

# Smaller Companies Daily Update

Friday 30<sup>th</sup> March 2007

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## Featured Companies

Stock	Sector	Analyst	Recommendation
SR Pharma	Pharmaceuticals	Navid Malik	Buy
Metals Exploration	Mining	Jonathan Guy	Buy

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## Upcoming Results and Meetings

### Investor Meetings and Results

Company	Results	Investor Meetings
ACP Mezzanine		7 <sup>th</sup> & 8 <sup>th</sup> (am) February
Development Securities		6 <sup>th</sup> March (Scotland)
Erinaceous	7 <sup>th</sup> March	7 <sup>th</sup> , 8 <sup>th</sup> , 9 <sup>th</sup> , 12 <sup>th</sup> (Scotland) & 13 <sup>th</sup> March
Foseco	15 <sup>th</sup> February	15 <sup>th</sup> & 16 <sup>th</sup> February & 19 <sup>th</sup> March (Scotland)
Gaming VC		19 <sup>th</sup> & 20 <sup>th</sup> February
O Twelve Estates		26 <sup>th</sup> February
Rugby Estates		26 <sup>th</sup> February
Silverdell		13 <sup>th</sup> February
Spacelabs		7 <sup>th</sup> & 8 <sup>th</sup> February
Albemarle & Bond	12 <sup>th</sup> February	13 <sup>th</sup> & 14 <sup>th</sup> February
Playtech		21 <sup>st</sup> February

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## Bid and Offer List

Bid	Offer
Halladale	Polymer Logistics
Albemarle & Bond	Cape
Global Special Warrants	Newfound
Quarto	IRF
Marwyn	Cross Shore Warrants
Griffin	Plethora
Medical Solutions	York Pharma
Development Securities	IFR
Energy XXI	Healthcare Locums
New Media Spark	Concateno
Mavinwood	Celoxica
Photo Me	Acertec
Ultimate Leisure	Cobra
Volex	Futureref
CAP-XX	

# SR Pharma

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## Prelims

- Prelim results – strong near-term outlook.

## Analysis

- SR Pharma is changing its name to Silence Therapeutics – more inline with its focus on RNAi gene silencing.
- The FY 06 results for year-ended December 2006 were broadly inline with our expectations. Revenues were £2 million against our forecasts of £2.5 million, with the difference mainly due to the phasing of licensing payments from partners. We see more payments in the near-term as certain milestones are achieved. R&D spend was lower than we were anticipating, but the administration charges were higher, as a result the loss for last year was £3.9 million against our expectations of £3 million. This year and as we go into 2008, the R&D spend is likely to increase significantly given the strong clinical portfolio which is emerging. The current cast position is c.£9 million.
- Silence Therapeutics (SR Pharma's) partners have now started Phase I clinical trials using two of its technologies for AMD (age-related macular degeneration) and acute kidney injury respectively. The latter indication, being developed by Quark, could be a substantial opportunity for Silence in terms of royalty payments given the huge unmet need in this area. We see potential use for this product in additional indications for other organ transplantation segments. The market may be grossly under-estimating the value of this opportunity for Silence.
- In acute kidney injury for example, the mortality rate for these patients who are in intensive care is very high – in the range of 50-70%, with up to 80% of patients developing the disease following major cardiovascular surgery. Once diagnosed the prognosis for these patients is poor, with survival rates disappointing (having not improved for decades). The incidence rate for acute kidney injury of 22%.
- Silence Therapeutics is likely to have up to six products in clinical trials through partners and direct, in the short-to-medium term. This year it will progress two into Phase I clinical trials in gastrointestinal (pancreatic) cancer and lung cancer respectively.
- *What are RNAi molecules?*  
RNA interference works by using short sequences of RNA (siRNA) to silence the expression of genes within a cell – these genes may be implicated in a particular pathological condition. The delivery of functional siRNA molecules to the cell has been a bottleneck, which to date has hindered the success of this therapy in treating disease. In fact the single biggest issue in the RNAi field today is that of successful and targeted drug delivery of these sequences. SR Pharma is differentiated from other RNAi players in that it has developed a strong proprietary delivery system for the delivery of siRNA molecules. In addition, this delivery system has the capacity to carry targeting moieties and disruptive agents to allow successful delivery of RNAi within certain important compartments within the cell. The formulation also carries PEGylated sequences to expand the circulation time within the blood, further enhancing the pharmacokinetics (body distribution profile).

## Action

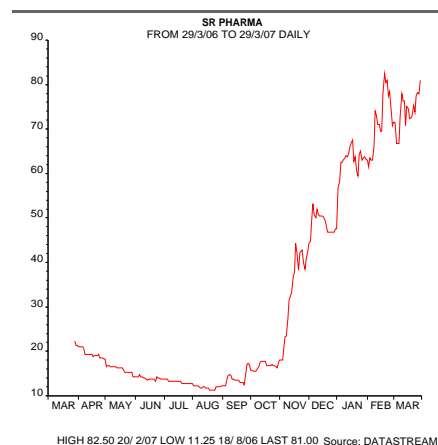
- In the short-term we expect a significant licensing deal to be signed by the company, which will further demonstrate the value of this technology to the industry.
- Our current price target is 150p (target market value £170 million). We recommend Buying the shares.

*Collins Stewart is broker to SR Pharma and makes a market in the company's shares.*

Recommendation: Buy  
Ticker: SPA.LN

Price: 76p  
Market cap: £87.06m

	1m	3m	12m
Absolute (%)	8.8	62.1	262.4
Relative to FT All Share (%)	5.9	58.9	238.5



# Metals Exploration

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## Event

- Metals Exploration has announced that the company has intersected a second mineralised structure at the Runruno project in northern Luzon in the Philippines, where it is earning an 85% interest.
- It has also has also applied for three additional exploration permits in northern Luzon. The new properties have been previously explored and are known to host gold with some base metal by product credits

## Action

- The new drill hole at Runruno has intersected a number of zones at potentially economic gold grades. Taken in isolation these results would not be significant, however, they suggest the presence of a second mineralised structure that has the potential to increase the overall resource size at the deposit. The intersections are also relatively near to the surface and could be mined from an open pit. The company has not yet received the molybdenum assays.
- Runruno currently has an inferred resource of 28.3Mt at a grade of 2.3 g/t Au and 0.06% Mo; containing 2.03Moz of gold and 34.4Mlb of molybdenum. The company has the objective of delineating at least 2.5Moz by July 2007 and then completing a feasibility study over the next twelve months. We believe that Runruno has the potential to develop into a major gold deposit; should this happen then Metals Ex would become an acquisition target for one of the worlds major gold mining groups.
- The new projects that the company is in the process of acquiring appear to have some merit. Given Metals Exs limited financial resources (c£4M) we would be concerned about anything that distracted the managements' attention from Runruno, however, total expenditure over the next twelve months is likely to be less than £50k.

## Action

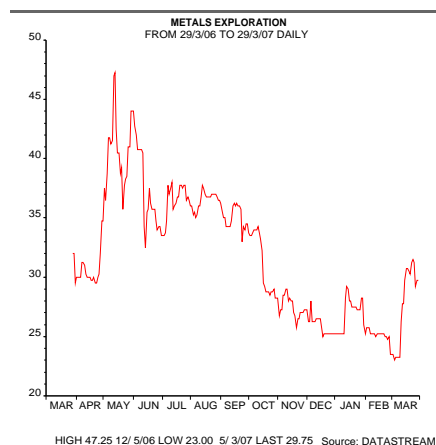
- We restate our Buy recommendation and short-term target price of 43.5p, although we will review this once the resource update is published in July.

*Collins Stewart is broker to Metals Exploration and makes a market in the company's shares.*

Recommendation: Buy  
Ticker: MTL

Price: 30.5p  
Market cap: £23.69m

	1m	3m	12m
Absolute (%)	29.8	20.8	-4.7
Relative to FT All Share (%)	26.3	18.4	-11.0



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**Research Recommendations issued by Collins Stewart Europe Limited in Q3 2006**

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<b>Recommendations</b>	<b>Buys</b>	<b>Sells</b>	<b>Hold/Neutral</b>
Percentage of Total	60%	20%	20%
Percentage of which in Corporate Client stocks	22%	2%	6%

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