

Wednesday 25 October 2006

Avexa (AVX)

On your marks, get set...

AVX's lead compound is in a Phase IIb trial, with results expected early in 1QCY07. We believe positive clinical trial results will position AVX well to commence value enhancing Phase 3 clinical trials in 2HCY07 and have identified this as an important catalyst.

Table 1 : Milestone Table

Estimated Date	Milestone	Impact
4QCY06	Release of animal data from anti-bacterial trial	Positive
2HCY06	Results for Phase I Tipranivir study	Positive
2HCY06	Results for Phase I Cardiac safety study	Positive
2HCY06	Commence animal studies with HIV integrase inhibitor	Neutral
4QCY06	Complete recruitment of Phase IIb clinical trial for apricitabine	Positive
1QCY07	Release of the first results from Phase IIb clinical trial of APRICITABINE	Major Positive
2HCY07	Commence Phase III trials for ATC	Positive

Source Company Data and ABN AMRO Morgans estimates

Update on HIV Phase IIb trial

Avexa's lead compound, a potential HIV drug called apricitabine, is in Phase IIb clinical trials. To date, in a Phase IIa trial, under an IND with the FDA, the drug has shown good tolerability, efficacy and advantages over existing therapies. Recruitment has been slower than expected with additional trial sites in Argentina being opened (now 7 sites recruiting). It is expected that recruitment will be completed by end of 4QCY06, with results expected in 1QCY07. To date, 7 patients in the Phase IIb trial have successfully completed 24 week blinded stage treatment and moved into the open label part of the trial where it is known that the patients are taking AVX's product as part of their daily treatment for HIV. This is positive as we assume if there are any issues with the drug, patients would not have moved to open label.

Phase III trial may get a kick along

Initial feedback from the regulators indicates that it may be possible to file for approval after 24 weeks dosing in the Phase III trial rather than the usual 48 week dosing period. If this approval is obtained the cost of the Phase III trial could be reduced by 20% to 30%.

Cash position sound

The cash position is sound at A\$20.2m as at 30 June 2006 which is sufficient funding to deliver the results from the Phase IIb and both Phase I trials. AVX also announced its Share Purchase Plan at its AGM (record 9 November 06), to conclude the current clinical trials and commence preparations for the Phase III trial. The price for the shares under the SPP is A\$0.20. ABN AMRO Morgans is acting as Lead Manager to the Share Purchase Plan by Avexa Limited and will receive fees in this regard.

Outlook – Significantly undervalued, Buy

We have made no changes to our A\$0.73 valuation and set our price target at A\$0.62 per share, a 15% discount, which reflects where we believe the share price will trade when the results are released early in CY07. We believe the release of the Phase IIb clinical trial results for the HIV compound will shift investor focus to the long term prospects of AVX, and the stock will be re-rated towards our valuation. We note, that as AVX reports successful clinical results we will increase our probability of success and therefore our valuation. Buy maintained.

Important disclosures regarding companies that are the subject of this report and an explanation of recommendations and volatility can be found at the end of this document.

Priced at close of business 24 October 2006. Use of ▲ ▼ indicates that the line item has changed by at least 5%.

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Buy

Important: The above recommendation has been made on a 12 month view and may not suit your investment needs or timeframe. The basis it is prepared on is summarised on the last page of this report. **PLEASE CONTACT YOUR ADVISER TO DISCUSS THIS GENERAL RECOMMENDATION BEFORE ACTING ON IT.**

High Volatility

Price

A\$0.23

Market capitalisation

A\$44.5m

Price Target

A\$0.62

Reuters

AVX.AX

AVX61025

Analysts

Scott Power

ABN AMRO Morgans
+61 7 3334 4884
scottp@abnamromorgans.com.au

Tanya Solomon

+61 7 3334 4521
tsolomon@abnamromorgans.com.au

www.abnamromorgans.com.au

Avexa - Investment view

We believe Avexa represents an exciting opportunity within the Life Science sector in Australia. Originally demerged from Amrad (now Zenyth Therapeutics ZTL) in 2004, AVX is focused on developing drugs for the treatment of infectious diseases. Its lead drug candidate is a small molecule to treat Human Immunodeficiency Virus (HIV), which is in Phase IIB clinical trials, with Phase III trials expected to commence in 2H2007. To date, all HIV compounds that have progressed to Phase III clinical trials have gone on to be successfully commercialised.

Key Strengths

- **Market launch of lead compound in 2009 with initial sales of A\$400m pa** – AVX's lead HIV compound is expected to reach the market in CY09. To date, all HIV compounds that have progressed to Phase III clinical trials have gone on to be successfully commercialised. We consider the in-licensing of this compound, positioned in a niche market, from Shire Pharmaceuticals to be a strategically significant move as it brings AVX both closer to commercialisation and revenues and decreases its risk profile.
- **Substantial market opportunity** - HIV drugs generated US\$7.1b in sales in CY05, with NRTIs representing 59% of this. AVX's lead compound has the potential to capture a solid proportion of this.
- **Early stage pipeline looks promising** – AVX also has earlier stage compounds targeting antibiotic resistant infections and HIV in pre-clinical development.
- **Key personnel have solid track record** - Dr Jonathon Coates was involved in the discovery and development of leading HIV treatment 3TC (lamivudine) while working for GSK. He is named on the original patent. 3TC generated US\$1b in sales in 2005. Dr Susan Cox has worked on a number of NRTI programs during her time with Medivir and GSK. The experience of the senior staff members at AVX should stand it in good stead going forward. On the flip-side it is important that these staff members are retained.

Key Risks

- **Commercialisation risk** - Delays or lack of success in the clinical programs are an inherent risk for all biotechnology companies, in both development and registration of new compounds. In our modelling we have attributed a probability of success to the earlier programs which translates to minimal value at this early stage. As the programs mature we can adjust our probability rating.
- **Inability to secure a marketing partner** – AVX is responsible for marketing the product outside of North America. A marketing partner is required.
- **Intellectual property risk** – Avexa's ultimate ability to commercialise its compounds is dependent on its ability to obtain patent protection; and the ability to sell those compounds without infringing the intellectual property rights of third parties. No guarantee can be given that patents are ultimately granted or for existing patents that they will not be challenged in the courts.
- **Financial risks** - The capital requirements associated with the R&D of Avexa's projects has been and will continue to be significant. All projects in the Avexa portfolio will require funding to advance development to either the commercialisation or licensing stage. The current funds raised are considered sufficient to fund AVX through to the start of Phase 3 clinical trial for its lead HIV compound. Further capital will be required to complete the Phase 3 clinical trial.

Anticipated News Flow

We have identified a number of near-term catalysts which if achieved we believe have the potential to drive the share price higher.

Table 2 : Our suggested future milestones to watch

Estimated Date	Milestone	Impact
4QCY06	Release of animal data from anti-bacterial trial	Positive
2HCY06	Results for Phase I Tipranivir study	Positive
2HCY06	Results for Phase I Cardiac safety study	Positive
2HCY06	Commence animal studies with HIV integrase inhibitor	Neutral
4QCY06	Complete recruitment of Phase IIb clinical trial for apricitabine	Positive
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2HCY07	Commence Phase III trials for ATC	Positive

Source: ABN AMRO Morgans; Company data

Valuation

We have a valuation of A\$0.73 per share. Our price target has been set at a 15% discount to our valuation, which reflects where we believe the share price will trade when the results are released early in CY07. Key assumptions include A\$3.0b market, growing at 10% pa. This is based on approximately 800,000 of current HIV infected patients being eligible for apricitabine, with an assumed sale price of A\$70 per week. Apricitabine sales are expected to commence in FY09 with an initial 10% market share being secured, growing to 30% thereafter.

Table 3: DCF Valuation

Assumptions	
WACC	15.21%
Beta	1.81
Equity risk premium	5.5%
Risk-free rate	5.25%
Long run growth rate	3.5%

Source: ABN AMRO Morgans estimates

Company Overview

Avexa's primary R&D programs target serious and commercially attractive human infectious diseases, such as: HIV and Vancomycin-resistant infections (VRI).

Apricitabine - A new 2nd line treatment option for HIV

In January 2005 AVX in-licensed apricitabine (ATC), a new anti-viral HIV drug in Phase II development, from Shire Pharmaceuticals Group Plc (LSE: SHP, NASDAQ: SHPGY, TSX: SHQ). AVX has almost completed recruitment for its Phase 2b clinical trial, with results expected in the first quarter in calendar 2007.

The deal with Shire was a significant strategic move

We consider the in-licensing of apricitabine a strategically significant move by AVX. Given the drug's late stage in the development pathway, and high probability of successfully reaching commercialisation, it has the potential to reduce AVX's overall risk profile, as well as bringing the prospects of revenue forward. The rate of success for late stage HIV projects is very high. According to a US Bureau of Economics 2003 paper, all 29 HIV drugs that entered Phase III between 1989 and 2002 made it to market. Since then 3 additional drugs in separate classes to ATC have also been successful, with two more imminent, taking it to 34 from 34 successful in Phase III clinical trials.

The deal itself is structured as follows – AVX has taken on full responsibility for the world-wide development of ATC. In return Shire has taken a A\$2m equity position in AVX, with the option to acquire 4m more shares following successful completion of the Phase 2b clinical trial. Shire also kept their pro rata holding in the company during the rights issue in May 2006. AVX also has the right to market the drug throughout the world, excluding North America (US and Canada). A low double digit, reciprocal royalty will be paid, but no milestone payments are due. Upon completion of the Phase III trial, commercialisation (including post-marketing studies) of the product will be overseen by a joint Development Committee and costs will be shared equally.

Why did Shire divest? We note that there is nothing sinister in the divestment of this promising drug by Shire, who is primarily focussed on developing late stage treatments for genetic, gastrointestinal and central nervous system disorders.

Apricitabine – Currently in Phase 2b clinical trials

Apricitabine is a nucleoside analogue, part of a class of drugs known as NRTI (see below). Importantly, ATC is under Investigational New Drug Status (in AVX's name) and has received fast track approval from the US FDA, and a similar review in Europe.

Shire had previously conducted a Phase IIa clinical trial in 63 HIV infected patients, with no prior exposure to HIV drugs. In this trial, >25 fold decrease in viral load was seen (statistically significant), similar or better than other NRTIs currently on the market. Importantly, the compound is well tolerated, there is no evidence of emergence of resistance, and *in vitro* data shows that it is effective against both wild type and drug resistant HIV (eg M184 virus). Viral Load (the amount of HIV in a sample of blood) is the primary measure of effectiveness of HIV treatment.

While the results of the Phase IIa clinical trial were sufficient to take this compound directly into a Pivotal Phase III clinical trial, AVX prefers to position ATC towards patients who have shown resistance to therapy with 3TC. Given that HIV treatment is a very data driven field, it is important that appropriate clinical trials are conducted to demonstrate the particular benefits for ATC (eg strong tolerability and resistance profile). This would effectively position ATC as a second or third line therapy for the ongoing treatment of HIV, for patients who are no longer benefiting from the 3TC treatment regimen (drug resistant HIV - M184V). AVX believes there is need for new drugs that will treat the resistant virus selected during 3TC therapy. The intention is to then "creep" into first line regimen.

The current Phase IIb clinical trial is being conducted in patients with resistance to 3TC. While the current study is double-blinded, no patient currently enrolled has experienced any adverse side effects. It is fair to say, that to date recruitment for this study has been slower than expected. This is due to the strict enrollment criteria applied. In order to speed recruitment, a number of enrollment sites have been included in Argentina (which was also involved in the Phase IIa trial). The primary end-point of the trial is the reduction in the amount of virus in the blood after three weeks of treatment.

Future clinical program

To support the Phase III clinical trial application process, AVX aims to complete two Phase I clinical trials by end CY06. The first is a supporting Phase I cardiac safety trial. While ACT has not been associated with any adverse cardiac side effects to date, there is a greater regulatory focus on this area, and a thorough study is now required. The second clinical trial is a Phase I tipranavir co-dosing study. HIV drugs are taken in combination with others and tipranavir (brand name Aptivus) may be used in combination with ATC. A HIV protease inhibitor, it has had adverse interactions with other HIV drugs in the past and it is important to rule this out.

Preparations for the Phase III clinical trials are now underway. This trial will be able to start before the formal finalization of the Phase IIb clinical trial (which includes 48 weeks of follow up, plus a follow-on extension study). It will involve two parallel multi-country studies of about 800 patients and is expected to be completed at the end of 1HCY09 and into FDA filing 4QCY09.

HIV Market, Treatment and Drug Resistance

HIV affects around 40m people globally, including approximately 2m people in the US and Western Europe. In Western societies, current treatments have seen HIV shift

from an acute illness to a chronic disorder, although it remains fatal. The market for HIV therapies is large with an estimated US\$7.1b in sales in 2005. Patients typically develop resistance to current treatments when taken over a period of time, and currently approx 65% of all HIV patients taking medication have some drug resistance.

Current treatments for HIV fall into four categories, as outlined in Table 4. The total number of treatments on the market to date is 25 and a number of drugs have been co-formulated. Highly Active Antiretroviral Therapy (HAART) is the recommended treatment option for HIV infection, which combines three or more anti-HIV medications in a daily regimen. This standard of care is appropriate for the three main stages of treatment, first, second and third line treatment. The advance of combination pills has helped to improve patient compliance. Despite these improvements, drug resistance, as a result of mutation, remains the ultimate problem for HIV treatment. Currently, 65% of treatment experienced patients are in second or third line therapy as a result of resistance arising to first line treatments. There is also a growing number (10-30%) of treatment-naïve patients who are also resistant to first line options. Therefore there is a market need for new anti-retrovirals to combat the development of resistance. We believe that apricitabine has a number of advantages that will make it an important addition to physicians' attack against HIV viral load.

Competing products

Given that AVX is positioning itself as a second line therapy, there are few products currently on the market that it will compete directly with for market share. We expect that AVX will be able to filter off current sales for leading first line treatments. Combivir (GSK) reported sales of US\$1061m in CY05 and Truvada (Gilead) which reported sales of US\$567m in CY05, given that the target market is patients who are showing resistance to these first line therapies.

Dexelvucitabine (DFC), previously known as Reverset, (Incyte) was an NRTI in Phase IIb clinical trials. Until recently we had considered this to be a potential competitor. However, the small decline in viral load at 2 weeks (viral loads dropped by 0.3 logs in the 100mg DFC group, 0.4 logs in the 50mg DFC group, and 0.7 logs in the 200mg DFC group, compared to 0.03 logs in the placebo group) and a number of cases of pancreatitis has led to Incyte halting development of this compound. This is advantageous to apricitabine which has not reported any adverse reactions. DFC had been partnered with Pfizer with Incyte expecting to receive US\$800m in future payments plus royalties; demonstrating how attractive these types of compounds are considered to be. Many of the myriad of other products on the market may potentially be combined with apricitabine, as part of a combined treatment regimen.

Significant market opportunity

There remains an ongoing demand for new drugs on the market, particularly drugs that target new pathways in the viral replication cycle and/ or that will be effective against the existing resistant virus strains. HIV drugs generated US\$7.1b in sales in CY05, with NRTIs representing 59% of this. Improvements in the treatment and survival time of persons infected with HIV require new therapies to become available, since a significant proportion of long-term patients have become resistant to most or all of the drugs administered to them over many years of therapy.

Avexa intends to market ATC towards patients who have shown resistance to therapy with 3TC. This would effectively position ATC as a second and third line therapy for the ongoing treatment of HIV, for patients who are no longer benefiting from the 3TC treatment regimen. The market potential for this is significant. Currently, 65% of treatment experienced patients are in second or third line therapy as a result of resistance arising to first line treatments. 48% of this 65% have the M184V mutation

(associated with high level resistance) Therefore 31% of patients receiving treatment are the target market. This equates to 870,000 patients. There is also a growing number (c20%) of treatment-naïve patients who are also resistant to first line options.

Table 4 : Approved Medications to treat HIV

Class of drug	Name	Manufacture Name	Approval Date/ Time to Approval	Major 2005 Sales (US\$m)
(1) Nucleoside Reverse Transcriptase Inhibitors (NRTI)	Combivir	GlaxoSmithKline	27-Sep-97 / 3.9 months	1061
	Emtriva	Gilead Sciences	02-Jul-03 / 10 months	47
	Epivir	GlaxoSmithKline	17-Nov-95 / 4.4 months	475
	Epzicom	GlaxoSmithKline	02-Aug-04 / 10 months	215
	Hivid	Hoffmann-La Roche	19-Jun-92 / 7.6 months	
	Retrovir	GlaxoSmithKline	19-Mar-87 / 3.5 months	75
	Trizivir	GlaxoSmithKline	14-Nov-00 / 10.9 months	551
	Truvada	Gilead Sciences, Inc.	02-Aug-04 / 5 months	567
	Videx EC	Bristol Myers-Squibb	31-Oct-00 / 9 months	174 (together with Videx)
	Videx	Bristol Myers-Squibb	9-Oct-91 / 6 months	778
	Viread	Gilead	26-Oct-01 / 5.9 months	778
	Zerit	Bristol Myers-Squibb	24-Jun-94 / 5.9 months	216
	Ziagen	GlaxoSmithKline	17-Dec-98 / 5.8 months	248
	(2) Nonnucleoside Reverse transcriptase Inhibitors (NNRTI)	Rescriptor	Pfizer	4-Apr-97 / 8.7 months
Sustiva		Bristol Myers-Squibb	17-Sep-98 / 3.2 months	680
Viramune		Boehringer Ingelheim	21-Jun-96 / 3.9 month	370
(3) Protease Inhibitors (PI)	Agenerase	GlaxoSmithKline	15-Apr-99 / 6 months	
	Lexiva	GlaxoSmithKline	20-Oct-03 / 10 months	204 (together with Lexiva)
	Aptivus	Boehringer Ingelheim	22-Jun-05 / 6 months	
	Crixivan	Merck	13-Mar-96 / 1.4 months	
	Fortovase	Hoffmann-La Roche	7-Nov-97 / 5.9 months	
	Invirase	Hoffmann-La Roche	6-Dec-95 / 3.2 months	
	Kaletra	Abbott Laboratories	15-Sep-00 / 3.5 months	1005
	Norvir	Abbott Laboratories	1-Mar-96 / 2.3 months	
	Reyataz	Bristol-Myers Squibb	20-Jun-03 / 6 months	696
	Viracept	Agouron Pharmaceuticals	14-Mar-97 / 2.6 months	
(4) Fusion Inhibitors	Enfuvirtide	Hoffmann-La Roche & Trimeris	13 March 03/ 6 months	88

Source: Company data; <http://www.fda.gov/oashi/aids/virals.html>

HIV Integrase

HIV encodes three major enzymes which are required for the replication of the virus. Inhibitors have already been developed for two of these and Avexa is targeting the third enzyme called Integrase. Avexa has a window of opportunity to develop one of the first HIV integrase inhibitors to reach the market, as: 1) there are no drugs currently marketed that are active against HIV integrase; and 2) there are two HIV integrase inhibitors in clinical trials, one with Merck & Co Inc and the other with Gilead. Avexa has selected compounds to enter into a lead optimisation program and will choose one for testing in an animal model. Combining this inhibitor with ATC could provide an effective new combination therapy, thereby building AVX's HIV product portfolio. Progression into pre-clinical toxicology and beyond will require Avexa to raise additional funds or partner the compound.

VRI – Antibacterial project

The occurrence of hospital-acquired infections is very common with one in four patients admitted to hospital in the United States developing some level of infection. Of these approximately 5% die from bacterial infection and associated complications. Vancomycin is a drug used to overcome bacterial infections. The prevalence of vancomycin resistance continues to increase. Moreover, there is currently no satisfactory treatment for vancomycin-resistant infections (VRI). This has provided a market opportunity for further drug development. Avexa is pursuing what it believes

to be a unique approach to overcoming the problem of vancomycin resistance. It is synthesising compounds that target the altered part of the vancomycin-resistant strain of bacteria which gives rise to resistance. These compounds show anti-bacterial activity that is equal, or close, to that of vancomycin in *S. aureus* and slightly less active in *Enterococcus faecium*. Importantly, these compounds show either equal or better activity than vancomycin against vancomycin semi-resistant strains of both *S. aureus* and *E. faecium*. In November 05, AVX started animal proof-of-concept studies for this compound. Results of this study are expected in 3QCY06. A positive result will enable partnering or additional capital to be raised to progress into the clinic.

Company background and management

Avexa has a well established, experienced and dedicated team of 20 employees with an additional 12 medicinal chemists based in China), comprising scientists with documented successes in developing commercially valuable anti-infective drugs.

Table 5 : Company details

Major shareholders:		Board:
Fibre Optics Pty Ltd	12.1%	Dr Julian Chick, CEO
Zenyth Ltd (following CSL takeover – shares will be distributed in specie)	10.7%	Mr Stephen Cooper
Passport Capital	7.3%	Dr Errol Malta
Shire Pharmaceuticals	6.3%	Dr Hugh Niall (Chairman)

NB: The top 20 shareholders hold 64%

Source: Company data as at 20 March 2006

Dr Julian Chick - Chief Executive Officer Julian Chick PhD graduated with a PhD in Muscle Physiology from La Trobe University in 1998, followed by five years of experience as an investment advisor and financial consultant with Prudential-Bache Securities, BNP Paribas and SalomonSmithBarney. He has also spent time working for life sciences consulting group Foursight Associates as a principal analyst. Dr Chick joined Amrad as a Senior Business Development Manager in April 2002, and now holds the position of CEO at Avexa.

Dr Jonathan Coates - Chief Scientific Officer Jonathan Coates has 15 years' anti-viral experience with Glaxo Group Research and later Glaxo-Wellcome, having taken the HIV/HBV drug Efavir (Zeffix/3TC) to the market. Prior to this he obtained his PhD from Glasgow University.

Dr Susan Cox - Head of Development, Susan Cox, is a virologist who worked extensively on the preclinical and clinical development of the antiviral drug Foscavir® (foscarnet) for Astra and has worked with Medivir, a successful anti-viral company. Dr Cox is a member of the Committee of the International Society for Antiviral Research and a graduate of the Australian Institute of Company Directors. Dr Cox holds a PhD in Virology from the Karolinska Institute.

RESEARCH TEAM

SOPHIE MITCHELL	-	Head of Research	JOSEPHINE LITTLE	-	Trainee Analyst
CHRIS BROWN	-	Senior Analyst	ROSS MACLEOD CAREY	-	Trainee Analyst
DAVID SALLWAY	-	Fixed Interest Analyst	BELINDA MOORE	-	Analyst
FIONA BUCHANAN	-	Analyst	SCOTT POWER	-	Senior Analyst
NICK HARRIS	-	Trainee Analyst	TOM SARTOR	-	Analyst
LINDSAY HURST	-	Trainee Analyst	TANYA SOLOMON	-	Analyst
MICHAEL KNOX	-	Director of Strategy & Chief Economist	REBECCA SULLIVAN	-	Retail Strategy
ROGER LEANING	-	Deputy Head of Research			

ABN AMRO MORGANS OFFICES

BRISBANE	(07) 3334 4888	COFFS HARBOUR	(02) 6651 5700
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CAPALABA	(07) 3245 5466	NEWCASTLE	(02) 4926 4044
CHERMESIDE	(07) 3350 9000	NEWPORT	(02) 9997 3232
EMERALD	(07) 4988 2777	ORANGE	(02) 6361 9166
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IPSWICH	(07) 3202 3995	WOLLONGONG	(02) 4227 3022
MACKAY	(07) 4957 3033	MELBOURNE	(03) 9947 4111
MILTON	(07) 3114 8600	BERWICK	(03) 9796 2676
MISSION BEACH	(07) 4088 6188	BRIGHTON	(03) 9592 4555
NOOSA	(07) 5449 9511	CAMBERWELL	(03) 9813 2945
ROCKHAMPTON	(07) 4922 5855	GEE LONG	(03) 5222 5128
SPRINGWOOD	(07) 3808 7588	TRARALGON	(03) 5176 6055
SUNSHINE COAST	(07) 5479 2757	WARRNAMBOOL	(03) 5559 1500
TOOWOOMBA	(07) 4639 1277	CANBERRA	(02) 6232 4999
TOWNSVILLE	(07) 4771 4577	ADELAIDE	(08) 8464 5000
YEPPON	(07) 4939 3021	PERTH	(08) 9261 0888
SYDNEY	(02) 8259 6400	BUNBURY	(08) 9791 9188
ARMIDALE	(02) 6772 1288	DARWIN	(08) 8981 9555
BALLINA	(02) 6686 4144	HOBART	(03) 6236 9000
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Absolute performance, long-term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%. The target price is the level the stock should currently trade at if the market accepted the analyst's view of the stock, provided the necessary catalysts are in place to effect the change in perception. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value the target price will differ from 'fair' value. Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

For listed property trusts (LPTs) the recommendation is based upon the target price plus the dividend yield, ie total return. A Buy implies a total return of 10% or more; a Hold 5-10%; and a Sell less than 5%.

Absolute performance, short-term (trading) recommendation: The Trading Buy/Sell recommendation implies upside/downside of 3% or more. The trading recommendation time horizon is 0-60 days.

Each stock has been assigned a Volatility Rating to assist in assessing the risk of the security. The rating measures the volatility of the security's daily closing price data over the previous year relative to other stocks included in either the S&P/ASX200 Index (large caps) or the Small Ordinaries Index (small caps) of which it is a member. This rating is a quantitative (objective) measure provided as an additional resource and is independent of the qualitative research process undertaken by our research analysts.

A rating of Low indicates very little movement in price over the previous year (Coefficient of Variation < 4 for small caps or < 5 for large caps). A Moderate rating implies average price movement over the previous year (Coefficient of Variation of 9 - 21 for small caps or 7.25 - 15 for large caps). A High rating implies significant price movement over the past year (Coefficient of Variation greater than 25 for small caps or 35 for large caps).

REGULATORY DISCLOSURES

SUBJECT COMPANIES: AVX

MENTIONED COMPANIES: AVX

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