Moz @ 5.4g/t to 3.2Moz @ 5.7g/t - the grade increase particularly pleasing. Six drill rigs are operating at Jinfeng. More reserve/resource increases are expected.

The next mine out of the blocks, White Mountain, is being fast-tracked to development. The proposed underground operation will employ a standard processing plant to produce around 80kozpa from late 2008. White Mountain ore is relatively less complex to treat than Jinfeng. All up capital cost is US$50m with excellent infrastructure already located nearby. One minor warning: winter could delay the start to April 2008 if design work falls behind schedule and/or regulatory approvals are late. Work continues at a frenetic pace with seven drill rigs aiming to increase reserves and resources. These presently stand at 0.43Moz and 0.85Moz respectively - already enough to support 70-80kozpa for at least five years.

SGX has established positions in three gold rich regions in China. The Gold Fields alliance team continues to explore for >5Moz deposits. SGX's wholly owned team is exploring for Jinfeng satellites in under-explored Nevada-style districts. The company says "Emerging countries provide best opportunity to find major gold deposits. Modern exploration approach provides huge competitive advantage." Sovereign risk notwithstanding, we tend to agree and have increased our exploration valuation from $125m to $150m, equivalent to around a quarter of our total SGX valuation prior to applying any gold premium. All the drill rigs do make us nervous.
In addition to the combined 11 rigs at Jinfeng and White Mountain, SGX also has six rigs at Chinese greenfield projects including one at Snajianfang, two at the Hexi JV, two at Bannian and one at Golden Triangle.
Over the past five years SGX has added around 700kozpa to resources and reserves. If that were to continue and additions valued at around A$80/oz, the company could be gaining $45m of new exploration value per year. In that light, our exploration valuation sits at around two thirds of the $225m generated from 10 years of exploration value-add discounted at 15%. Conservative, it could be argued, particularly with the resources currently being thrown at the task!

Each US$50/oz increase in gold price lifts our SGX valuation by 30 cents per share.

SPECULATIVE COMPANY SECTION
INDUSTRIAL REVIEWS AND UPDATES

ACRUX (ACR) $1.55

RECOMMENDATION: LONG-TERM SPECULATIVE ACCUMULATE BELOW $1.60

TRANSDERMAL DRUG-DELIVERY TECHNOLOGY DEVELOPMENT

NO. SHARES:	142.8m
AVG. MONTHLY T/O:	2.5m
MKT CAP:	$221.3m
LAST REVIEW:	17/5/06 (SCG18)
ROLLING YEAR HIGH:	$1.61
LOW:	$0.69
BUSINESS RISK:	Medium/High
SHARE PRICE RISK:	High

ACR is trialing a range of applications of its patented transdermal drug delivery technology. These include treatments for menopause, sexual dysfunction, chronic pain, and nausea and a contraceptive application. All these markets are large. Trials are relatively cheap and of short duration. ACR is well funded, has one of the best quality Boards in the biotech sector with products close to commercialisation. Despite its positive characteristics, as an R&D company the stock must be considered speculative.

Further positive developments bode well

In May ACR's US licensee VIVUS completed a sub-licensing deal of Estradiol Metered Dose Transdermal Spray (MDTS) (branded EvaMist in the USA) to KV Pharmaceutical Company. The product is ACR's skin spray for the treatment of menopausal symptoms. Under the terms of the agreement, KV will initially pay US$10million to VIVUS, then US$140 million on US Food and Drug Administration (FDA) approval of the product, US$10 million on achievement of US$100 million net sales of EvaMist in a year and up to US$20 million on achievement of US$200 million net sales in a year.

Due to VIVUS' funding of Phase III trials ACR receives little of these upfronts, but will receive royalties on KV's net sales of EvaMist, which we estimate to be ~10%. VIVUS will also pay ACR $3m on registration of the product. The New Drug Application (NDA) for EvaMist is currently under review by the FDA. ACR anticipates completion of the review in the third quarter of 2007.

In 2006, sales of all prescription estrogen products in the USA were approximately

US$1.5 billion, with the transdermal segment approaching US$300m. The leading transdermal estrogen product in the US generates annual sales of more than US$100m. Market research shows women strongly prefer EvaMist's delivery technology to existing products. As a leading player in women's health KV stands a good chance of building a successful brand, although annual sales of US$100m may take some years to achieve if ever. KV's preparedness to pay at least US$150m demonstrates its optimism and further endorses ACR's transdermal delivery platform. While the deal delivers significantly more immediate value to VIVUS than to ACR, its endorsement and the awareness it will generate of the technology are strategically important to ACR who owns all rights to the product outside the US. While it may strike a similar licensing deal for Europe, ACR will have to share value with KV, whose Phase III data ACR requires to register the product in Europe.

Earlier this year ACR signed two deals with Organon, the human healthcare unit of Akzo Nobel, a major US and Amsterdam listed company with sales of ~ 18b. The first will see the two organisations collaborate to develop and commercialise contraceptives, delivered through the skin using ACR's unique spray technology. Under the second, Organon licensed ACR's technology for delivery of a non-hormone, proprietary Organon drug, for a substantial global women's health market. The drug remains confidential. ACR will be responsible for developing formulations of the compound with Organon to undertake and fund all clinical trials, regulatory submissions, manufacturing and commercialisation efforts. ACR may receive payments totalling US$12m as development and regulatory milestones are achieved. ACR will also earn royalties on worldwide sales of the product, which are expected in around four years if successful. The latter agreement again endorses the technology and indicates potential licensing across a wide range of drugs.

This year ACR will continue to develop several other applications of its MDTS technology including the transdermal delivery of testosterone for sexual dysfunction and Fentanyl for chronic pain. Product development is faster and cheaper than new drugs as the technology delivers existing, well understood compounds. Trials need only show their improved delivery into patients.

The company expects to be funded to profitability. Further equity dilution is unlikely. ACR gets a tick for management quality. CEO Richard Treagus was a senior business development executive at the outstanding Sigma Pharmaceuticals and previously at star South African medical products company, Aspen Pharmacare. The Board includes Nuno D'Aquino, former MD of Carlton United Brewing and Deputy CEO of Foster's Brewing Group, Jim Foght, former MD of DuPont Pharmaceuticals Europe, Africa and Middle East and its global head of Technology Evaluation and Acquisition, and Ken Windle, former MD of Glaxo Wellcome Australia and Asia Pacific regional director. Biotech Boards are rarely better in Australia.

ACR's products could address markets valued at around $US20bn. Given the attractiveness of the technology, perhaps a 5% share is achievable. We estimate ACR will receive a 10% royalty stream on sales, which translates to royalties around US$100m. Market leadership in one of the bigger product categories such as pain relief could almost alone generate such levels. Peak royalties of US$100m would probably generate a market capitalisation of ~$A700m, more than three times the current. It could take more than five years to get there so, as with any biotech stock, shareholders will need patience, a degree of luck and strong nerves. Despite the doubling of the share price since our Buy recommendation around a year ago, higher risk investors can accumulate the stock below $1.60.

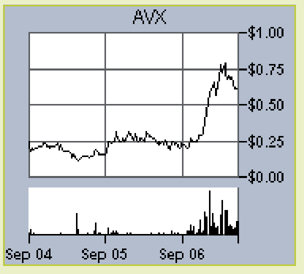
AVEXA LIMITED (AVX) $0.58

RECOMMENDATION: BUY

BUY	ACCUM	HOLD	REDUCE	SELL
$0.80	$1.10	$1.60	$2.00	

DRUG DEVELOPER

NO. SHARES:	405.9m
AVG. MONTHLY T/O:	9.3m
MKT CAP:	$235.4m
LAST REVIEW:	21/3/07 (SCG11)
ROLLING YEAR HIGH:	$1.03
LOW:	$0.18
BUSINESS RISK:	High
SHARE PRICE RISK:	High



Avexa is a developer of anti-infective drugs. Its lead compound apricitabine (ATC) for HIV has generated strong early Phase II results leading to a further re-rating by the market. Management and directors are good quality. Funding is sufficient to take the compound to market. The stock in inherently difficult to value because of the difficulty of estimating the market potential and lifespan of future products. The stock is only suitable for risk tolerant investors.

Share price takes a breather, but no change to fundamentals

AVX has stalled and weakened after hitting highs of over a $1.00 following the release of promising preliminary data from Phase II trials of lead anti-HIV compound apricitabine (ATC). This is typical of a company in late stages of development of a technology or a mining company that has delineated an orebody and is building the mine infrastructure before starting to mine. There is a lack of news to maintain the interest of early stage investors/speculators who, particularly in bull markets, may have enjoyed spectacular returns. Such investors easily become bored/concerned when the share price slows, and are then inclined to sell, placing pressure on the price. The greater the early gains, the more potential there is for the stock to be sold down. Assuming the company has real potential then after sometimes extended doldrums the stock attracts the attention of a different set of investors. This group tends to be more sophisticated, informed and patient, and with more moderate return expectations.

In AVX's case the capital raising at 53c, well below the then prevailing share price, has magnified the above effect as subscribers to the issue sell the stock down towards the issue price. With Phase III trials likely to run for two years the drug is unlikely to be in the market before 2010, too long a wait for many bull market punters. Tax loss-selling is no doubt magnifying the price weakness.

Assuming Phase III trial success, AVX will pass important earlier milestones that reduce development risk and should boost the share price. These include the release of comprehensive and later Phase II data, distribution deals, the reporting of preliminary Phase III trial data, and development milestones for other compounds. A takeover bid would have the most dramatic impact and in our estimation is quite likely. Regardless, an increasing number of investors will become more interested in the stock as the launch of ATC nears. A year from launch, the prospect of several hundred million dollars of high margin revenue will begin to attract a lot of attention.

Given the stock's deep discount to valuation we would expect professional investors to take advantage of this opportunity to accumulate cheap stock. We note recent director buying, but admittedly no sign as yet of professional investors establishing or adding to existing stakes. In fact substantial shareholder, listed biotech incubator Circadian Technologies has reduced its holding. But this does not surprise as CIR's competitive advantage is taking relatively early stage science through the product development phase to the first stages of commercialisation. As an incubator CIR likes to have a significant influence over its investments. AVX is now well beyond that stage. CIR has also been selling down its holding in Optiscan which is at a fairly mature stage of development. We surmise CIR's selling is to provide funding for its very promising early-stage venture, Vegenics. The overhang of CIR stock may well have kept potential buyers out of the market.

More comprehensive data from patients treated with AVX's drug for 24 weeks will be released, probably in September. While the 21 day trial data released in March was compelling, some investors are probably waiting for 24 week data. The same may be said about potential acquirers considering a bid. We repeat the fact that all 30+ HIV candidate drugs that have successfully completed Phase II trials have reached market. AVX is only a few months from Phase II completion.

Recent lab studies conducted by leading HIV researchers in Canada suggested ATC may be able to maintain activity against a broader range of drug resistant mutations than initially anticipated, further increasing sales potential.

The current weakness in the share price provides an attractive – though still somewhat speculative – opportunity. We note that in the absence of a bid shareholders may need to hold until Phase III trials are well advanced – probably two years from now - to enjoy strong returns. We estimate a takeover this year would deliver a price between $1.20 and $1.70 a share. An attractive feature of the company is that with over $75m in the bank – boosted by the recent receipt of a $4.3m government grant – funding risk is negligible.