

Friday 5 August 2005

Overseas Market Report - Poor Retail Figures and High Oil Prices Impact Market

US stocks fell sharply on Thursday after disappointing sales reports from retailers such as Nordstrom and Abercrombie & Fitch sparked concerns about the state of consumer spending. But investors still took to solid earnings reports and sent Electronic Data Systems and CheckFree soaring.

The Dow Jones Industrial Average lost 87.49 points (0.82%) to 10,610.1, with 26 of its 30 members declining. The Nasdaq Composite Index fell 25.49 points (1.15%) to 2,191.32; its biggest point and percentage drop in two months. The Standard & Poor's 500 Index shed 9.18 points (0.74%) to 1,235.86 after hitting consecutive four-year highs on Tuesday and Wednesday. On the New York Stock Exchange, there were 1,080 issues advancing, 2,231 declining and 153 unchanged.

"Lower than expected" was the operative phrase in many cases for July same-store sales that retailers released. Nordstrom fell \$3 (8.2%) to \$33.45; AnnTaylor Stores lost 94 cents (3.6%) to \$25.15; Abercrombie & Fitch lost \$4.68 (6.7%) to \$65.56 and Limited Brands declined 68 cents (2.7%) to \$24.35.

But Electronic Data Systems gained \$1.83 (8.6%) to \$23.12. The computer services firm reported second-quarter earnings that were in line with recently raised guidance and said it expects 2006 earnings to be ahead of Wall Street targets.

CheckFree rose \$3.85 (11%) to \$40.25. The provider of electronic billing services posted fiscal fourth-quarter earnings that were at the upper end of its prior estimate and a penny ahead of Wall Street's target and said fiscal 2006 earnings will meet analysts' average view.

Gillette went out with a bit of a whimper, dropping 75 cents (1.4%) to \$52.20. In what is likely to be its last quarterly report as a stand-alone company, the consumer products giant saw its second-quarter profit rise, but there was some concern about gross margin. Dow Jones Industrial Average member Procter & Gamble, which is in the process of acquiring Gillette, dropped 83 cents (1.5%) to \$54.17.

Warner Music Group rose \$1.06 (6.7%) to \$16.79. The home to Atlantic, Maverick and Warner Bros. record labels posted a wider loss for the third quarter, but it was due largely to charges related to its recent initial public stock offering and not to ongoing operations.

Overseas Shipholding rose \$5.34 (8.6%) to \$67.60. The tanker owner and operator reported better than expected earnings in the second quarter because of an acquisition and strong global demand for oil.

Indeed, while oil related stocks had a strong session on the rise in crude, Exxon Mobil was an exception; losing 48 cents (0.8%) to \$58.52 after saying its chief executive plans to retire.

Unilever's American depositary shares gained \$1.88 (2.8%) to \$70. The consumer goods giant posted a 27% drop in second-quarter profit, dragged down by its struggling

Slim-Fast brand, but it saw stronger growth in emerging markets and in its soaps business.

DirecTV gained 42 cents (2.7%) to \$15.83. The satellite television operator swung to a profit in the second quarter as its US unit boosted average revenue per subscriber by 4% and purged its customer rolls of accounts with poor credit scores.

Reader's Digest Association rose 31 cents (1.9%) to \$16.49. The publisher swung to a profit in its fiscal fourth quarter, helped by higher revenue and fewer charges in the latest period.

The Labor Department reported first time claims for unemployment insurance slipped by 1,000 to 312,000 in the July 30 week. The modest decline surprised economists, who were looking for a 5,000 rise.

European markets closed lower Thursday with banks compressed after results from France's Societe Generale and Royal Bank of Scotland and oil companies. The FTSE 100 lost 17 points (0.32%) to 5,315.5. Germany's DAX 30 index closed down 1% at 4,874.06 while France's CAC 40 index fell 0.8% to 4,458.97.

French bank Societe Generale shares fell 2.4%. It said second-quarter net profit rose 18% to EUR957m from the pcp, helped by a dip in provisions. The bank said the risk environment remained "very favourable" in the quarter, prompting a fall in provisions to EUR115m from EUR126m a year ago. Net income at the investment banking division fell 2% to EUR346m. Societe Generale's French retail banking division also struggled, with net income up only 0.4% to EUR226m.

Royal Bank of Scotland shares dropped 4.4% as it said adjusted pre-tax profit rose 18% to GBP4.01bn, slightly below analyst estimates of GBP4.2bn, and that total provisions for bad loans had risen 8% to GBP847m.

Base metals on the LME finished weaker, led by copper. Copper prices in New York fell the most in two weeks after a surge in global stockpiles of the metal. Inventories monitored by the LME rose by 3,675 metric tons, or 12%, and have gained 38% from a 31-year low on July 22.

Overnight gains in the euro against the dollar helped underpin a rally in the gold futures market in New York. Gold prices rose in New York for the sixth session in seven as energy costs climbed, increasing the precious metal's appeal as a hedge against inflation.

Crude oil in New York rose for the fifth session in six as below-normal gasoline inventories increased speculation that fuel consumption will outpace refinery production.

Equities	Close	% change	Commodities	US\$	Close	% change
Dow Jones (US)	10610.1	-0.82	Aluminium	US\$/t 3mth	1882.5	-0.87
S&P 500	1236.0	-0.74	Copper	US\$/t 3mth	3575.0	-0.31
NASDAQ	2191.32	-1.15	Nickel	US\$/t 3mth	14200.0	-1.01
FTSE 100 (UK)	5315.5	-0.32	Gold	US\$/oz	437.7	0.21
Nikkei 225 (Japan)	11981.8	0.35	Oil	US\$/bbl	61.38	0.85

Australian Market Report - Negative Lead From Overseas Markets

Local markets are set to decline after disappointing sales reports from US retailers led to losses on Wall Street, with a swing higher in oil prices adding to the pressure. Ahead of the local open the SPI futures were 22 points (0.5%) lower at 4,335.

The Australian share market surged in early trade following a positive earnings report from Rio Tinto, only to give back most of its gains and close marginally up. The All Ordinaries rose 2.2 points (0.05%) to 4,328.5 while the ASX 200 firmed 5.7 points (0.13%) to 4,374.8.

Rio Tinto (RIO) reported a 34% increase in net earnings to US\$2,165m for the half year to 30 June 2005. Underlying earnings were up 110% to US\$2,087m. The company stated the performance was driven by consistent operational performance, which enabled record volumes of most products to be delivered into strong markets. Cash inflows from operating activities were US\$3,421m compared to US\$2,020m in the pcp. EPS was US157.6 cents, compared to 116.8 cents in the pcp. The company declared an interim dividend of 38.5 cents, compared to 32 cents in the pcp. RIO gained 69 cents (1.38%) to \$50.60.

Woodside Petroleum (WPL) said Thursday it plans to contact the leaders of a military junta that has overthrown Mauritania's government. The company will be engaging with the Military Council for Justice and Democracy. The talks at this stage will be limited to "safety and operational matters," a Woodside spokesman said. Woodside cautioned that no meeting has officially been scheduled with the council, which overthrew Mauritania's US-allied president Maoyia Sid'Ahmed Ould Taya while he was abroad Wednesday. The council has named national Police Chief Colonel Ely Ould Mohamed Vall as the country's new leader. Woodside's 450 staff and contractors in Mauritania - located both onshore and offshore - have all been accounted for and are safe, the spokesman added. "Drilling operations have continued after a short delay when the port was closed," he said. The Stena Tay rig is in the final stages of completing a well suspension, while the West Navigator is installing a development well. Woodside believes the situation on the ground will soon become clearer. Other companies that have an interest in Mauritania include Hardman Resources (HDR), Roc Oil Company (ROC) and Baraka Petroleum (BKP). WPL lost 22 cents (0.72%) to \$30.28, HDR shed 13 cents (5.22%) to \$2.36, ROC lost 3 cents (1.26%) to \$2.36 and BKP fell 3 cents (11.63%) to 19 cents.

GPT Group (GPT) reported NPAT of \$65.4m for the half year to 30 June 2005. Revenue rose 36% to \$514.6m. Diluted EPS for the period was 3.3 cents. Cash inflow from operating activities was \$167.3m, compared to \$184.5m in the pcp. The company declared a distribution of 5.7 cents for the June 2005 quarter. The company stated that while the benefit of the internalisation of management and investment in the JV with Babcock & Brown did not impact financial performance in this period, ongoing robust performance from GPT's established domestic portfolio was achieved. GPT rose 1 cent (0.26%) to \$3.85.

Singapore Telecommunications (SGT) reported a 13.7%

increase in NPAT to S\$796m for the quarter ended 30 June 2005. Underlying NPAT increased 9.5% to S\$762m, mainly driven by robust growth from its overseas associates. Operating revenue rose 6.4% to S\$3,214m. EPS was S4.79 cents, compared to S3.92 cents in the pcp. Free cash flow for the quarter is S\$594m, with S\$409m from SingTel and S\$185m from Optus. SGT fell 14 cents (6.33%) to \$2.07.

Alumina (AWC) reported a 2% decrease in NPAT to \$163.3m for the half year to 30 June 2005, in line on a comparable basis with the pcp. Revenue for the period was \$2.5m compared to \$7m in the pcp. Cash inflow from operating activities was \$82.9, compared to 107.5 in the half-year to June 2004. The company declared a dividend of 10 cents in line with the interim dividend last year. The company reported alumina production was 6.776Mt for the first half of 2005, in line with the first half of 2004. It added that the 657,000tpa Pinjarra upgrade is on schedule to achieve production from early 2006. AWC weakened 10 cents (1.7%) to \$5.78.

Pacifica Group (PBB) reported a 65% decrease in NPAT to \$7.3m for the half-year ended 30 June 2005. Total revenue fell 14.3% to \$398.7m. Diluted EPS was 5.2 cents, compared to 14.8 cents in the pcp. Cash inflow from operating activities was \$41.4m, compared to an inflow of \$63.4m in the June 2004 half year. The company declared a 10-cent dividend, compared to an 11.5 cent dividend in the pcp. The company reported that the profit result reflected previously flagged adverse influences; including raw material cost increases and reduced demand from General Motors in the North American market. PBB strengthened 43 cents (20.09%) to \$2.57.

ARB Corporation executed contracts for the sale and long-term leaseback of its Kilsyth head office and manufacturing plant site. The sale proceeds of approximately \$16m will reduce debt substantially and provide funds for further expansion of the business. The sale is expected to contribute an after tax profit of approximately \$2.6m to the FY2006 result.

Queensland Cotton Holdings (QCH) still wants to proceed with a \$109m takeover bid for Namoi Cotton Co-operative (NAM), despite Namoi's board rejecting its initial overture. Queensland Cotton is exploring ways it can access Namoi's members register so that it can correspond directly about its plan, despite Namoi specifically rejecting this request, QCH chief executive Richard Haire said. The company strongly disputes all of the assertions Namoi's board used to justify preventing Namoi members from directly considering the merger proposal. Haire said Queensland Cotton's bid is fully priced. QCH shed 1 cent (0.25%) to \$3.94 and NAM lost 3 cents (3.45%) to 70 cents.

Among companies holding annual general meetings today are Gullivers Travel Group.

Equities/Fixed Interest	Close	% change	Currency	Close	% change
All Ordinaries	4328.5	0.05	AUD/USD	0.773	0.01
S&P/ASX 200	4374.8	0.13	AUD/GBP	0.434	-0.05
10-year Bond Rate	5.3133%	--	AUD/YEN	85.9	-0.03
5-year Swap rate	5.73%	0.53	AUD/EUR	0.623	-0.05
90-day Bank Bill Rate	5.64%	-0.05	AUD/NZD	1.118	-0.03

Industrial

ARB Corp (ARP)

Earnings downgrade as labour shortages and high steel prices bite

Hold **\$3.00**

Event

ARP expects to announce its FY05 results on 23 August.

The company has issued guidance for FY05 NPAT of \$14.0m, or \$12.4m before a \$1.6m profit on a land sale.

This implies recurring NPAT growth of 3% in FY05.

Impact

The share price plunge today means the downgrade took the likely result below market consensus. On our downgraded FY05 forecasts (from \$14.0m to \$12.4m) EPS is going to fall by around 3% for the year.

ARP included its new guidance at the end of an announcement about the sale and leaseback of two company properties. There was no discussion of the guidance as a downgrade nor any reasons for the guidance. This will be the first time EPS has fallen since ARP listed in 1989. The poor profit result to come highlights just how difficult business has become for this former super-growth stock.

We reviewed ARP on 11 July at \$3.20, recommending Hold and Accumulate nearer \$3.00. As the market, we were a bit early in calling the bottom in ARP during the recent share price downtrend.

While ARP is a quality business it is facing the most difficult input cost conditions in its history, with record steel prices and also shortages of skilled labour. Business is obviously tougher than we understood. At the top line, demand for 4WDs, and thus for accessories, presumably has softened in response to high petrol prices. We will see more in the result.

There will be a price at which to buy ARP and it will be at an FY06 or FY07 P/E ratio and dividend yield which will hold the stock. Management commentary and guidance with the FY05 result will provide clues to fair value. Until then we will wait for the ARP story to settle down.

FYE Jun		2003A	2004A	2005E	2006E
Reported NPAT	\$m	10.4	12.3	12.4	13.0
EPS	c	16.5	19.4	18.6	19.5
P/E	x	15.5	17.5	16.1	15.4
EPS Growth	%	24.1	17.6	-4.1	4.8
DPS	c	8.0	9.5	10.0	10.5
Yield	%	2.8	2.8	3.3	3.5
Franking	%	100	100	100	100

Prepared by Peter Russell. Intersuisse Estimates.

Crane Group (CRG)

New management delivers good FY05 result

Accumulate for Yield on weakness nearer \$9.25 **\$10.25**

Event

CRG, the manufacturer and distributor of a variety of building

materials and pipeline products in Australia and New Zealand, reported a sound FY05 result with NPAT pre-significant items and pre goodwill increasing by 8.6% to \$48.1m.

EPS increased 4.6% to 85c.

EBITA grew 9.5% to \$108.1m.

Revenue was 3.9% higher at \$2,179.4m.

A final franked dividend of 30¢ was declared bringing total dividends for the year to 60¢.

The star performer was the NZ distribution business CDNZ, which improved EBITA 46.8% to \$20.7m. Plumbing supplies business Tradelink and the pipelines division Iplex both recorded solid EBITA increases, respectively 17.7% and 13.9%. The Metals division continued to ail with EBITA down 24.5%.

Cash flow was again strong with net operating cash flow of \$118.7m up from \$96.5m in FY04 and well above NPAT pre-depreciation and goodwill. Improvements in working capital management, particularly of debtors, generated \$33.3m of additional cash. The cash funded net capex of \$32.6m, acquisitions and IT systems expenditure of \$14.3m, a healthy reduction in debt of \$72.8m and dividends of \$17.7m. Net gearing fell from 64.3% to the target level of 50%.

The company should continue to reap profit enhancements from efficiency gains as well as lower interest charges given the fall in debt levels. Management was cautious about the near term outlook due to the weakening building sector. Profit in FY06 is expected to be in line with the FY05 result.

Divisional revenues were:

Revenue \$m, Change %

Tradelink 718 -2.6%

CDNZ 466 +9.8%

Iplex 559 +3.7%

Metals 569 +6.9%

FY05 EBITA \$m, Change \$m, Margin %

Tradelink \$16.6m +2.5m 2.3%

CDNZ \$20.7m +6.6m 4.4%

Iplex \$59.8m +7.3m 10.7%

Metals \$26.2m -8.5m 4.6%

Tradelink finally began to make some good headway, although the EBITA margin of 2.3% is well below the targeted 6%+. It is not clear how such large gains can be made. The improvement in FY05 reflected restructuring benefits, including reductions in staff numbers; working capital efficiencies finally emanating from the new IT system and rationalisation of the product range and a significant reduction in the number of suppliers.

The CDNZ result was surprisingly strong reflecting effective

restructuring of the chain, a successful focus on product and brand management, rationalisation of the product range and a supportive economic environment in NZ.

Iplex was again a strong performer. Its ability to pass on higher PVC prices meant no margin degradation. Supply chain improvements reduced freight and warehouse costs, while sound working capital management generated strong cash flow.

Margins in the Metals division deteriorated in a competitive environment, largely a function of heightened import competition and reduced demand. CRG would be better off without these businesses but there is presumably no queue of enthusiastic buyers.

Impact

The result was above expectations and will lead to earnings upgrades by most analysts.

The result has increased the confidence of the market in the new management team, which appears to be driving value-adding changes through the majority of the businesses, although it is a little difficult to gauge how much of the groundwork had been laid by the previous team.

Earnings are cyclical but have disappointed through the latest cycle. The major IT system spend, particularly in the Tradelink plumbing supplies business, failed to deliver on original expectations but at long last appears to be contributing, while the metal manufacturing businesses have consistently faced import competition and more recently rising input prices.

The saviour of the group has been the Iplex pipeline business, bolstered by the acquisition of competitor Milnes in 2003. Current restructuring efforts, benefits from the IT spend, and exposure to the non-residential construction sector, particularly via the Iplex business, are sustaining earnings and dividends during the building construction down-cycle.

Based on half-year results we recommended Long Term Accumulate on 15 April at \$8.25. The price was \$8.66 before the FY05 news on 3 August but leaped to \$9.80 on the day, now higher. We are pleased at the progress but reluctant to chase what we have regarded as a yield stock. We retain a Long Term Accumulate for yield but would prefer to wait for opportunities a dollar lower.

FYE Jun		2004A	2005A	2006E	2007E
Reported NPAT	\$m	44.2	48.1	48.0	50.0
EPS	c	81.8	84.9	82.5	85.9
P/E	x	11.3	10.7	12.4	11.9
EPS Growth	%	-18.4	3.8	-2.8	4.1
DPS	c	60.0	60.0	60.0	62.0
Yield	%	6.6	6.6	5.9	6.0
Franking	%	100	100	100	100

Prepared by Peter Russell. Intersuisse Estimates.

Optiscan Imaging (OIL)

Light at the end of the tunnel

Speculative Buy

\$0.34

Event

Over the last year OIL has begun to deliver on the initial promise shown several years ago. The disappointing pace of commercialisation has lost the stock much of its support, a fact starkly reflected in the share price performance.

However, the strong partnership with Pentax and the quality of the flexible endo-microscope launched at the 2005

Digestive Disease Week conference suggest the company's fortunes are ready to taken a turn for the better. At the conference Pentax and OIL presented compelling study data to over 4,000 gastroenterologists detailing the ability of the technology to diagnose various gastro-intestinal diseases and conditions.

Impact

OIL is a world leader in microscopy technology. Its deal with Pentax has led to the roll-out of a miniaturised version of the core technology incorporated into flexible endoscopes, the primary instrument used by gastroenterologists. We expect to hear of the progress of orders over the months to come as Pentax uses the new instrument to win share from market leader Olympus. The deal with Pentax, excellent clinical trial results and product registration in the US and Europe validate the technology.

We expect OIL to make a small profit in FY07 through sales of components and royalties, mainly via Pentax but also, progressively, of rigid endoscopes - OIL is aiming to find a partner to co-develop and market a rigid endoscope incorporating the OIL technology. This market is even larger than the flexible market, although fragmented.

The company is well funded and the technology convincingly validated, although until there is meaningful evidence of sales traction the stock remains speculative.

OIL looks to have good upside potential from current levels and is one of our preferred biotechnology investments. Interested clients may wish to review our recent report on the company in our current Biotechnology Issue of Emerging Technology Monitor - available on our website at www.intersuisse.com.au.

Pacifica (PBB)

Pacifica 1H05 Result

Avoid

\$2.57

Event

PBB's first half result was weak as expected, although the figures and guidance were more robust than had been feared:

\$million 1H04 1H05 Change %

Revenue 465 398 -16.7

EBITDA 73.0 53.3 -37.0

PreTax 38.1 13.2 -188.6 Profit pre tax

NPAT 22.7 11.4 -99.1 Adjusted

NetCashflow 63.4 41.4 -53.1 from Operations

EBITDA % 15.7 13.4 -17.2 Margin %

EPS, cents 16.7 8.4 -98.8 Adjusted

Dividend 10.0 4.0 -150.0 55% franked

The North American market experienced a 20% decline in volume, reflecting reduced sales to General Motors (GM).

The Knoxville plant suffered a 30% drop in sales from the pcp. The volume decrease was exacerbated by the extension of planned production cuts by GM which experienced slower sales. GM was reducing inventory levels ahead of the launch of the GMT900 model.

Impact

The establishment of the Caliper plant in China and the Park

Brake plant in Thailand are on time and on budget.

PBB re-affirmed the FY05 full year earnings guidance of \$20-\$25m provided in April. FY06 earnings guidance was raised to \$35-\$40m from a less confident \$30-\$40m.

Uncertainty hangs over the successful launch of the GMT900 models to be released in early 2006. The impact of sustained higher oil prices is unknown.

PBB's heavy reliance on GM for business represents a key risk.

FY05 and FY06 earnings and dividends are under review.

The announcement yesterday lifted PBB to close at \$2.57 from a \$2.14 close the previous night. While one broker has kept an Underperform, another has moved from Underweight to Neutral and two more have changed from Sell to Hold.

We have been negative (Sell or Avoid) for many months. The price has doubled from a \$1.265 low late April but has not broken its steady 2-year downtrend from \$5.00. While the news is positive and PBB's progress in moving operations to China is apparently on track, high risks remain. For most investors we continue to recommend Avoid.

FYE Dec		2004A	2004A	2005E	2006E
Reported NPAT	\$m	46.1	46.1	22.4	32.6
EPS	c	33.0	33.0	16.5	24.0
P/E	x	7.8	7.8	15.6	10.7
EPS Growth	%	--	-1.6	-50.0	45.5
DPS	c	20.5	20.5	10.0	12.0
Yield	%	8.0	8.0	3.9	4.7
Franking	%	93	93	55	55

Prepared by Peter Russell. Intersuisse Estimates.

Resources

Alumina (AWC)

First Half 2005 Profit Result

Accumulate

\$5.78

Lacklustre, But in Line With Expectations

AWC's headline 1H05 NPAT declined by a modest 2.5% to \$163.3m, while adjusted NPAT of \$156.4m was marginally higher than the pcp. Both these numbers were in line with market expectations and previous guidance by the company.

The adjusted figure excludes a \$6.9m profit from aluminium price changes on derivative positions now required to be recognised under IFRS. This requirement could result in increased volatility in headline profit in future.

First half AWAC alumina production was in line with 1H04 at 6.8Mt. Production was expected to be higher but output from the 250ktpa Suralco refinery capacity expansion was hindered by commissioning issues.

Higher alumina and aluminium prices were offset by previously flagged higher costs and unfavourable A\$/US\$ rate movements.

Aluminium prices rose 10% to US\$0.835/lb. Production costs, primarily for caustic, energy and raw materials rose strongly. Compared to the pcp, we estimate unit costs rose by over 25%, although scheduled maintenance at the Anglesea power station impacted aluminium production costs.

Impact

The 1H05 adjusted profit result was approximately in line or just below expectations. The chief reason was higher than

expected input costs.

Assuming aluminium prices and A\$/US\$ exchange rates remain at current levels, AWC expects a full year 2005 profit in line with last year. Our FY05 earnings forecast is little changed.

We have upgraded near-term aluminium price projections to US\$0.84/lb which, in line with output growth, boosts our FY06 earnings forecast from 26cps to 32cps. Long-term assumptions are an aluminium price of US\$0.80/lb and A\$/US\$ of 0.72.

Despite the soft result we maintain an Accumulate recommendation on AWC. It owns first-class assets, including substantial bauxite reserves and refining and smelting operations globally.

Significantly AWAC is ungeared and AWC is modestly geared at ~22%. Furthermore, a natural price floor exists in AWC's takeover appeal to Alcoa.

AWAC is embarking on an expansionary phase coming to some extent at the expense of dividend growth and franking. AWAC has flagged the potential for an additional 44% or 6Mtpa of equity alumina capacity by 2009.

FYE Dec		2003A	2004A	2005E	2006E
Reported NPAT	\$m	254.6	323.5	308.4	377.2
EPS	c	22.5	27.9	26.4	32.3
P/E	x	25.7	20.8	21.9	17.9
EPS Growth	%	76.5	23.9	-5.2	22.4
DPS	c	20.0	20.0	20.0	20.0
Yield	%	3.5	3.5	3.5	3.5
Franking	%	100	88	70	70

Prepared by Gavin Wendt. Intersuisse Estimates.

Glengarry Resources (GGY)

Initiating Coverage

Speculative Buy

\$0.05

Unrealised Uranium Potential in Mt Isa Region

GGY has undertaken a technical assessment of its 100%-owned Greenvale Project in the Mt Isa area of Queensland, which has confirmed the potential for significant uranium mineralisation.

In May 2005 GGY reported the results of exploration conducted in the 1970s on two of the prospects within the Greenvale project, being the Oasis and Gregory prospects. This work uncovered high-grade uranium mineralisation grading up to 12.5% in trench assays at the Oasis prospect and results of up to 0.35% uranium from rock chip sampling on the Gregory prospect.

Esso Minerals drilled 32 diamond drill holes and 14 percussion holes at the Oasis prospect in 1978 and intersected economic grades of uranium mineralisation over a strike length of ~300 metres. Better reported intercepts include 9.5m @ 0.23% U3O8 from 28m depth and 6.7m @ 0.23% U3O8 from 48.3m depth.

No uranium exploration has been completed in the immediate area since the Esso work some 27 years ago. Oasis is considered analogous to the Mary Kathleen uranium deposit, also in the Mt Isa area, which was mined from 1958 until 1982 and contained uranium reserves of 9.5m tonnes @ 0.13% U3O8.

At Gregory, Afmeco conducted stream sampling and prospecting work in the early 1980s that returned strongly anomalous uranium, grading up to 0.35%. Gregory is less

advanced, but sits on the same regional structure and in a similar geological setting to Oasis.

Impact

GGY is planning a significant uranium exploration program, commencing this quarter and continuing over the next six months, to follow up previous work at the Oasis and Gregory prospects, as well as reconnaissance work over the radiometric targets.

Both targets are interpreted to be hosted by subsidiary structures that splay off a major geological feature known as the Lynd Mylonite Zone (LMZ). A corridor immediately to the west of the LMZ is considered highly prospective for uranium mineralisation by GGY and will be the focus of its future exploration.

An airborne radiometric survey flown by the Queensland government in 1999/2000 has defined a number of uranium anomalies within the prospective corridor, including

anomalies coincident with mineralisation at Oasis and Gregory. GGY's tenement package encompasses 50km of this prospective corridor.

We have initiated coverage of GGY with a Speculative Buy. The company has assembled what appears to be quite prospective uranium exploration acreage in the prolific mining district of Mt Isa. We also regard the company's technical team highly, led by MD David Richards. It offers tremendous upside, given its market capitalisation is only \$8m, which compares with its larger and more advanced Mt Isa neighbour, Summit Resources (SMM), with a market cap of \$110m.

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